



## Regular Meeting

### Item Number 3 – Open Session

**Subject:** Chief Executive Officer Report

**Presenter(s):** Cassandra Lichnock

**Item Type:** Information

**Date & Time:** March 7, 2024 – 15 minutes

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**Attachment(s):** None

**PowerPoint(s):** None

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#### **2022–23 Sustainability Report**

We released our 10th annual sustainability report in February 2024. The [2022–23 Sustainability Report](#) documents our sustainability approach and data from July 1, 2022, to June 30, 2023.

We're marking ten years of producing this voluntary report, which demonstrates our commitment to long-term organizational stability. The report communicates CalSTRS' key sustainability issues and their impacts on our stakeholders. This edition:

- Shows how we act as sustainability leaders and do what we ask of others.
- Integrates the reporting of our various business areas, illustrating how their work creates a sustainable organization.
- Defines our sustainability-related achievements during the reporting period, our commitments to improvement and our upcoming activities.
- Includes our enterprise greenhouse gas emissions data, which aligns with our net zero efforts. For the first time, we are including our estimated scope 3 emissions in our value chain.

To develop topics for this report, we identified the enterprise's significant economic, environmental and social impacts for the 2022–23 fiscal year. Our impact areas are:

- **Economic:** 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:** 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. Our climate-related strategies support the retirement security of our members.
- **Social:** 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 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. Reporting using the GRI standards increases transparency between organizations and their stakeholders.

### **CalSTRS DEI Update**

Since the update provided to the board at the January 2024 Board meeting, Guidehouse has continued their work on Phase 2: Design and Evolve. In February, they conducted peer reviews with other state agencies, including California Public Employees' Retirement System, California Department of Human Resources, and Department of Child Support Services to support the recommendation to build a structural inclusive culture. Guidehouse will use their learnings from these meetings to support the action plans for establishing the DEI strategy, as well as governing the DEI strategy.

CalSTRS participated in the California State Leadership Forum on Advancing Diversity, Equity, Inclusion, and Accessibility. Attendees heard panel discussions focused on embedding DEIA in state operations, as well as fostering belonging and an inclusive culture. In addition, First Partner Jennifer Siebel Newsom spoke on gender equity, equal pay and representation.

In February, our DEI Site focused on Black History Month’s theme “African Americans and the Arts,” featuring content from the Smithsonian Institution’s National Museum of African American History & Culture, along with various movies, music, and visual and written arts. Also featured was Lunar New Year - Year of the Dragon. For March, we are featuring information on Women’s History Month and Ramadan.

Also in February, CalSTRS staff had the opportunity to watch a webinar from Stanford VMware Women’s Leadership Innovation Lab entitled *Engaging Men as Allies for Gender Equity*. During this webinar, the speakers made the business case for male engagement in gender equality and male allyship, and provided actionable, evidence-based best practices for individuals and organizational leaders to create more diverse and inclusive workplaces.

During the January 2024 Investment Committee, the Committee learned of DEI best practices specifically employed by three of CalSTRS investment managers, who provided details of why DEI is important and how DEI is integrated in their respective businesses. In March, CalSTRS will host its 11<sup>th</sup> annual *Beyond Talk* workshop. This year’s workshop will explore the transformative potential of inclusion in driving positive change and fostering resilience within the investment management industry. The workshop attendees, which includes CalSTRS investment partners, will recognize the progress made in advancing DEI in recent years while setting new goals for the future.

As mentioned in the September 2023 update, the Procurement Management Division implemented a DEI Survey within CalSTRS non-investment procurement solicitations in the first quarter of the 2023/24 Fiscal Year. All vendors responding to solicitations are required to complete the survey as part of the minimum qualifications to be considered for an opportunity with CalSTRS. For the quarter, a total of 54 vendors responded to the survey with a 100% response rate. The average response rate over six (6) questions pertaining to DEI programs within the respondents’ businesses was 86%. The Division began working with Executive Leadership to develop targets related to the new program in December 2023.

And finally, the CalSTRS Inclusion Council worked with Guidehouse to finalize a definition for “equity” to include with CalSTRS DEI.

Diversity: All the ways people can differ from one another, visibly and not.

**Equity: An environment where each employee has the opportunities and resources to succeed through intentional policies and practices designed to remove individual and systemic barriers.**

Inclusion: Creating a work environment where differences are welcomed, and every employee feels valued and respected.

### **Contact Center Modernization**

CalSTRS primary channel for our members to receive support is through the telephony system. Our Customer Service Division received an average of 22,000 a month, for a total of 264,574 calls during 2023. Our staff have been able to maintain a member satisfaction rate of 95% and, on average, answered the incoming calls within 16 seconds. In addition to the high volume of calls received, staff also manage the Online Messaging Portal, where slightly over 3,000 messages from members are processed a month with an average turnaround time of less than 24 hours.

When CalSTRS was informed by the vendor of the discontinuation of the telephony platform in 2021, CalSTRS proactively engaged multiple departments to select a new, flexible solution. The selection of the NICE CXone platform was the result of this collaborative effort, chosen for its suitability for present needs and adaptability to future requirements.

In June 2023, the Contact Center Modernization project was initiated to implement a new telephony system to replace the current Genesys platform. The new CXone solution went live on December 12, 2023, without a glitch. We were able to provide the same excellent service to our members from day one. In January 2024, we completed the implementation of additional functionality to enhance the ability of our staff to conduct back-office activities. All five Benefits & Services Divisions were transitioned to the new cloud-based telephony platform for both inbound and outbound calls.

The new telephony solution brings many new benefits to CalSTRS:

- Improved interactive voice response (IVR) experience and self-service options for members.
- Better workflow among divisions within the Benefits & Services Branch, leading to more efficient responses to members, beneficiaries, and employers.
- More accurate routing of member and employer calls thereby decreasing time to resolve issues and fulfill requests.
- Increased reporting capabilities to analyze member and employer contact trends.
- Streamlined single sign-on access to the phone system, improving ease of access and security.

As Phase 1 of the project is winding down, staff have started planning activities for Phase 2 to further improve our services by taking advantage of the new product features. Some of the new enhancements include:

- Implementation of post-call surveys for Employer Services and Retirement Readiness.
- Leveraging sentiment analytics to gain insight into customer interaction experience.
- Offering speech recognition to our call menu and member surveys.
- Integration with the new pension administration system, BenefitConnect.

Staff continue to explore opportunities to better support our members and employers through the new telephony system capabilities.

### **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 2023 the following tax filings were completed:

- 466,679 Forms 1099-R reporting \$18.6 billion in benefit payments.
- 106 Forms 1099-NEC reporting \$113.5 million in payments to vendors.
- 13 Forms 1099-MISC reporting \$134 thousand in payments for non-member benefit payments from the Replacement Benefits Program and two legal settlements.
- 196 Forms W-2 reporting \$7 million in benefits for Replacement Benefit Program payments.
- IRS Form 945, which reconciles federal tax withholding and deposits related to Forms 1099-R, 1099-NEC, and 1099-MISC.
- IRS Form 941, which reconciles the federal tax withholding reported on Forms W-2.
- EDD Form DE-9, reporting state tax withholding.

#### **Annual Update on Activity of Series 2019 and Series 2022 Bonds**

In December 2019 and December 2022, CalSTRS issued \$340.6 million (\$272.6 million par and \$68.0 million original issue premium) and \$16.2 million (\$15.6 million par and \$0.6 million original issue premium) in tax-exempt lease-revenue green bonds (collectively, the “bonds”), respectively, to fund the construction, furnishing and equipping of the expansion to CalSTRS' existing headquarters (HQE Project) and to pay costs of issuance of said bonds. The bonds were issued through the California Infrastructure and Economic Development Bank (IBank).

The following are noteworthy activities carried out with respect to the management of the bonds during calendar year 2023:

- **Annual Insurance Certification:** Staff submitted the required annual certification of the insurance coverage for the HQE Project to the IBank in July 2023.
- **Rating Assessments:** The bonds were subject to annual rating assessments. Fitch, Moody's and S&P reaffirmed the original bond ratings for the Series 2019 bonds of AA, A1 and A+, respectively. Since the 2022 bonds were issued in December 2022, they have not yet been subject to an annual rating assessment.
- **Green Bond Certification:** The bonds were issued as green bonds, certified as Climate Bonds by the Climate Bond Initiative (CBI) Standard Board. The Climate Bonds Standard requires an annual update report on the bonds and status of the project financed by the proceeds. Staff submitted the required annual report to CBI in October 2023.
- **Continuing Disclosure Certificate:** Staff submitted the required Continuing Disclosure Annual Report with the Municipal Securities Rulemaking Board by the February 1, 2024, due date. The report requires copies of the most recent CalSTRS Annual Comprehensive

Financial Report, Actuarial Valuation of Defined Benefit Program and condensed financial statements, on an annual basis. In addition to these required annual disclosures, Staff submitted voluntary disclosures regarding the project delays and CalSTRS' plans to make full and timely debt service payments on the Series 2019 and 2022 Bonds.

- **Interim Arbitrage Assessment:** The bonds are subject to Internal Revenue Code and US Treasury regulations that restrict the investment yield municipal bond issuers can earn on the investment of bond proceeds. Arbitrage is earned when the proceeds of a tax-exempt or tax-advantaged bond issue are used to acquire investments that earn a yield more than the bond yield (or arbitrage yield), which is the average yield issuers pay to their bondholders. Pursuant to the requirement of the Tax Certificate and Agreement for the bonds, staff engaged a third-party specialist to perform an interim arbitrage rebate liability assessment for the bonds. Although a liability is accruing, the final amount will not be known until after the project is complete, at which time a final arbitrage rebate liability assessment will be performed and any payment due to the United States Treasury Department will be paid.
- **Debt Service:** Pursuant to the Facility Lease between CalSTRS and the IBank, dated as of December 1, 2019, as amended by the First Amendment to Facility Lease, dated as of December 1, 2022, CalSTRS is obligated to pay debt service with respect to the bonds, semi-annually on February 1 and August 1, commencing August 1, 2023. However, this obligation is abated to the extent the building is not available for use and occupancy until substantial completion. On May 3, 2023, pursuant to the authority delegated by the CalSTRS Board, CalSTRS' Chief Executive Officer notified the CalSTRS Board that, lawfully available funds would be applied to make full and timely debt service payments due on the bonds until substantial completion of the HQE Project. Although the building was not substantially complete at the time, CalSTRS paid \$12.82 million and \$6.96 million in debt service on August 1, 2023, and February 1, 2024, respectively.

As the HQE project progresses, the bond proceeds remain invested in permitted, risk averse investments, available to fund all project expenses as budgeted. Finally, additional information regarding the bonds can be found on the [CalSTRS Series 2019 and 2022 Bonds investor information - CalSTRS](#) page.

### **Headquarters Expansion (HQE) Construction Update**

Since the January HQE update, the project schedule continues to slip and is presently reflecting a substantial completion date (SCD) of March 22, 2024. DPR Construction continues to attribute slippage to the inspection process. The ongoing issue that is affecting the critical path to completion is final acceptance of fire rated doors. Final smoke control acceptance is predicated by door acceptance, which is the predecessor to fire alarm acceptance testing. While the fire alarm team has been waiting for the door issues to be resolved, they have continued testing and fine tuning the fire alarm systems, which hopefully will ensure a final testing process with a higher probability of success in a shorter duration.

Construction continues to hover at 99% complete. The final few outstanding building exterior and interior items have been materially completed with building clean up and punch list repairs in process, which will continue through March. Building system commissioning activities and fire system testing is occurring. Upon completion of the final fire alarm system inspection, CalSTRS will achieve SCD.

Note: Included in Regular Meeting item 11e, staff is requesting a second extension of the Chief Executive Officer (CEO) spending authority, not-to-exceed \$1 million, if needed, to complete the HQE Project.

**Project Milestones:**

The Milestones Chart tracks the approved contract dates, as well as the current schedule update with a SCD of February 28, 2024.

Project Milestones	Start Date	Approved Schedule (dtd 08/29/22) Completion Date	Schedule Update dtd 01.22.24
Exterior Envelope/inc. Garage All Complete		03/21/23	02/04/24
Lobby Level Furniture Installation (café) (mezz/training room chairs)	02/15/23	03/16/23	<u>complete</u>
Fire Alarm IOR/OSFM Testing-Acceptance	02/07/24		02/26/24
Interior Punch-list Complete			03/26/24
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	<u>complete</u>
Office Level 04/Atrium Finishes Complete	06/17/21	12/28/22	01/02/24
Furniture Final Clean/Placement (per MTA)	01/25/23	02/21/23	<u>TBD</u>
Start-Up and Commissioning (Final Report)	11/08/22	03/24/23	04/17/24
FINAL AHJ Inspections	03/01/23	03/28/23	02/28/24
Certificate of Occupancy			02/28/24
Substantial Completion Date		03/28/23	02/28/24
Project Close-Out/Final Completion			04/17/24

**Budget Status:**

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

Summary Period: 1/31/24				
Budget Categories	Total Project Budget	Costs to Date	% Complete	Balance to Complete
Hard Costs (*including retention)	\$ 264,631,201	\$ 262,236,045	99.09%	\$ 2,395,156
Hard Cost Contingency	\$ 721,412	\$ -	0.00%	\$ 721,412
Soft Costs	\$ 36,947,873	\$ 36,034,413	97.53%	\$ 913,460
Owner Costs	\$ 18,441,444	\$ 16,693,621	90.52%	\$ 1,747,823
Project Contingency	\$ 658,070	\$ -	0.00%	\$ 658,070
<b>Totals</b>	<b>\$ 321,400,000</b>	<b>\$ 314,964,079</b>	<b>98.00%</b>	<b>\$ 6,435,921</b>

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

- Sealant inside EMT Conduits.....\$ 3,551
- Main roof material replacement.....\$120,558
- Addition 1- and 2-way roof vents at main roof.....\$ 13,994
- Punch list trade damage.....\$ 4,337
- Demo and replace west site work.....\$ 72,215
- Stainless steel corner guards at P1 kitchen.....\$ 2,776
- HQ elect rm floor tile cuts to support FA battery cab.....\$ 31,790
- RAF floating at over framing.....\$ 5,855
- Stainless steel shims under L-angle.....\$ 14,265
- Solid surfaces at Childcare.....\$ 13,326
- North sidewalk waterproofing.....\$ 8,087
- Prow Corner panel re-order.....\$ 5,532
- Broken glazing -trade damage.....\$ 31,786
- S. lobby CW rework due to SS tolerances.....\$ 16,055
- S. P4 Soffit re-order due to steel location.....\$ 9,609
- Asphalt repair post construction.....\$ 93,626
- Kings roofing – trade damage repair.....\$ 55,727
- Replace doors/hardware at W-801 opening.....\$ 11,186

**Total Hard Cost Contingency Use from last report is: \$514,275**

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

- Extension of Property Casualty Insurance through 4/1/2024....\$ 21,131
- Extension of Owner General Liability and excess \$25M Insurance through 4/1/2024.....\$ 44,156



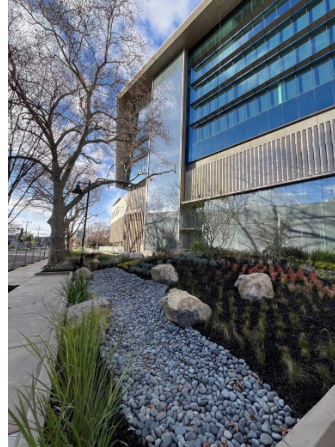
**Total Project Contingency Use from last report is: \$65,287**

**Project Photos:**

HQE project progress and photos



Southwest corner



Southside landscaping



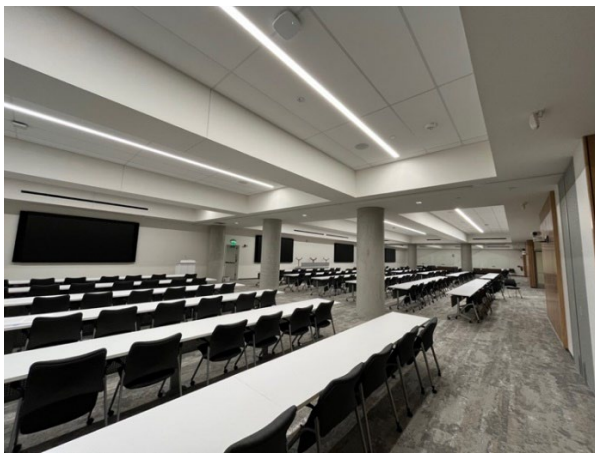
Service Center at Bridge



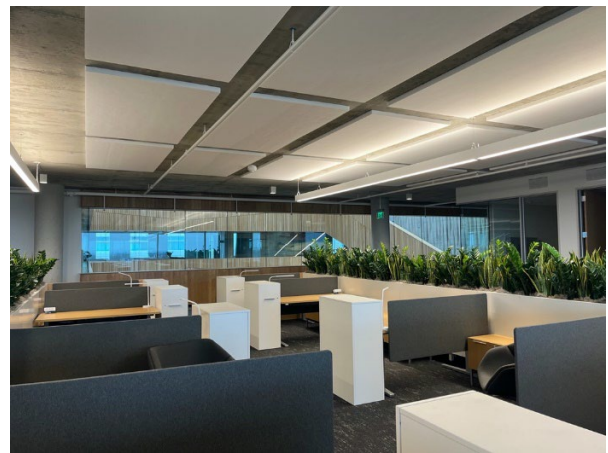
Typical Central Break areas



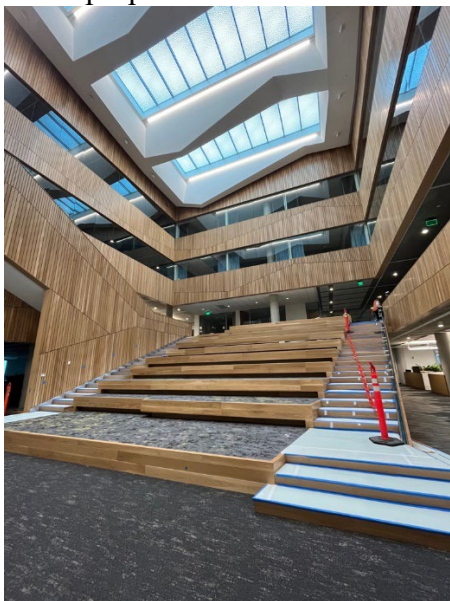
Typical meeting rooms



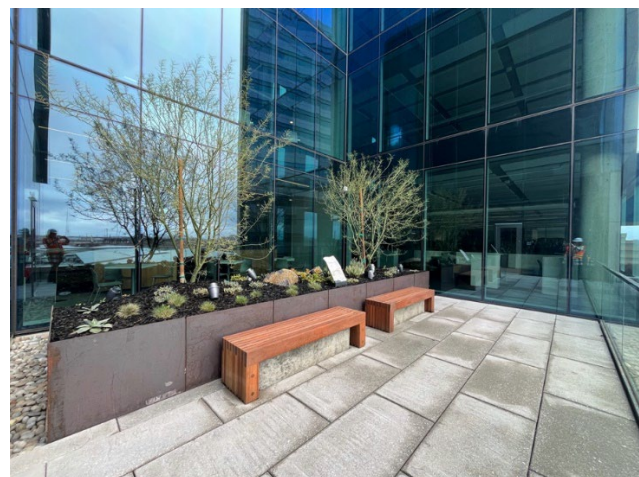
Multi-purpose rooms



Open Office fit-out



Atrium



Office level 3 terrace