



Regular Meeting

Item Number 2 – Open Session

Subject: Chief Executive Officer Report

Presenter(s): Cassandra Lichnock

Item Type: Information

Date & Time: March 1, 2023 – 10 minutes

Attachment(s): Waterfront Place Activity Dashboard

PowerPoint(s): None

2021-22 Sustainability Report

We released our ninth annual [Sustainability Report](#) in February 2023. It documents our sustainability approach and data from July 1, 2021, to June 30, 2022. This edition of the report:

- Defines our sustainability-related achievements during the reporting period, our commitments to improvement and our upcoming activities.
- Provides an update on aligning our enterprise and investments sustainability efforts.
- Describes a preliminary analysis of enterprise scope 3 greenhouse gas emissions to support our net zero efforts.
- Includes our new value chain map to help us evaluate strategic decisions, including opportunities for innovation.
- Uses a new digital-based format that is interactive, more accessible and saves paper and other printing resources.

To develop topics for this report, we identified the enterprise's significant economic, environmental and social impacts for the 2021–22 fiscal year. Our focus areas are:

Economic impact: Part of our mission is to secure the financial future of California's educators. We achieve that goal through member retirement education and ensuring a well-governed, financially sound trust fund.

Environmental impact: Climate change is one of the greatest threats to our future—impacting our planet, the environment, the global economy and everyone's health and

safety. We're taking steps with our net zero action plan to make sure educators can enjoy a secure retirement.

Social impact: Our employees are the source of our success. We're shaping a resilient workforce that reflects fully integrated diversity, equity and inclusion practices.

The report references the recently updated Global Reporting Initiative Universal Standards 2021. GRI is an independent, international organization that helps businesses and other organizations take responsibility for their impacts by providing them with the global common language to communicate those impacts. The GRI reporting standards increase organizational transparency and are the most widely used standards in the world.

CalSTRS Pension 2 Receives Eddy Award

In partnership with recordkeeping agency Voya Financial, CalSTRS Pension2 has won an Eddy Award from *Pensions & Investments* magazine for our efforts in Ongoing Investment Education. The recognition package highlighted the effectiveness of CalSTRS's comprehensive webinar series designed to showcase how Pension2 can supplement retirement income. The series was launched at a virtual event in October 2021 with a goal to increase retirement readiness of our members as measured by engagement, event attendance, new enrollments within the non-participating population, and increased savings rates within the existing participant base. The award will be presented at a *P&I's* defined contribution conference in March.

Annual Tax Statistics

CalSTRS is required to submit various tax filings to our members, their beneficiaries, vendors, the Internal Revenue Service, and the State of California by the end of January each year, for certain expenditures paid during the previous calendar year. For calendar year 2022 the following tax filings were completed:

- 463,694 Forms 1099-R reporting \$ 17,824,755,842.43 in benefit payments, \$1,838,543,895.50 in federal tax withholding, and \$513,552,940.56 in state tax withholding
- 102 Forms 1099-NEC reporting \$83,021,216.88 in payments to vendors
- 27 Forms 1099-MISC reporting \$287,952.35 in payments for non-member benefit payments from the Replacement Benefits Program and three legal settlements
- 295 Forms W-2 reporting \$10,010,836.98 in benefits for Replacement Benefit Program payments, \$1,057,285.58 in federal income tax withholding, and \$303,765.67 in state income tax withholding
- IRS Form 945 for Calendar Year 2022, which reconciles federal tax withholding and deposits related to Forms 1099-R, 1099-NEC, and 1099-MISC
- IRS Form 941 for the 4th Quarter of 2022, which reconciles the federal tax withholding reported on Forms W-2
- EDD Form DE-9 for the 4th Quarter of 2022, reporting \$88,967,164.16 in state tax withholding

Enterprise Risk Management Emerging and Existential Risks

The listing of emerging and existential risks that management evaluates and monitors will be included in the CEO report as a regular item at every regular board meeting, except for the two meetings that we normally provide the semi-annual Enterprise Risk Management Report to the board. For the March 1, 2023, board meeting, the semi-annual ERM Report, is presented as Item 5. Please refer to this item for a discussion on the emerging and existential risks that management is evaluating and monitoring.

Headquarters Expansion (HQE) Construction Update

Construction is approximately 87% complete. At the January board meeting, the board received a verbal update from Lisa Blatnick, Chief Operating Officer (COO) regarding ongoing instability with the construction project schedule. CalSTRS approved a revised project schedule with a Substantial Completion Date (SCD) of March 28, 2023, in September 2022. Since then, the project schedule has been in flux with reports of slippage due to construction activities and inspection reviews. In December, DPR Builders, the project's contractor, introduced a new SCD of June 8, 2023. CalSTRS requested an assessment of the new schedule and related impacts before presenting a final project schedule for review.

DPR and Ridge Capital, the project's construction manager, continue to scrub the remaining critical path construction activities and corresponding schedule to ensure the resulting revised SCD achieves project completion. CalSTRS COO and Ridge will provide a verbal update on the project schedule status and related impacts during the CEO Report.

Construction Activities

Construction activities completed and ongoing since last update:

Major activities completed:

- Fire Sprinkler & Fire Alarm Rough-in and Install Ceiling at Office level 5 (O5) Courtyard
- Overhead Rough-in, Frame Soffits and Ceilings at O6 Restrooms
- Rated Wall and Demo Temp Walls at Equipment Room, Lab and Server Room
- Piping Connection to Rainwater Treatment System
- Plywood at O6 and O7 North IDF Room
- Final O3 Subfloor Inspection
- Hydrostatic pressure test on Childcare Area Fire Sprinklers

Interior Building:

- Installation of Plumbing and Electrical Trim at O3 All Gender Restrooms
- Center Mechanical Shaft Ready for Paint at O6
- Corridor 120 Completion of Rough-in at Soffits and Balance of Walls

- Finished Thermal Insulation and Gyp Board Installation at Kitchen Walls
- Resume Overhead Rough-in at Café
- Taped and Finished Hard Lid Ceilings at O3 Men’s and Women’s Locker Rooms/Restrooms>Showers
- Started Carpet Installation on O3
- Installed O4 Fire Alarm Panels, Open Office Area Fixtures, JAGAs and Interior Aluminum Frames at Offices and Conference Rooms

Exterior Building:

- Installed MP5 Panels & Louvers at Penthouse
- Installation of PV and Wiring at Penthouse Roof
- Terminated Power to New Fire Pump Controller
- Started Bridge CW Installation

Garage Levels:

- Installation of Expansion Joints and Traffic Coating at Garage Levels
- Taped and Painted P3 South Mechanical Room
- Taped and Finished Chiller Room

Budget Status

The budget status for the month ended December 31, 2022, is summarized below:

Summary Period: 12/31/22			
Budget Categories	Total Project Budget	Costs to Date	Balance to Complete
Hard Costs	\$ 262,303,772	\$ 203,966,142	\$ 58,337,631
Hard Cost Contingency	\$ 2,579,403	\$ -	\$ 2,579,403
Soft Costs	\$ 50,864,768	\$ 39,848,928	\$ 11,015,840
Project Contingency	\$ 2,752,057	\$ -	\$ 2,752,057
Totals	\$ 318,500,000	\$ 243,815,070	\$ 74,684,930

CHANGE IN HARD COST CONTINGENCY SINCE LAST REPORT:

- Stair 12 Framing Modifications..... \$ 10,873
- Fire Caulking around shims..... \$ 4,556
- Curtainwall Firestopping changes..... \$ 66,986

• Grill vents clarified at Atrium seating.....	\$ 9,763
• BT Mancini Cost Escalation.....	\$290,279
• Framing underneath communicating stair.....	\$ 11,113
• PV Canopy embed elevation conflict.....	\$ 27,499
Total	\$421,069

CHANGE IN PROJECT CONTINGENCY SINCE LAST REPORT:

• Water Board Annual Permit Fee.....	\$ 704
• Inspector of Record* funding for depletion of budget line item.....	\$172,778
Total	\$173,482

* The IOR (Inspector of Record) is the Lead Project Inspector to ensure that all code-prescribed inspections and administrative duties are completed including supervision of assistant project inspectors and monitoring of special inspectors.

Risk Status

Ongoing risks associated with the project:

Project Schedule:

DPR Builders and Ridge Capital continue to assess opportunities to accelerate construction activities and streamline OSFM and IOR inspections. DPR Builders and Ridge Capital are performing a thorough assessment of the project schedule and related impacts. CalSTRS Executive Steering Committee meets regularly with DPR Builders and Ridge Capital executive leaders to understand the schedule impacts and determine solutions that respond to this risk. The board will receive an update on project schedule revisions during the CEO report.

Project Budget:

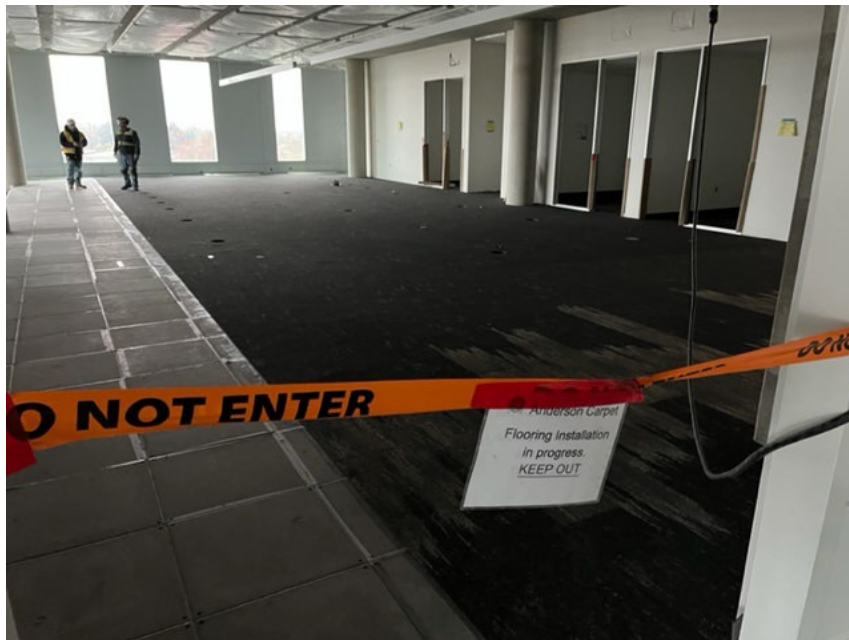
The board approved a revised project budget in January 2022 for \$18.5 million, bringing the project’s budget total to \$318.5 million. CalSTRS has requested that DPR Builders and Ridge Capital perform a thorough assessment of the project schedule revisions, budget related impacts, as well as options to resolve these impacts, before submitting a final project schedule for review.

Project Photos:

Link



03 level Carpet



07 level: Skylights in progress



Leasing and Occupancy Update

During January HQE update, the board requested a dashboard reflecting tenant outreach at 100 Waterfront Place. The attached Waterfront Place Activity dashboard graphically displays all the Skyline office buildings in downtown Sacramento. Sacramento Skyline buildings are generally defined as significant downtown office buildings that are Class A in nature and available to the private sector as well as to the State of California for lease. The Skyline properties have been deeply affected with the State of California's recent office building spree and has currently dropped the Skyline occupancy rate from 95.6% before the pandemic to a current 84%. Current asking rates in the Skyline properties have correspondingly dropped also from \$3.63 per square foot in Q4 2019 decreasing to \$3.41 per square foot as of Q4 2022. The State of California currently has 1.9 million square feet of additional space under construction that will further affect these buildings.

Waterfront Place has strategic advantages over much of this inventory. This includes sustainability features such as LEED Platinum and 100 Energy Star rating and enhanced health and safety protocols including WELL Building certification. Other unique advantages are the buildings campus feel and class A amenities such as the onsite cafés, childcare, conference rooms and training centers. Although the location is not as central as the competitive set, it offers a less congested area with convenient parking as compared to most of the other buildings. The building is also among the highest in quality of all the other buildings and has move-in ready space with existing flexible tenant improvements and furniture available. No other building has a significant availability that competes with this advantage.