



Regular Meeting

Item Number 2 – Open Session

Subject: Chief Executive Officer Report

Presenter(s): Cassandra Lichnock

Item Type: Information

Date & Time: November 2, 2022 – 15 minutes

Attachment(s): None

PowerPoint(s): Looking Back on 2021-22: A focus on our stakeholders

Looking back on 2021–22: A focus on our stakeholders

Each year, as part of our overall strategic and business planning processes, we reflect on how we performed the prior year. We recently discussed the accomplishments and challenges of the year that ended June 2022, capping off the 2019–22 strategic plan cycle, at the board offsite.

In an extraordinarily challenging time, staff executed each and every strategic initiative related to the board's Goal 3 (Member/Employer) that we set out to achieve over the three-year lifecycle of the 2019–22 CalSTRS *Strategic Plan*. Today we share a look back on some notable achievements from last year that specifically highlight our commitment to our relationships with members and employers.

Engaging our members

In the previous strategic plan, the board directed our focus to engaging earlier with our members to promote better retirement security among early career members, and staff rose to the challenge.

Last year, services were available in person, via video conference or by telephone with the shortest benefits planning appointment wait times we've seen in a decade—approximately two weeks versus the typical six to eight weeks we've seen historically. Meanwhile, we served nearly 75,000 members—over 10,000 more than the year before. At our new educator event and our financial awareness workshops, we engaged with 50% more young members (44 and younger) compared to the year before, far exceeding our 33% target. And as we continued to offer all our regular services virtually, we reopened our member service centers for members to visit in person.

As our members are increasingly accessing our services online, we moved to modernize our digital resources, including the CalSTRS.com redesign with a focus on our members. The CalSTRS *Connections* newsletters—tailored to engage members based on their career stage—remain a popular channel to engage our members, with an impressive 47.5% email open rate for members 49 and younger, and a 51.5% open rate for members 50 and older.

We collaborated with stakeholders through the Part-time Educator Task Force and gave particular focus to this population, adding several new tools to address their unique financial planning needs. In addition to new webinars, we held a Part-time Educator event in January offering 12 webinars that drew over 600 attendees and was positively received by our members, with 83% highly satisfied with this new offering. Eighty-seven percent of attendees at a second offering in June were highly satisfied.

We implemented a statewide coverage model to provide more responsive service to members seeking information about Pension2, which resulted in faster response times for members, stronger registrant-to-attendee conversion rates, and improved staff coverage.

The CalSTRS Contact Center continues to provide outstanding service to our membership. Last year, the 125 dedicated staff of the Customer Service Division set several records regarding the quality and speed of service provided. Notable highlights include:

- Contact Center staff answered approximately 246,000 calls.
- Ninety-five percent of callers were satisfied or completely satisfied with the customer service they received.
- Staff answered 86% of calls in under 30 seconds, with an average wait time of 27 seconds.
- Staff responded to over 36,000 online inquiries with an average response time of less than one business day.

Strengthening employer partnerships

Over the past three years, we invested in our relationships with employers and enhanced employers' understanding of the value CalSTRS benefit programs bring to their efforts to recruit and retain educators. Last year, we increased availability of employer and member education modules to convey the value of the CalSTRS Defined Benefit Program and operationalized those educational programs going forward.

We also initiated the Employer Reporting to Final Benefit project, discussed in the September CEO report, as a vehicle to address complex issues, increase reporting accuracy and enhance benefit stability. Our discussions with employers throughout this project led to the successful collaboration required to support Assembly Bill 1667 (Cooper).

Employers benefit from more accurate reporting through reduced penalties and interest down the road. Our joint efforts paid off, with a 34% reduction in penalties and interest assessed over the last 3-year strategic plan cycle—far exceeding our target of 10%.

Finding more, and better, ways to connect

Last year, we held several briefings with employers and representatives and held dozens of conference calls with report sources to provide information and improve our understanding of local concerns.

We also established a new advisory group for county business officials and administrative leaders, which brought more opportunities to provide education and guidance and to receive feedback.

We refreshed the agenda and format for our Client Advisory Committee meetings based on stakeholder input. Due to COVID-19, meetings were moved to a virtual platform rather than in person. This, combined with changing the timing of CAC so board members can attend, has driven greater participation.

Membership milestone

As of June 30, 2022, for the first time, we have over a million members and beneficiaries—up from approximately 980,000 the prior year. We saw an increase in active members and those receiving a service retirement, disability or survivor benefit, and a decrease in the number of inactive members.

Emerging and Existential Risks Update

At the September 2022 board meeting, the Enterprise Risk Management team presented trustees with the most recent emerging and existential risk universe map. See [here](#) to view the board item. Since that report, the universe map remains unchanged. However, staff continue to regularly evaluate emerging and existential risks to determine whether any of these risks require active mitigations, revision to existing mitigations, active monitoring for future consideration or no action needed until the next identification cycle. As recent events continue to unfold and our understanding of these emerging risks continue to evolve, staff will be modifying the map accordingly.

The emerging and existential risks that management are actively monitoring are grouped into two categories below:

- **Evaluate:** Requires additional investigation to determine if any further risk mitigations are needed.
- **Monitor:** Understand significant changes that may occur that would require a shift in risk approach beyond the significant activity or risk mitigations that are already in place.

Evaluate	
Emerging Risks	Fraud Risk Vulnerability
	Blended Workforce Challenges
	Change Fatigue
	Cost of Computing Spike

Existential Risks	Shift to Alternate Education
	Artificial Intelligence
Monitor	
Emerging Risks	Endemic COVID-19
	Evolving Sociopolitical Expectations
	New Ransomware Models
	Post Pandemic Talent
	Geopolitical Disruptions
	Inflationary Pressures
	Commercial Real Estate Surplus
	Cyber Insurance Availability
Existential Risks	Shift in Pension Fund Investment Management
	Comprehensive Pension Reform
	Cybersecurity Event
	Demographic Shift
	Hyperinflation

Annual Financial and Budget Reports Awards

The CalSTRS [Annual Comprehensive Financial Report](#) for the year ended June 30, 2021, was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year. This was the 27th consecutive year that CalSTRS has achieved this prestigious award.

CalSTRS also received the GFOA’s Award for Outstanding Achievement in Popular Annual Financial Reporting for our [Popular Annual Financial Report](#) (PAFR) for the fiscal year ended June 30, 2021. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standard for preparation of state and local government popular reports.

In order to achieve the award, a government must publish a PAFR, whose contents conform to the program’s standards of creativity, presentation, understandability, and reader appeal. An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for one year. Since issuing our first PAFR in fiscal year 2013-14, CalSTRS has received a Popular Award for eight consecutive years.

[CalSTRS 2022-23 Annual Budget Report](#) was awarded the Distinguished Budget Presentation Award, from the GFOA. The report was prepared in accordance with GFOA standards and guidelines, which are recognized as best practices for governmental financial and budgetary reporting. This award is the highest form of recognition in governmental budgeting. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as a financial plan, as an operations guide and as a communications device. This was the 5th consecutive year CalSTRS received the Distinguished Budget Presentation Award.

We believe the Annual Comprehensive Financial Report and Popular Annual Financial Report we will prepare for the year ended June 30, 2022, and CalSTRS' 2023-24 Budget Report, will continue to meet the requirements necessary to achieve awards in their respective reporting categories. We will be submitting these reports to the GFOA to determine their eligibility for another certificate or award.

Headquarters Expansion (HQE) Construction Update

Construction is approximately 75% complete. The latest project schedule reflects a revised Substantial Completion Date (SCD) of March 28, 2023. The revised SCD was approved by the HQE Executive Steering Committee in September. The project budget is sufficient to cover this revised schedule. We are approximately six months away from construction completion and HQE project staff is also focusing on space allocation planning and move in schedule with business areas moving to 200 Waterfront Place. Part of the planning includes activities that support employees' awareness of space allocation and move in timeline and related actions. The CEO and executives will be including HQE updates in enterprise and branch wide meetings and progress or important news related to HQE will be posted on Central (CalSTRS intranet) regularly.

The exterior garage metal panel installation continues. Interior wall framing, drywall, and painting continues for all floors. Underfloor mechanical, electrical, and plumbing continues on office floors 3 thru 7 with raised floor installation finishing at floor 3 and continuing for floors 4 and 5. Raised floor installation will commence on office floor 6 next month. At parking level 1, the main corridor terrazzo is curing, and the lobby sheetrock work continues with ceiling panel mockup completed. CalSTRS continues drafting an agreement with the selected childcare provider and weekly construction site meetings have started. Once an agreement is in place, marketing to employees interested in childcare services will commence.

Construction Activities

Construction activities completed and ongoing since last update:

Permitting and Logistics:

- Fire test of concealed lobby door W-102A
- Steel fabrication for Phase 2 PV
- Removal of waterfront manlift and stair tower

Interior Building:

- Office level 3 and 7 north mechanical shafts ready for paint
- Installation of remainder of HM frames at childcare area
- Installation of office level 3 raised access flooring – working on leave out areas
- Continued sub floor installation, including raised access flooring installation on office level 4 and 5
- Installation of air highways on office levels 5 thru 7
- Completion of electrical rough-in at childcare area
- Start fire alarm rough-in at Fire Command Center
- Relocation of fire pump jockey pump
- 3rd party testing of main electrical gear
- Layout and installation of acoustic ceiling panels on office level 3 and 4
- On-going elevator installation

Exterior Building:

- Therma fiber replacement at curtainwall.
- Penthouse exterior sheathing and roofing installation in progress
- Roof parapet cap and sheathing installation in process

Garage Levels:

- Completed build-out of parking level 2 Intermediate Distribution Frame (IDF) room and set fire alarm panels
- Completed build-out of parking level 3 and level 4 IDF rooms

Schedule Status

This month CalSTRS HQE Executive Steering Committee approved a revised project schedule which sets a SCD of March 28, 2023. The revised schedule is a result of DPR and Ridge Capital's ongoing collaborative efforts to arrive at an agreeable schedule. September's HQE update showed DPR and Ridge Capital scrutinizing construction activities and work to reclaim days and recover a schedule that was closer to the initial mid-March 2023 SCD. We are pleased with the construction progress to date and work continues with minimal interruptions or impacts to the revised SCD of March 28, 2023.

DPR and Ridge Capitol continue to partner with the Office of the State Fire Marshal (OSFM) to mitigate impacts to project schedule. More recently, the final particulars regarding the firestop details at the edge of deck by the OSFM have been resolved. Firestops are designed to maintain the fire-resistance rating of a wall or floor assembly intended to impede the spread of fire and smoke. Progress has resumed, clearing the way for raised flooring to be installed. The project team continues to meet weekly to identify potential issues, such as the one shared here, and starts working towards a resolution before a schedule or cost impact occurs.

Significant Accomplishments/Major Milestones:

The milestones chart tracks public agency approvals, construction milestones based upon the schedule dated August 29, 2022, as well as pending owner decisions. Please refer to Schedule Section for specifics.

Project Milestones	Start Date	Completion Date
Exterior Envelope All Complete including manlift/stair holdbacks		03/21/23
Lobby Level Interior Improvements	04/21/21	12/30/22
Lobby Level Furniture Installation	02/15/23	03/16/23
Kitchen Equipment and Hook-Up	01/04/23	01/18/23
Bridge Construction including interiors	03/26/21	02/27/23
Office Level 03 Interior Improvements	08/16/21	01/26/23
Office level 03 Owner Furniture Installation	10/20/22	11/15/22
Fitness Center Equipment Installation	01/12/23	01/26/23
Office Level 04 Interior Improvements	06/17/21	12/28/22
Office Level 04 Owner furniture Installation	11/22/22	12/20/22
Office Level 05 Interior Improvements	06/17/21	01/12/23
Office Level 05 Owner Furniture Installation	12/22/22	01/20/23
Office Level 06 Interior Improvements	06/17/21	01/24/23
Office Level 06 Owner Furniture Installation	01/25/23	02/21/23
Office Level 07 Interior Improvements	06/17/21	02/15/23
Office Level 07 Owner Furniture installation	02/22/23	03/20/23
Start-Up and Commissioning	11/08/22	03/24/23
FINAL AHJ Inspections	03/01/23	03/28/23
Substantial Completion Date		03/28/23
Owner Decisions	Start Date	Completion Date
Childcare Operator	6/30/19	Draft Agreement
Furniture Decisions	10/1/19	Complete
AV Decisions	6/30/19	Complete

Budget Status

The budget status for the month ended September 30, 2022, is summarized below:

Summary Period: 9/30/22 *			
Budget Categories	Total Project Budget	Costs to Date	Balance to Complete
Hard Costs	\$ 256,702,784	\$ 185,019,562	\$ 71,683,223
Hard Cost Contingency	\$ 3,780,460	\$ -	\$ 3,780,460
Soft Costs	\$ 50,353,858	\$ 34,926,147	\$ 15,427,711
Project Contingency	\$ 7,662,898	\$ -	\$ 7,662,898
Totals	\$ 318,500,000	\$ 219,945,708	\$ 98,554,292

* Costs to Date for Hard Costs does not include retention

CHANGE IN HARD COST CONTINGENCY SINCE LAST REPORT:

• Fire caulking around exterior shims	\$15,587
• Panel attachments at soffit	\$19,741
• Garage signage location change from gridline	\$22,743
• Software change to alleviate issues with building information modeling software	\$16,820
Total	\$74,891

CHANGE IN PROJECT CONTINGENCY SINCE LAST REPORT:

There are no Project Contingency uses since last report.

Risk Status

On-going risks associated with the project are:

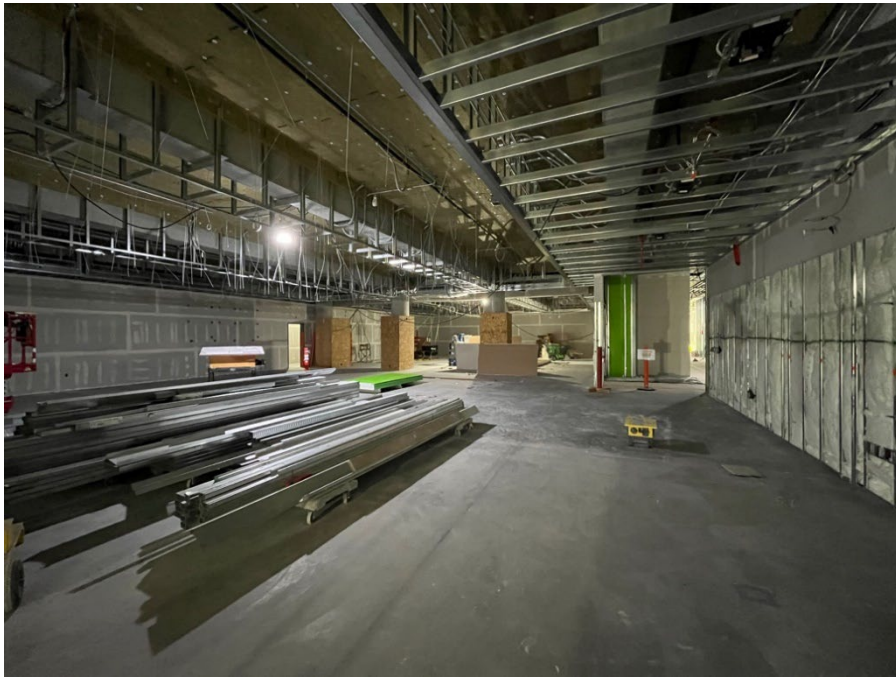
OSFM Field Inspection Process:

Due to the nature and complexity of the inspection process, this risk remains. The design and construction team has been working with the OSFM inspector to streamline the final approval process and has developed a level of trust that continues to build. As more and more of the issues are resolved, this risk will continue to diminish.

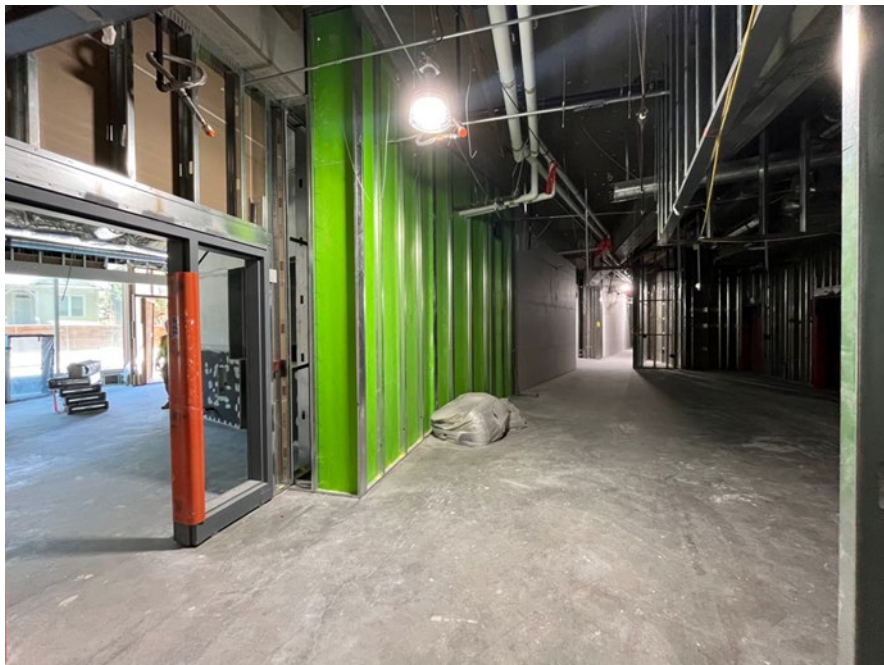
Project Schedule:

This month CalSTRS approved a revised Project Schedule which has a Substantial Completion date of March 28, 2023. The risk of project delays remains due to the inspection processes and potential labor shortages. DPR's efforts to accelerate construction activities will help mitigate the effects on the project's schedule and budget. DPR will continue to manage procurement of all outstanding items and will inform us of issues from any supply chain impacts.

Project Photos



1st Floor conference room



1st Floor daycare area



Café



Office level 5 – underfloor and raised floor progress

Leasing and Occupancy Update

Ongoing economic uncertainty has continued to hamper Sacramento's office market. Quarter 3 marked the 8th consecutive quarter of negative absorption with nearly 224,000 SF of space given back. Vacancy is now up to 18.8% but remains below peak vacancy during the Great Financial Crisis (21.8%). The State of California has largely influenced increasing office vacancy over the last two years as they continue to terminate office leases throughout the region to occupy their newly built, state-owned facilities.

Although negative absorption persists, leasing activity has slightly improved over the course of the year. Tracked new deal activity has increased over 18% in 2022 compared to the rest of the pandemic. Moreover, Tenants have shown a slight preference for Class A product when signing new deals. Despite this, negative absorption in Class A product remains higher than Class B product year-to-date. This can be attributed to the State of California vacating leased space and moving to their newly constructed office buildings.

Leasing metrics are beginning to improve, however it's likely that Sacramento's office market will continue to experience negative absorption as more companies downsize and begin to plan their long-term real estate strategies amid shifting work dynamics and economic headwinds. The State of California will also account for more move-outs over the course of the year. Asking rents have largely remained stable but we estimate vacancy will continue to rise and reach 19% by the end of 2022.

CalSTRS in partnership with Jones Lang LaSalle will be coordinating tours of headquarters site with brokers. These tours, comprised of small broker groups, will be scheduled over the next couple months, and will support marketing our building and its offerings.

HQE Bond Financing update

See Item #4, *Headquarters Expansion Bond Financing Education and Authorization for Issuance of Bonds for Additional Funding*, for further information on bond financing.