



Regular Meeting

Item Number 3 – Open Session

Subject: Chief Executive Officer Report

Presenter(s): Cassandra Lichnock

Item Type: Information

Date & Time: July 8, 2022 – 15 minutes

Attachment(s): None

PowerPoint(s): None

1. Introducing CalSTRS 2022 Virtuosos

In Support of a Sustainable and Engaged Workforce

In addition to CalSTRS day-to-day award-winning recognition programs, the CalSTRS Virtuoso award is the highest honor a CalSTRS employee can receive. The Virtuoso award is reserved for those individuals who deliver superior, sustained performance with a demonstrated impact on the organization. Virtuosos model our core values and competencies and support our mission and vision. The nominations document specific examples of how the nominee meets or exceeds the award criteria. An 11-member Recognition Council, made up of employees who represent different branches, ranks and generations in the organization, have the challenging job of rating each nomination individually and selecting the most compelling to receive the Virtuoso award.

I am pleased to introduce our 2022 Virtuosos - Ten individuals who have received CalSTRS highest honor:

Alex Mielke – Associate Governmental Program Analyst/Pension Program Manager I (Supervisor)

As a Training Analyst in Employer Services, Alex was responsible for the design, development and implementation of training materials related to employment and contribution data reporting and maintenance of their internal and external training programs. Working collaboratively with the Employer Help and Audit Services groups, Alex provided support on escalated and complex employer inquiries, while also drafting audit reports to aid in the assessment of training needs and improvements to internal training programs. In the latter half of the year, Alex served in an out of class assignment as a Pension Program Manager I over one of the four Employer Help teams, which eventually led to a permanent promotion to this role. In this new capacity, Alex was

responsible for supervising and leading Employer Help staff who are the primary point of contact for CalSTRS' employer reporting partners.

Amy Harvey – Pension Program Manager I (Supervisor)

Amy is the Training Services Manager overseeing the Retirement Readiness Training Services team. Retirement Readiness develops, delivers, and coordinates educational services to CalSTRS members and staff, and Amy plays a pivotal role in planning, organizing, and supervising the performance of the Training Services Unit. Her team plays a unique role in not only providing training and educational support to CalSTRS staff such benefits specialists, hybrid specialists, and support staff, but also directly to our members. Amy is responsible for overseeing the training and development of her team, and for the design, development, and implementation of educational programs as part of a master curriculum to instruct staff on CalSTRS benefits and retirement planning.

Britney Tezanos-Pinto – Pension Program Manager I (Supervisor)

As the Training & Communications manager in the Service Retirement division, Britney supervises a highly analytical team of trainers responsible for division-wide communications and employee learning needs. Britney's role is to plan and organize the curriculum that ensures Service Retirement staff have the knowledge and skills necessary to establish and maintain accurate service retirement benefits for our members, while also responding to internal and external customer inquiries. Britney is known for providing timely, accurate, appropriate, and high-quality learning opportunities for the entire division, while also offering performance consulting services to the leadership team. In addition to the training and coaching sessions, Britney is also responsible for the creation and maintenance of Service Retirement's internal and external publications, forms, letters, and templates.

Carlos Guzman – Staff Services Manager I/II (Specialist)

Carlos plays a key role in our Human Resources division as part of the Organizational Development Consulting team. His primary responsibility as CalSTRS' knowledge transfer and transitions subject matter expert, leads him to perform a broad range of sensitive and highly complex analytical and consultative work. While this role provides its own specific intake and workload, Carlos has been empowered to seek additional opportunities to collaborate with staff and leaders across the organization. He facilitates and develops clear, efficient strategic plans for different business areas and evaluates, improves, and creates new org-wide processes and procedures. Carlos also provides leadership and consultation on knowledge transfer efforts, change activities and transitional situations enterprise wide.

Derek Daniels – Pension Program Manager II (Supervisor)

As the Survivor Benefits Program Manager, Derek oversees all aspects pertaining to the Survivor Benefits program at CalSTRS. Derek directly manages four Pension Program Manager I Supervisors and leads their teams of approximately 50 staff. As the division supports CalSTRS members and their survivors through highly tumultuous periods of their life, Derek's focus on exceptional Customer Service and clear communication is imperative. He is responsible for

ensuring the timely and accurate processing of survivor benefits to beneficiaries, performing proactive detection and identification of deceased members and designated payees, and keeping our member and beneficiary designation information accurate throughout our benefits processing systems. Derek is also responsible for following and maintaining CalSTRS goals, Disability and Survivor Benefit's strategic vision, legislative mandates, and overall business direction.

Linda Christian – Associate Governmental Program Analyst

In her role as the Service Retirement Senior Administrative Analyst, Linda serves as the Director's administrative assistant as well as directly supporting the division leadership team. Linda reviews, assigns, and monitors the distribution of reports, publications, memos, Executive Reviews, and assignments from the CEO and DCEO and controlled correspondence on behalf of the Director. She composes, edits, and finalizes correspondence and relieves the leadership team of administrative details while tracking to ensure deadlines are met. Linda collaborates with peers across the organization, such as Facilities and Technology Services to coordinate workspace set-up and equipment installation and serves as the division liaison with Human Resources acting as the attendance coordinator. She is also responsible for developing and tracking Requests of Personnel Action, initiating hiring packages and ensuring the smooth execution of activities. Additionally, Linda tracks annual performance appraisals ensuring timely completion and maintaining division budget expenditures.

Renee Evarts – Information Officer II

Renee is the Senior Writer and Publication Specialist for our Public Affairs branch and serves as a subject matter expert on the CalSTRS Style Guide. She works extensively with graphic designers and program staff on the production of various communication and marketing materials. Renee represents the Communications Division on org-wide projects such as Pension2, externally published reports (GRI/Sustainability, Diversity and Inclusion, Green Team and SISS reports), legislative implementations, member benefits education and financial planning workshops and business and strategic plans. She not only serves as a specialist in writing and editing for various member publications and web content, but also is responsible for the development of the most sensitive, technical, and complex member-focused publications, letters and projects.

Rian Troth – Staff Services Manager I/II (Specialist)

As a Defined Contribution Benefits Specialist, Rian independently performs a wide variety of the most complex retirement benefits planning tasks, including conducting individual and group retirement benefits planning sessions with CalSTRS members in person, via telephone and via Zoom. He is a subject matter expert in the Defined Contribution retirement savings program and regularly explains the process for enrolling into the CalSTRS Pension2 program to our members via various financial awareness and Pension2 workshops. Rian uses his exceptional Customer Service skills to conduct offsite outreach activities, helping maintain business relationships with stakeholders to implement the division's outreach program objectives. He must exercise a high degree of discretion, diplomacy, confidentiality, and initiative while taking independent action to resolve issues as they arise as a representative of our West Sacramento MSC, as well as the Redding field office and our Northern California membership.

Susan Davis – Information Officer II (Specialist)

Susan is the Senior Internal Communications Officer for CalSTRS in the Communications Division. She oversees, researches, writes, edits, and implements enterprise-wide communication plans and serves as project manager for internal publications. She also oversees the coordination of content and facilitation of internal events, such as town halls, to assist in the ongoing information sharing and knowledge transfer.

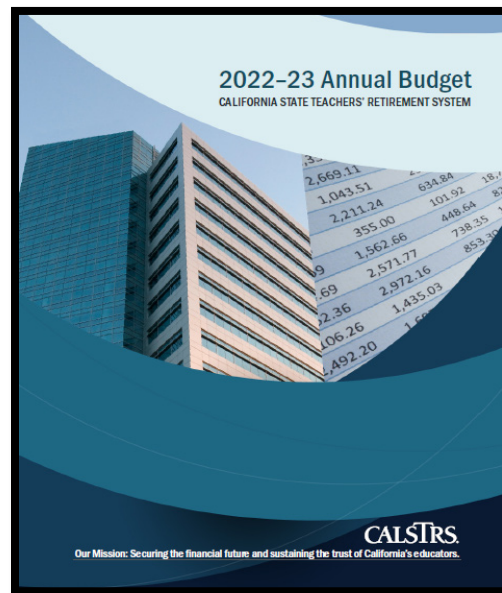
Tamara Carr – Pension Program Manager I (Supervisor)

As the Quality Management Manager, Tamara plans, organizes, and supervises the performance of the Quality Management Unit in our Retirement Readiness Division. She provides leadership, direction and administration of all aspects of Retirement Readiness’s Quality Management activities. Tamara also develops and maintains Quality Management processes and procedures and develops internal controls and risk management protocols. She oversees all the internal controls and risk management practices for the entire division, including being the point of contact for all existing and future audits. Additionally, Tamara strategically formulates, recommends, executes, and monitors initiatives and projects while developing action plans and timelines for each assignment.

2. CalSTRS 2022-23 Annual Budget Report

CalSTRS released its [2022–23 Annual Budget Report](#) in June 2022. The report was prepared in accordance with the Government Finance Officers Association of the United States and Canada standards and guidelines, which are recognized as best practices for governmental financial and budgetary reporting.

CalSTRS received the GFOA Distinguished Budget Presentation Award for its [2020-21 and 2021-22 Biennial Budget Report](#). To achieve the Distinguished Budget Award, the document must serve as an operational and policy guide, financial plan and communications device.



The *2022-23 Annual Budget Report* provides a comprehensive summary of the system’s total budget and strategic plan initiatives over the next year. Report features include information about CalSTRS’ total board approved budget, including substantive detail on the key drivers of budgetary growth for fiscal year 2022–23. In addition, it provides an overview of CalSTRS’ primary initiatives, key accolades and branch level information.

CalSTRS' total 2022–23 budget is \$687.9 million, including 1,293 authorized positions. Our 2022–23 budget largely focuses on continuity of core business functions, while fostering innovative business transformation. Key initiatives include enterprisewide operational support and management activities to facilitate ongoing business operations.

3. Mileage Rate Changes

The standard mileage rate will increase to **62.5** cents per mile (up from 58.5 cents for the six months ended June 30, 2022) for business travel beginning on July 1, 2022.

4. Headquarters Expansion (HQE) Construction Update

CalSTRS is in the latter mid-construction stage of its headquarters expansion project. Construction is progressing nicely and is approximately 65% complete. The latest project schedule is projecting a revised Substantial Completion Date (SCD) of March 17, 2023; the details are included in the schedule status section below.

CalSTRS continues its focus on strengthening communication with key project leaders as the project advances. Cassandra Lichnock, CalSTRS CEO and Lisa Blatnick, CalSTRS Chief Operating Officer met with Jody Quinton, the Northwest Regional Leader and Management Committee Member with DPR Builders – the project's Construction Contractor, in June. DPR expressed their commitment to meet the revised SCD and current budget and an assurance to engage well in advance if an issue arises that could impact schedule or budget.

The exterior garage metal panel installation remains in process as well as construction of the prown fins at the south side of the building curtainwall. Interior framing, drywall, and rough mechanical, electrical and plumbing (MEP) continues for all office levels, as well as sprinkler and vertical mechanical shafts and stair installation. In July the focus will be on prepping for wall close-up inspections for Parking 1 (P1) interior improvements and beginning the installation of the underfloor air “highways” on the Office 3 (O3) level.

Construction Activities

Construction activities continue and the work completed this month is below:

Interior Building

- P1 Thermal Insulation installation in Lobby and Café
- 1st layer sheetrock on P1 Walls
- Progress on MEP overhead rough in on P1
- O3 – MEP in Wall rough in completing
- O3 – Drywall one side of wall
- Progress on O4 – O7 – MEP in Wall rough in
- O4 – O7 – Wall framing in progress
- O4 – Scaffold installation in Atrium

Exterior Building

- Installation of exterior metal panels on north and west
- O5 Terrace Scaffold installed and framing has started
- Roof screen finishes installed

Garage Level

- Tower Crane patch back on P1 & P2
- Cooling Tower set and rough in
- Shaft wall installation at Bridge Column on P1 and P4

Schedule Status

The current approved schedule has a SCD of January 31, 2023. At the beginning of February 2022, DPR notified Ridge Capital Inc. – the project’s Construction Manager, of challenges meeting the approved SCD. DPR noted the reasons for schedule slippage included OSFM design approval requirements and complexity with inspections which added days to the schedule. By partnering closely with the OSFM field inspector, DPR gained a better appreciation for the number of steps in the quality control and inspection process required by the inspector. The inspection process resulted in an extended duration of construction for the Elevator 27 shaft. This is a critical item, as Elevator 27 needs to be used for vertical transportation in the building when the temporary manlifts are removed and the exterior skin in those locations is closed in. Due to the extended duration of this sequence all the subsequent activities were pushed out.

The primary focus for schedule recovery is increasing the productivity of the inspection process. The OSFM field inspector has committed to increasing days onsite from two to four, and the construction team has taken steps to improve their quality control process. The overall headcount of craft workers is slowly increasing, with a more continuous flow of work being performed, checked, and approved. Workdays have been modified to 5 10-hour day or 6 8-hour day workweeks. Small adjustments such as allowing “single siding” of the drywall on non-fire rated walls by the inspector of record is allowing an acceleration of work which may result in a small schedule improvement. Opportunities like these are being looked for on a daily basis.

A weekly review of the current schedule and planned activities for the upcoming weeks is conducted to verify work is being completed per the current schedule, and if constraints are identified that may impact productivity, they are dealt with immediately. Holding the overall team to their individual commitments on a daily basis is proving to be effective. Overtime will continue to be used as needed, especially as it relates to Elevator 27.

A revised project schedule has been issued which indicates a SCD of March 17, 2023. DPR has committed to meeting this revised SCD and current budget, with a focus on continuing proactive communication if an issue arises that may impact either schedule or budget. Pending HQE Executive Steering Committee approval, the revised project schedule and SCD will be included in the next HQE update.

Budget Status

The budget status for the month ending May 31, 2022, is summarized below:

Summary Period: 5/31/22			
Budget Categories	Total Project Budget	Costs to Date	Balance to Complete
Hard Costs	\$ 256,206,030	\$ 161,570,258	\$ 94,635,773
Hard Cost Contingency	\$ 4,277,214	\$ -	\$ 4,277,214
Soft Costs	\$ 50,870,198	\$ 31,129,852	\$ 19,740,346
Project Contingency	\$ 7,146,558	\$ -	\$ 7,146,558
Totals	\$ 318,500,000	\$ 192,700,109	\$ 125,799,891

Risk Status

On-going risks associated with the project are:

OSFM Field Inspections. As the team plans work activities it has to identify all of the UL listings based on the different conditions that connect together. When there is any lack of clarity of how these details work together, the inspection team requires further documentation to ensure that the work being completed complies with the building code. The process is based on the construction team providing the documentation in the form of a Request for Information, which is reviewed and stamped by the licensed Architect of Record, then submitted to the OSFM field inspector for approval. This process has developed into a routine for all members of the project team, with clearly established weekly deadlines. The design and construction team has been working with the OSFM field inspector that makes the final approvals and developed an understanding of the OSFM’s expectations, which has helped the approval rate to be in the 95% range.

Project Schedule. Although strides have been made in responding to schedule delays, this risk remains due to labor shortages across all trades and supply chain impacts. DPR's efforts to accelerate construction activities will help mitigate the effects on the project. DPR will continue to manage procurement of all outstanding items and will inform us of issues from any supply chain impacts.

Project Photos



West side of building



Northeast side of building



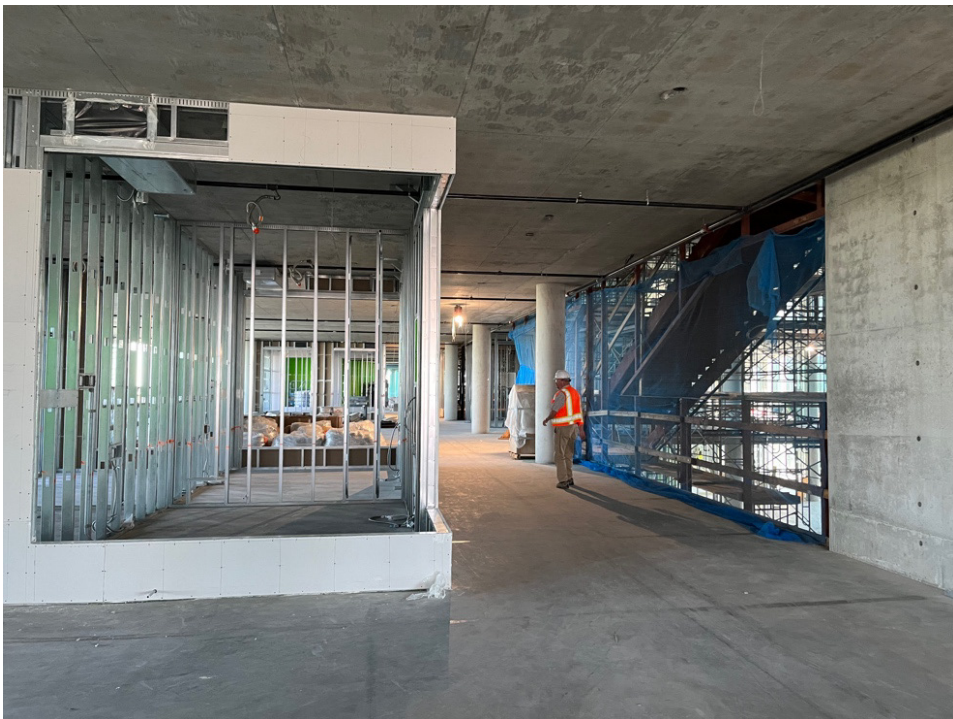
Northwest side of building



Café kitchen progress



Office level 7 -framing



Office level 6-sheetrock

5. Leasing and Occupancy Update

The leasing opportunities at the existing CalSTRS headquarters building are being handled by Jones Lang LaSalle (JLL). JLL uses CoStar and LoopNet which are the databases that all brokers and some tenants use. Anyone can search with requirement criteria based on square footage and location in the database, and the database will produce available real estate. Linked to this database is a brochure, floorplans and all marketing materials, including a link to a webpage highlighting CalSTRS building. JLL also sends out regular email blasts to all area brokers and Bay Area brokers and follows up with Tenants with existing leases in the Sacramento area with lease expiration dates that meet our timing. This outreach is very important because almost all large tenants are represented by brokers.

Downtown Sacramento statistically has remained the same since the last report. Second quarter statistics will be ready in a few weeks and will be compiled as of the end of June 2022. As of the first quarter, the Downtown Sacramento vacancy was 18.5% with -165,000 square feet of absorption. The biggest tenant in the Downtown area is the State of California. Downtown vacancy has been impacted by the State of California's consolidation and construction of four new office buildings, three of which are completed, totaling about 2.5 million square feet. The last one, which is under construction, will create some additional downtown vacancy. It is being developed on 17 acres on Richards Boulevard near the Railyard project. The State tenants that will be relocating to this building will come from several different areas, some of which will be coming out of the Downtown Sacramento area. One of the large tenants will be the California Department of Tax and Fee Administration "Board of Equalization" in 400,000 SF. This will free up the building located at 450 N Street for a renovation.

1. Tenant activity in Downtown has remained static during the last couple of months. Tenants have slowed their return to work, and most have developed a hybrid model which includes working from home and working from the office occasionally. The State of California has had a few recent requirements that we have submitted the building for but many of them have chosen to renew in place and downsize. A couple of requirements we are actively pursuing include the California Highspeed Rail at about 25,000 SF, and a brand-new requirement that has not yet posted for bid that needs about 110,000 SF. They have not disclosed the agency to us yet.

Most of the private sector Tenants seen in the market are smaller in size, ranging anywhere from 5-20,000 SF. JLL continues to track these tenants and they may be feasible for the building as remnant spaces are created after leasing full floors to larger tenants who also need a partial floor.

6. CalSTRS new Chief Auditor

After a thorough recruitment process, and interviews with both CalSTRS executive leadership and Controller Yee, chair of the Audits and Risk Management (ARM) Committee, and Dr. Robert Yetman, consultant to the ARM Committee, Cheryl Cervantes-Dietz has been selected as CalSTRS Chief Auditor effective June 15, 2022. Cheryl initially joined CalSTRS Audit Services in 2016 where she led the Internal Audit team. Over the last few years, Cheryl has been serving as CalSTRS Enterprise Compliance Services Director.

Cheryl has extensive audit and compliance experience including over 25 years of public pension fund knowledge. She has led both employer and internal audits at two of the nation's largest pension systems. Cheryl also has financial statement audit experience that will assist with the facilitation of CalSTRS financial statement audit.

In addition to her variety of experience, Cheryl has a bachelor's degree in business administration with a concentration in accounting, is a Certified Public Accountant, and is pursuing her certification of internal auditing. She has also served on various committees and boards for the Association of Public Pension Fund Auditors and Sacramento Chapter of the Institute of Internal Auditors.

Cheryl will direct internal audits of the pension's operations, as well as external risk assessments and audits of approximately 1,800 employers. She will report to the Audits and Risk Management Committee of the Teachers' Retirement Board and CalSTRS Chief Operating Officer Lisa Blatnick. Cheryl replaces Chief Auditor Larry Jensen who is retiring in July.

7. Energy Star Property of the Year

In May, the JLL engineering team and CalSTRS Headquarters received the JLL Energy Star Property of the Year Award. Energy Star is a voluntary U.S. Environmental Protection Agency program that delivers environmental benefits and financial value through superior energy efficiency. The program is how JLL and CalSTRS record and monitor energy use for headquarters.

The JLL Energy Star Property of the Year Award is awarded to the building that achieves the highest certified Energy Star score as shared with the JLL Energy & Sustainability Group. This achievement recognizes true best-in-class energy efficiency and sustainable property operations. The award recipient site is required to have passed the JLL Operational Compliance Program, have the highest certified Energy Star rating and document the largest reduction in site energy consumption in the Energy Star Portfolio Manager database for over 5,000 JLL-managed buildings.

It is the second time that 100 Waterfront Place has received this award. The Energy Star scoring system is based on a 100-point scale and determines a building's energy performance. Over the past four years, 100 Waterfront Place achieved an average Energy Star rating of 99.

8. Emerging and Existential Risks Update

The board Governance Committee is leading an initiative to identify ways to continually improve transparency, effectiveness and efficiency in board operations. As a result, one of the objectives receiving consensus support for implementation is to identify ways to better organize, clarify and highlight important risks. One of the ways staff will accomplish this objective is to add information on emerging and existential (non-investment) risks to the CEO report beginning with this report,

see below. In addition, an initiative is underway with the Audit and Risk Management Committee, in connection with the 2023-25 Strategic Plan, to conduct a risk and compliance program review, to further mature both programs.

Emerging and Existential Risks Update: In March 2022, a listing was provided to the board of enterprise-wide emerging and existential risks that staff is evaluating and/or monitoring. Click [here](#) to see the March 2022 semi-annual Enterprise Risk Management Report. This report provides a brief update on the approach CalSTRS is taking to manage these risks. In collaboration with the Executive Risk Committee, Enterprise Risk Management Team and the Risk Champions Network, the listing has been further grouped into two categories:

- **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
Existential Risks	Shift in Pension Fund Investment Management
	Comprehensive Pension Reform
	Cybersecurity event
	Demographic Shift
	Hyperinflation

Below are the CalSTRS definitions used in identifying these types of risks. Staff are regularly evaluating and/or monitoring these risks, in addition to watching for any new emerging and existential risks, to determine whether any of these risks require active mitigations, revision to

existing mitigations, active evaluation and/or monitoring for future consideration or no action needed until the next identification cycle.

Emerging Risks Definition:

Emerging Risks are potential risks to the organization which have not been previously identified, were not yet significant enough to impact the organization or were dormant for an extended period. Their onset may be years in the future or immediate due to unforeseen changes. CalSTRS recognizes that emerging risks' probability might vary and may have a high impact that threatens meeting our business objectives. The identification of emerging risks is essential to fully understanding the risk landscape and determining which of these risks should be further assessed and actively managed when necessary.

Existential Risks Definition:

Existential risks are potential risks that would require a significant and immediate shift in strategy and how CalSTRS' administers the fund for members. CalSTRS recognizes that existential risks have a very low probability but would result in an extremely high impact on how we currently do business. Existential risks can be a subset of emerging risks. Like emerging risks, the identification of existential risks are essential to fully understanding the risk landscape and determining which of these risks should be further assessed and actively managed when necessary.

9. Annual Risk and Internal Controls Awareness Training

CalSTRS staff are required to participate in an annual, one-hour, online Risk and Internal Controls Awareness Training designed to provide all employees with the knowledge and skills to fulfill their risk management roles and responsibilities. We are delighted to report that we achieved 100% participation for the 2022 training (excluding staff who are currently on an extended leave). At the end of the training, staff are invited to participate in a brief survey to provide participant feedback. Based on last year's feedback, Training Services and the Enterprise Risk Management Team made improvements to the 2022 training including new messages from the Chief Executive Officer and the Chief Financial Officer and added a new video message from the Chief Operating Officer, as well as new topics and revised content.

A summary of the survey results for 2022 are:

1. 73% of respondents agreed/strongly agreed that "I learned something valuable."
2. 88% of respondents agreed/strongly agreed that "I am confident I can manage risks effectively by using internal controls."
3. 90% of respondents agreed/strongly agreed that "I recognize the steps I can take to help manage risks in my work."
4. 90% of respondents agreed/strongly agreed that "If I knew of a risk concern, I would report it."