



## Regular Meeting

### Item Number 16 – Open Session

**Subject:** Chief Executive Officer Report

**Presenter(s):** Cassandra Lichnock

**Item Type:** Information

**Date & Time:** May 2, 2024 – 10 minutes

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**Attachment(s):** Waterfront Place Activity Dashboard

**PowerPoint(s):** None

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#### Emerging and Existential Risks Update

##### **Generative Artificial Intelligence**

Overall, the Emerging Risk Universe map from [March 2024](#) has not changed. Instead this update focuses on one of the more dynamic emerging risks; Generative Artificial Intelligence (GenAI). Staff recognizes there are risks and opportunities associated with the use of GenAI. Technology Services, Enterprise Risk Management and Enterprise Strategy Management have created a workgroup to coordinate a three-pronged approach to addressing this emerging risk through responsible governance, identification and development of potential use cases and staff training.

**Governance:** A policy has been drafted to shape principles, governance and responsibilities in relation to any potential use of AI tools. The draft AI policy was presented to the executive team in April for review and feedback.

**Use case development:** As part of the organization's commitment to innovation and continuous improvement, multiple potential use cases have been identified by various branches. Currently, these use cases are being evaluated and ranked based on a set of criteria.

**Training:** Staff have partnered with major software companies to provide staff with workshops on GenAI. Workshop topics included: approach to responsible AI, operationalizing GenAI and GenAI application demonstrations. In addition, staff have started developing basic microlearning training modules on GenAI that aim to cover basic AI concepts and definitions, along with the principles governed by the draft policy.

These activities are in alignment with a recent Governor’s Executive Order N-12-23, issued in September 2023 and additional guidelines issued in March 2024, that outline parameters for deploying GenAI ethically and responsibly, to protect against and prepare for potential harms, and help the state continue to lead in GenAI efforts. In addition, these efforts will inform the AI conversation the board will hear at the July offsite meeting.

### **CalSTRS DEI Update**

Our DEI project with Guidehouse continues in Phase 2: Design and Evolve. In late March and April 2024 Guidehouse met with staff identified as Points-of-Contact to start creating action plans for the two Structural Inclusive Culture, and three Behavioral Inclusive Culture recommendations that were shared in their January Board presentation. Also in March, Guidehouse completed information gathering interviews with peer agencies to discuss their DEI efforts. Guidehouse will use the information learned from these meetings to inform CalSTRS’ DEI effort.

In March, the Inclusion Council kicked-off an internal video series entitled CalSTRS Voices. These short videos feature CalSTRS staff sharing how they celebrate and observe the monthly DEI topic, through their own voice. This series showcases the diverse backgrounds and experiences of the real people that make CalSTRS a unique place to work. By sharing their voice, the featured staff role model the humanity of the people who work at CalSTRS, not just the work they do. March’s video featured Anjum Keval, a leader in the Technology Services Branch and Inclusion Council member, discussing how she and her family celebrate Ramadan. April’s videos featured Kirsten Casella, a director in the General Counsel Branch, and Victoria Martinez, a project analyst on the Pension Solution Project, discussing Autism Awareness.

The DEI site in March featured content for Women’s History Month t2024 theme, Women Who Advocate for Equity, Diversity and Inclusion, as well as information about St. Patrick’s Day, Ramadan, and Equity. April’s site featured content about Autism Awareness Month.

On April 25<sup>th</sup>, our DEI Specialist attended Stanford VMware Women’s Leadership Innovation Lab spring 2024 meeting. The focus of this spring meeting was “Creating a Growth Mindset Culture to Build More Equitable, Inclusive, and Innovative Organizations.” During this meeting, strategies were shared for organizations to foster a culture of growth mindset to spur collaboration, innovation, healthy risk-taking, and ethical behavior. CalSTRS staff were able to virtually watch the keynote address.

In March, Enterprise Compliance Services partnered with the DEI Specialist to add a DEI review to the workstream for all CalSTRS’ Policies. Starting April 2024, CalSTRS’ policies will be reviewed with digital accessibility and DEI in mind. A DEI Guide and Accessibility Guide were developed for Policy Owners.

The Procurement Management Division continues to work on Small Business / Disabled Veteran Business Enterprise (SB/DVBE) certification policies and develop tools to track progress

throughout the contract lifecycle. In March, Procurement Management staff conducted a Collaboration Forum to share information about AB2019 updates. AB 2019 Codifies 25 percent SB participation goal. Requires agencies to adopt Economic Equity First action plans. Requires the state to conduct a statewide procurement disparity study by January 2025. Requires the state to provide an option for businesses to voluntarily self-identify as being at least 51% owned, and with management and control by, individuals in specified women, minority and LGBTQ categories. And authorizes the state to display the voluntary diversity information of certified firms in Cal eProcure. CalSTRS' SB/DVBE Advocate attended two events, the 2024 Supplier Diversity Symposium and Elevate Sacramento, and developed tools to track progress throughout the life cycle of contracts with certification requirements. The Procurement Outreach Team continues to strengthen working relationships with Department of General Services and other state agency partners.

CalSTRS Investments hosted its 13<sup>th</sup> Beyond Talk workshop with Franklin Templeton on March 12. Beyond Talk encourages investment industry leaders to move beyond simply talking about gender diversity within the workplace to making tangible change. This year's workshop provided approximately 130 attendees with practical tools addressing inclusive leadership, culture of belonging, talent retention and advancement.

### **Leasing Activity**

The Waterfront Place Activity dashboard has been updated to reflect recent leasing activity. We are actively negotiating with two private sector prospects, a law firm for a full floor and an engineering firm for a partial floor. We are anticipating a proposal from a third private sector prospect, a technology company, for a partial floor. We continue to pursue public sector prospects as requirements come to market. However, with the recent completion of the new 1M square foot state campus on Richards Blvd, it appears the agency that we toured and expressed interest in Waterfront Place will likely locate to the Richards Blvd campus. While the large state agency who is currently located in a privately owned building on Capitol Mall will likely renew and downsize in place. We recently worked to engage with a school district for a short-term lease; however, they decided to move forward with a space that has on-site warehouse storage and free parking.

As of the 1<sup>st</sup> quarter of 2024, vacancy increased for the 14<sup>th</sup> consecutive quarter in Sacramento to 20.7%. Downtown saw vacancy decline 50 bps quarter-over-quarter to 21.7% which remains largely driven by vacancy in Class B assets currently 26.3%. Class A buildings on Capitol Mall continue to attract more tenants seeking high quality office space with amenities driving vacancy down to 13.3%. Gross leasing volume increased 1.8% quarter-over-quarter despite the average lease size in the Sacramento region declining from 8,100 square feet to below 6,000 square feet. Gross leasing activity increased 6% in Downtown, realizing its highest share of the Sacramento region's total volume in almost 2 years, indicating a shift from the suburban submarkets preferred since the onset of the pandemic. While negative absorption continues to slow with - 48,171 square feet recorded for the quarter, we are anticipating a sharp rise in vacancy next

quarter when the floors at Waterfront Place are officially vacated and HCAI (formerly OSHPD) vacates its headquarters at 2020 West El Camino.

**Headquarters Expansion (HQE) Construction Update**

Since the March HQE update, the project schedule slipped again and is presently reflecting a substantial completion date (SCD) of April 30, 2024. DPR Construction continues to attribute slippage to the inspection process. The previously reported issue that is affecting the critical path to completion of final acceptance of fire-rated doors has been resolved and the solution to resolve the issues has started to be installed. Following this activity, the fire alarm acceptance testing will resume. Construction continues to hover at 99% complete. The final few outstanding punch list repairs are in process, which will continue through April and May, and will not impact the SCD. Building system commissioning activities and fire system testing will be occurring simultaneously. Upon completion of the final fire alarm system inspection, CalSTRS will achieve SCD.

Note: Included in Regular Meeting item 22f, staff is requesting another extension of the Chief Executive Officer (CEO) spending authority, not to exceed \$1 million, if needed, to complete the HQE Project, due to the continued schedule slippage. As of April 10, 2024, staff has not had to utilize this authority and the budget remains at \$321.4 million.

**Project Milestones:**

The Milestones Chart tracks the approved contract dates, as well as the current schedule update with a SCD of April 30, 2024.

Project Milestones	Start Date	Approved Schedule (dtd 08/29/22) Completion Date	Schedule Update As of 04.10.24
Exterior Envelope/inc. Garage All Complete		03/21/23	complete
Lobby Level Furniture Installation (café) (mezz/training room chairs)	02/15/23	03/16/23	complete
Interior Punch-list Complete			04/19/24
Kitchen Equipment – Cooler/Freezer start-up	01/04/23	01/18/23	complete
Bridge Construction including interiors	03/26/21	02/27/23	complete
Fitness Center Equipment Installation	01/12/23	01/26/23	complete
Office Level 04/Atrium Handrail Complete	06/17/21	12/28/22	complete
Fire rated Doors – Complete			04/09/24
Furniture Final Clean/Placement (per MTA)	01/25/23	02/21/23	complete
Final Smoke Control Testing			04/11/24
Start-Up and Commissioning (Final Report)	11/08/22	03/24/23	06/19/24
Fire Alarm IOR/OSFM Testing-Acceptance	02/07/24		04/11/24 thru 04/30/24
FINAL AHJ Inspections	03/01/23	03/28/23	04/30/24
Certificate of Occupancy			04/30/24

Substantial Completion Date		03/28/23	04/30/24
Project Close-Out/Final Completion			06/19/24

**Budget Status:**

This budget status as of March 31, 2024, is summarized below:

<b>Summary Period: 3/31/24</b>				
<b>Budget Categories</b>	<b>Total Project Budget</b>	<b>Costs to Date</b>	<b>% Complete</b>	<b>Balance to Complete</b>
Hard Costs (*including retention)	\$ 264,778,743	\$ 263,871,685	99.66%	\$ 907,058
Hard Cost Contingency	\$ 573,870	\$ -	0.00%	\$ 573,870
Soft Costs	\$ 36,917,873	\$ 36,364,542	98.50%	\$ 553,331
Owner Costs	\$ 18,541,787	\$ 17,115,436	92.31%	\$ 1,426,351
Project Contingency	\$ 587,727	\$ -	0.00%	\$ 587,727
<b>Totals</b>	<b>\$ 321,400,000</b>	<b>\$ 317,351,664</b>	<b>98.74%</b>	<b>\$ 4,048,336</b>

**CHANGE IN HARD COST CONTINGENCY SINCE LAST REPORT:**

- Annular Space Sealant at CMU walls.....\$ 9,287
- Stair 22 Cane Detection.....\$ 3,418
- 04 Environmental Glass replacement.....\$ 10,825
- Trade damage to Door W-108.....\$ 14,372
- Punch list trade damage-painting.....\$ 57,622
- Punch list trade damage-ceilings.....\$ 4,583
- Footing excavations-site furnishings.....\$ 15,335
- South garage entry waterproofing gap.....\$ 10,160
- Total Door Intertek re-certification.....\$ 8,943
- Elevator 27 lobby carpeting.....\$ 9,272
- Roof inspection credit (credit to DRA/charge to contractor contingency).....\$ 3,725

**Total Hard Cost Contingency Use from last report is: \$147,542**

**CHANGE IN PROJECT CONTINGENCY COST SINCE LAST REPORT:**

- The Fi Stok-partial funding for added commissioning .....\$ 12,500
- AON – Owner GL Insurance funding.....\$ 19,347
- Owner GC’s Construction utilities (PG&E).....\$ 25,096
- Fire Consultants – Added contract scope.....\$ 13,400

**Total Project Contingency Use from last report is: \$70,343**