



Regular Meeting

Item Number 2 – Open Session

Subject: Chief Executive Officer Report

Presenter(s): Cassandra Lichnock

Item Type: Information

Date & Time: May 3, 2023 – 30 minutes

Attachment(s): Waterfront Place Activity Dashboard

PowerPoint(s): HQE Project

Innovation Update

In March, we began the assessment phase for our innovation effort at CalSTRS. This phase will set the foundation for our [2022–25 Strategic Plan](#) goal of leading innovation and managing change.

With the guidance of our innovation consultant, Accenture, we released a Culture DNA Assessment to a select group of CalSTRS leaders and specialists who have unique insight into our members, employees, processes and technology. The objective is to gauge our culture and help us gain an understanding of our innovation maturity. The assessment, along with other activities including internal focus groups, one-on-one interviews and benchmarking assessments, will give us a better understanding of the people, processes, technology and challenges that will impact our efforts going forward.

In June, executives will come together during an eight-hour vision workshop to create their definition of success for CalSTRS innovation. First, executives will review the findings of the assessments to gain a common understanding of the current state of innovation at CalSTRS. Then they will create the strategic direction for the innovation initiative.

During the July offsite, the board will learn about the assessment phase results and hear more about the upcoming innovation initiative phases, which include program design, implementation and maintenance.

Emerging and Existential Risks Update

At the March 2023 board meeting, the Enterprise Risk Management (ERM) team presented the board with the semi-annual enterprise risk management report that included the Emerging Risk Universe Map. The map reflects emerging and existential risks that management are actively monitoring. See [here](#) to view the board item.

For this update, the risks shown in the Emerging Risk Universe Map have not changed since the March board meeting. However, as part of staff’s development of an implementation plan to mature the risk program, staff have been exploring alternatives for how best to communicate, evaluate, and update the Emerging Risk Universe Map to reflect recent events or risks that come up in the news that may have an adverse effect on CalSTRS that would require immediate discussion and mitigation. For example, the possibility of an imminent teacher shortage, or the regulatory closures of Silicon Valley and Signature Banks. These types of imminent risks are monitored and mitigated by the affected business areas as part of our normal course of business, including recognition of the risk(s) in our enterprise risk matrix when appropriate.

Incorporating an immediate enterprise-wide risk approach is the next step in further maturing CalSTRS’ risk response. Developing a rapid and agile operational response plan to imminent risks will help to minimize or eliminate the potential impact the risks may pose to CalSTRS.

The emerging and existential risks that management are actively monitoring, which are included in the Emerging Risk Universe Map, are grouped into the 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
	Human Capital
	Change Fatigue
	Cost of Computing Spike
Existential Risks	Shift to Alternate Education
	Artificial Intelligence

Monitor	
Emerging Risks	Ungoverned Software as a Service
	Evolving Sociopolitical Expectations
	ESG Opposition
	Geopolitical Disruptions
	Inflationary Pressures
	Commercial Real Estate Surplus

	Cyber Insurance Availability
Existential Risks	Comprehensive Pension Reform
	Cybersecurity Event
	Demographic Shift
	Hyperinflation
	Shift in Pension Fund Investment Management

The Enterprise Risk Management team continues to regularly evaluate emerging and existential risks to determine whether these risks require active mitigations, revision to existing mitigations, active monitoring for future consideration or no action needed until the next identification cycle. As events continue to unfold and our understanding of these emerging risks continue to evolve, staff will modify the map accordingly. An updated Emerging Risk Universe Map will be provided to the board at the next semi-annual ERM risk report in September 2023.

Headquarters Expansion (HQE) Construction Update

In February 2018, the Headquarters Expansion Project officially kicked off with a project team visioning session. The team identified the mission to be employee experience – creating a healthy environment, with access to healthy food and fitness - a place where people want to come and work and fulfill our mission to California educators. It was also designed with quality in mind – to be as beautiful in 50 years as it is upon completion.

As the project enters the final months of construction the building is finally becoming the envisioned reality. The exterior building glass and metal panels – the “skin”, and garage panels sparkle as the installation nears completion. Currently, the focus is on completing the exterior “jewel-box” elements on the north and south sides of the building. With the bridge glass now installed the Headquarters Expansion is truly becoming the extension of the Headquarters building.

The podium level improvements which are comprised of the lobby, multipurpose rooms, café, and childcare areas are in the process of being finished out with lighting, ceilings, and wood panels. The lobby mezzanine and café both get exceptional natural light and are sure to be destination meeting places. According to Ridge, the site area around the podium level is slightly behind schedule purportedly due to, among other reasons, the unusually wet winter experienced this year. However, it is finally starting to take shape with the formation of the bio-swale just outside of the childcare patio which collects the natural water run-off and filters it before it leaves the site.

On the office level floors, the furniture has been moved into floors 3 through 5. These floors are not finished with core areas (restrooms) still ongoing, but progress is being made daily. The two-crew elevators “leave-out” areas are being built out quickly on all floors – these areas were more recently made available for construction when the freight elevator was approved for construction use in December allowing for the crew-lifts to be removed. This past month two of the passenger elevators were also certified for construction use – alleviating the line of craft workers with carts/materials needing to move between floors. Office levels 6 and 7 are following closely behind with finishes, but the most impressive feature is the Atrium. The

ceiling and skylight design reflect a floral-like pattern onto the floors as the sun moves through the sky and the wood panels are warm, complementing the formed concrete accent wall. On the top garage levels as well as the rooftop, the PV structures are complete with the module installation in place. The benefits of these structures are twofold – obviously for the power that will be generated, but also for the parking lot shade created.

While the project has experienced issues with permitting during the pandemic and other ongoing schedule delays, once completed this summer, the building value will be apparent in the final work product that meets the goals of the original mission regarding functionality, sustainability, and a healthy work environment.

Construction Activities

Construction activities completed and ongoing since last update:

Exterior Building:

- Installed MP5 Panels and Louvers at the Loading Dock
- Completed Ceiling Installation at O5 Courtyard and Removed Scaffolding
- Penthouse mechanical work ongoing

Bridge:

- Steel Fireproofing Completed at Bridge Columns
- Installed overhead mechanical ducting and fire sprinkler pipe at Bridge

Interior:

- In Café: Taped and Painted walls, Installed Ceiling Grid, Lights, MEP at Grid Ceiling at Linear Wood Paneling at High Walls; Installed Kitchen Hoods; Hung Drywall at Walk-in Cooler Room
- Installed MP Room Device Tiles and Fire Alarm Devices
- Installed Balance of Overhead Insulation at P1 Small Offices and Bathrooms
- Completed Installation of Overhead Coiling Door at Corridor 120
- Framed Soffits and Hard Lid Ceilings at Lobby
- Roughed-in Overhead Fire Alarm, Pulled Fire Alarm Wiring, and Installed Fire Alarm Devices at P1
- Set Tile at O3 Women’s Restroom and Locker Room Restrooms, Floated Floors at All Gender Restrooms
- Set Tile at O4 Women’s Restroom
- Installed Open Office Workstations at O4, Dropped Ceiling Tile at ACT Rooms and Set Light Fixtures, Tested & Energized Lighting
- Set Glass at Atrium Levels O6/O7, Sprayed Ensemble Ceiling at Atrium
- Completed Sheetrock Installation and Painted Ceilings at O5 Women’s Restroom
- Roughed-in Mecho Shades on O6, Installed Light Fixtures at ACT Locations, Pulled Fire Alarm Wiring, Installed Fire Alarm Devices and Started Glazing Interior Openings

- Installed Light Fixtures at O7 Open Office Areas, Installed ACT Grid & Device Tiles, Installed Drywall at Soffits at Ceilings

IDF Rooms:

- Coordination for turnover and acceptance of rooms ongoing
- Punched Down and Tested P1/P2/P3/P4 IDF Rooms
- Trimmed Out Data and Installed Security Devices at P5 IDF
- Finalized Temp Network at O6/O7 North IDF
- Dressed and Punched Down Cabling at O6/O7 South IDF

Garage Levels:

- Installed EV Chargers and Energized Panels at EV Room
- Installed and Tested Mechanical Piping at P3 South Mechanical Room
- Installed Controls at P3 North & South Mechanical Rooms
- Set Booster Pump and Completed Rough-in for Gray Water Equipment at P4, Tested Gray Water Distribution Piping
- Pulled Overhead Data Cabling and Installed Fire Alarm Devices at P5
- Insulated Duct and Completed Duct Pressure Testing at P5 Center Shaft
- Installed and Insulated Mechanical Piping and Water Heater Flue at P5 Center Mechanical Room, Installed Outside Air Monitoring
- Hydro Tested Mechanical Piping and Installed Plumbing Piping at P5 North Mechanical Room
- Heating Hot Water Supply and Return Installed at Chiller Room, Set BMS Control Panels, Installed Lighting, Security Devices and Exit Signs
- Commence Install of P2/P3/P4/P5 Perimeter Safety Cabling

Schedule Status

CalSTRS approved a revised project schedule with a Substantial Completion Date (SCD) of March 28, 2023, in September 2022. Since then, Ridge has advised that the project schedule continues to remain in flux with schedule slippage supposedly caused by, among other things, construction and inspection issues. In December, DPR Builders, the project's contractor, introduced a new SCD of June 8, 2023, and more recently another date of July 6, 2023. CalSTRS is awaiting an assessment of the revised schedule and related impacts before a final project schedule is presented.

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. Lisa Blatnick, CalSTRS Chief Operating Officer (COO) and Ridge will provide a verbal update on the project schedule status and related impacts during the CEO Report.

Sustainability Status:

We are months away from construction completion, and our sustainability impacts from construction are extremely impressive due to a continued focus on our core values. The current scorecard indicates a project status of Platinum in LEED NC (Leadership in Energy and Environmental Design New Construction), embracing environmental design and adhering to all components of the rating system including carbon emission reduction, energy efficiency, and protecting the environment in a project’s surroundings. To date, approximately 4,347 products have been, or are being researched, with 3,601 approved Living Building Challenge (LBC) Materials Petal. *“The intent of the Materials Petal is to help create a materials economy that is non-toxic, ecologically restorative, transparent, and socially equitable”*, International Living Future Institute. We are on track to achieve a Gold rating for the WELL Building Standard certification, a performance-based system for measuring, certifying, and monitoring features of the building environment that impact human health and wellbeing, through water, air, nourishment, light, fitness, comfort, and mind. We are incredibly proud of our efforts put forward. Additionally, DPR Builders has an impressive construction waste diversion rate of 96.33%.

Budget Status

The budget status for the month ended March 31, 2023, is summarized below:

Summary Period: 3/31/23			
Budget Categories	Total Project Budget	Costs to Date	Balance to Complete
Hard Costs	\$ 263,088,204	\$ 223,311,852	\$ 39,776,353
Hard Cost Contingency	\$ 2,083,060	\$ -	\$ 2,083,060
Soft Costs	\$ 51,464,167	\$ 46,276,383	\$ 5,187,784
Project Contingency	\$ 1,864,569	\$ -	\$ 1,864,569
Totals	\$ 318,500,000	\$ 269,588,235	\$ 48,911,765

CHANGE IN HARD COST CONTINGENCY SINCE LAST REPORT:

- Curtainwall – change out fire span 90 quick clips..... \$ 249,471
- DPR DW and D-7 added staffing..... \$ 36,164
- Elevator Door support..... \$ 27,716
- Scope gap - soffit framing in elevator lobbies..... \$ 47,571
- Scope gap - atrium sidelight detail.....\$ 6,138
- Fire alarm changes for mechanical coordination.....\$ 50,712

- Water damage from coring in café.....\$ 24,018
- DPR added staff to help with inspection.....\$ 7,199
- Elevator 21-26 pit screens.....\$ 24,937
- Penthouse louver framing clarifications.....\$ 22,417

Total Contractor Contingency: \$496,343

CHANGE IN PROJECT CONTINGENCY SINCE LAST REPORT:

- Extended Owner GL Insurance..... \$ 39,064
- Extended Owner Builders’ Risk Insurance.....\$ 20,385
- Inspector of Record * funding for depletion of budget line item
(January, February, March).....\$ 539,950
- Leveling of garage slabs between HQ and HQE.....\$ 250,119
- Transferring site security services to DPR..... \$ 37,970

Total Project Contingency: \$887,488

** 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 approved 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:

CalSTRS COO will present a PowerPoint report to the board on HQE project progress and photos.

Leasing and Occupancy Update

The Waterfront Place Activity dashboard has been updated to reflect our recent leasing activity. Notably, we have had two tours with prospective tenants, a business bank, and a law firm. We are still actively negotiating with one prospect and are in receipt of the space plan they have prepared for a full floor and a partial floor. Our next step with this tenant will be to obtain a bid for their tenant improvements based upon the space plan and pricing plans to determine any excess costs, above the tenant improvement allowance. Should we successfully reach an agreement with this tenant, their occupancy timing for the space is Q1 2024.

We continue to actively pursue all tenants in the Sacramento region including tenants located in urban and suburban markets who may find the unique campus-like amenities attractive paired with the proximity to downtown. We are also highlighting the move-in ready potential of the available space, with furniture available to both public agencies and private organizations. Available furniture can be a significant cost-savings for many tenants.

Attachment 2 is the Waterfront Place Activity dashboard which graphically displays all the skyline office buildings in downtown Sacramento.

HQE Bond Update

When the Series 2019 and 2022 Bonds were issued, potential investors were advised that CalSTRS' obligation to make base rental payments (debt service payments) does not commence until the project is substantially complete and available for CalSTRS' beneficial use and occupancy. At the time of issuance of the Series 2019 Bonds, capitalized interest was financed to pay interest payments during construction through February 1, 2023, with the first debt service payment due August 1, 2023. When the Series 2022 Bonds were issued due to schedule delays that required additional funding, CalSTRS deposited with the trustee an amount sufficient to pay debt service with respect to the Series 2019 and 2022 Bonds due on August 1, 2023. Since that time, the completion schedule continues to remain in flux. In addition, the board has delegated authority to the CEO to disseminate all post-issuance transactions. Therefore, in the event that the HQE is not substantially complete by August 1, 2023, then CalSTRS will apply lawfully available funds and take such steps as are necessary to make full and timely debt service payments on the Series 2019 and 2022 Bonds until substantial completion of the project, at which time debt service payments will commence in accordance with the facility lease.