



Regular Meeting

Item number 2 – Open session

Subject: Chief Executive Officer Report

Presenter(s): Cassandra Lichnock

Item type: Information

Date and time: November 7, 2024 – 15 minutes

Attachment(s): Waterfront Place Activity Dashboard

PowerPoint presentation(s): None

Investment Awards and Accolades

Scott Chan was recently named one of the Elite 100 CIO's by Markets Group which provides forums for investment management and asset allocators to engage on important topics. Scott is among this strong group of leaders who have demonstrated remarkable resilience and foresight. He was chosen because of his leadership, vision and significant contributions to the investment industry. In addition, CalSTRS received the Randy Kim Prize for Fiduciary of the Year given out by With Intelligence and the Allocator, a market industry publication that provides insight into the investment market place. The award was given to CalSTRS' CIO's Chris Ailman and Scott Chan with this impressive write up: *This award goes to CalSTRS to recognize their steady, consistent stewardship of the second-largest public pension in the U.S. despite huge levels of public scrutiny. In his 24 years as the \$333B plan's CIO, Ailman's leadership of CalSTRS' 200-strong investment team has won no shortage of plaudits, all while the retirement system has comfortably surpassed its long-term return target and positioned its portfolio to face the ecological challenges of the 21st century. The ascension of longtime deputy Scott Chan to CIO upon Ailman's retirement is yet more testament to the system's steady focus. Scott accepted the award on behalf of CalSTRS in New York on October 17 amongst a room filled with industry peers and partners.*

Annual Financial and Budget Awards

The CalSTRS Annual Comprehensive Financial Report (ACFR) for the year ended June 30, 2023, 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 marks the 29th consecutive year that CalSTRS has achieved this prestigious award for its ACFR.

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, 2023. 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 this award for 10 consecutive years.

Communications Awards

The Communications team is a recent recipient of two [2024 Influence Awards](#) from the Public Relations Society of America's California Capital Chapter. The first award was for the team's strategic plan for external communications and engagement during the transition of our Chief Investment Officer. The second award was for the CalSTRS Voices series Pride Month video. The awards were scored on a 100-point scale and awarded at the "Merit" level if the combined score was 80 points or higher. Submissions were awarded at the "Influence" level if the combined score was 90 points or higher. Both of our entries won the Influence level award.

Inflation and Supplemental Benefit Maintenance Account Update

CalSTRS has two benefit provisions that protect members and their beneficiaries from the loss of purchasing power due to inflation. The first level of inflation protection is through the annual simple benefit adjustment, which provides a 2% increase to a member's monthly pension every September 1st following the one-year anniversary of their retirement date. This increase is based on the initial allowance, is not compounded as benefits increase and is granted each year regardless of the level of inflation.

The Supplemental Benefit Maintenance Account (SBMA) is the second level of inflation protection and is the main defense against the loss of purchasing power when inflation is high. The benefit is directly tied to the level of inflation and was created specifically to provide inflation protection to CalSTRS retirees and their beneficiaries. The SBMA currently provides supplemental payments to maintain 85% of the purchasing power of a member's initial retirement allowance. SBMA eligibility is determined on a fiscal year basis. The purchasing power calculation is done for each member and compares the actual benefit the member will be receiving after the application of the September 1st annual benefit adjustment to the benefit the

member would be receiving had the benefit been fully indexed with inflation. A member is deemed to be eligible to receive a payment from the SBMA if the current monthly benefit is below 85% of the fully indexed benefit.

SBMA payments are made quarterly, with the first payment of each fiscal year made on October 1st. The other SBMA quarterly payments are made on the first of the months of January, April and July. SBMA payments are in addition to the simple benefit adjustment.

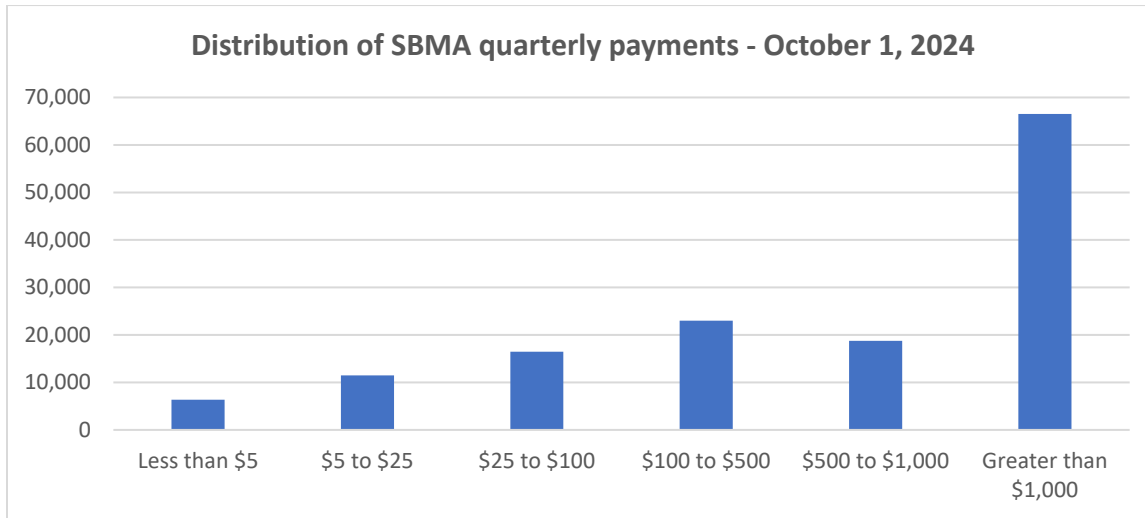
Eligibility for SBMA payments is determined using a measure of inflation based on the All-Urban California Consumer Price Index, calculated by the Division of Labor Statistics and Research within the California Department of Industrial Relations. As required by law, CalSTRS measures inflation each fiscal year by comparing the California CPI for the month of June across successive years.

For fiscal year 2023-24, California inflation was 3.3%. This marked the fourth year in a row inflation exceeded CalSTRS assumed long-term rate of inflation of 2.75%. For the last four years, inflation has averaged 4.7%. As a result, approximately 40,000 CalSTRS retirees and beneficiaries have seen their purchasing power fall below 85% for the first time and received their first ever SBMA benefits on October 1, 2024. In total, CalSTRS paid SBMA benefits to over 142,000 CalSTRS retirees and beneficiaries on October 1, 2024. Note that newly eligible members received a letter from CalSTRS confirming their SBMA eligibility. This is an automated process, and members did not need to contact CalSTRS to enroll.

The table below compares the number of retirees and beneficiaries who received a payment from SBMA in October in each of the last five years as well as the total quarterly amounts paid from the SBMA in October. The last column shows the average SBMA quarterly payment.

Month and year	Number of retirees and beneficiaries receiving an SBMA payment	Total SBMA 1st quarter payments	Average SBMA quarterly payment
October 2020	65,705	\$50.1 million	\$762
October 2021	67,900	\$63.0 million	\$928
October 2022	111,680	\$123.9 million	\$1,109
October 2023	108,128	\$163.7 million	\$1,514
October 2024	142,589	\$178.7 million	\$1,253

It is worth noting the average SBMA quarterly payment has gone down. This is due to the fact many of the retirees and beneficiaries who received an SBMA benefit for the first time had their purchasing power fall just below 85%, resulting in smaller than average payments. The average SBMA quarterly payment for the 40,000 who received an SBMA payment for the first time was less than \$100. Of those, about 6,000 members received an SBMA payment of less than \$5. The chart below shows the number of SBMA benefit payments paid by CalSTRS on October 1, 2024 broken down by the size of the payment.



The timing as to when a retired member first starts receiving a benefit from the SBMA is directly related to levels of inflation. In 2008-09, California experienced deflation (negative 1.5% inflation). In 2009-10, inflation was again low at 0.9%. In both years, the inflation was lower than the 2% annual benefit adjustment, resulting in an increase in purchasing power for many members during those 2 years. As a result, members who retired in 2008 and 2009 have a greater purchasing power than those who retired in 2010.

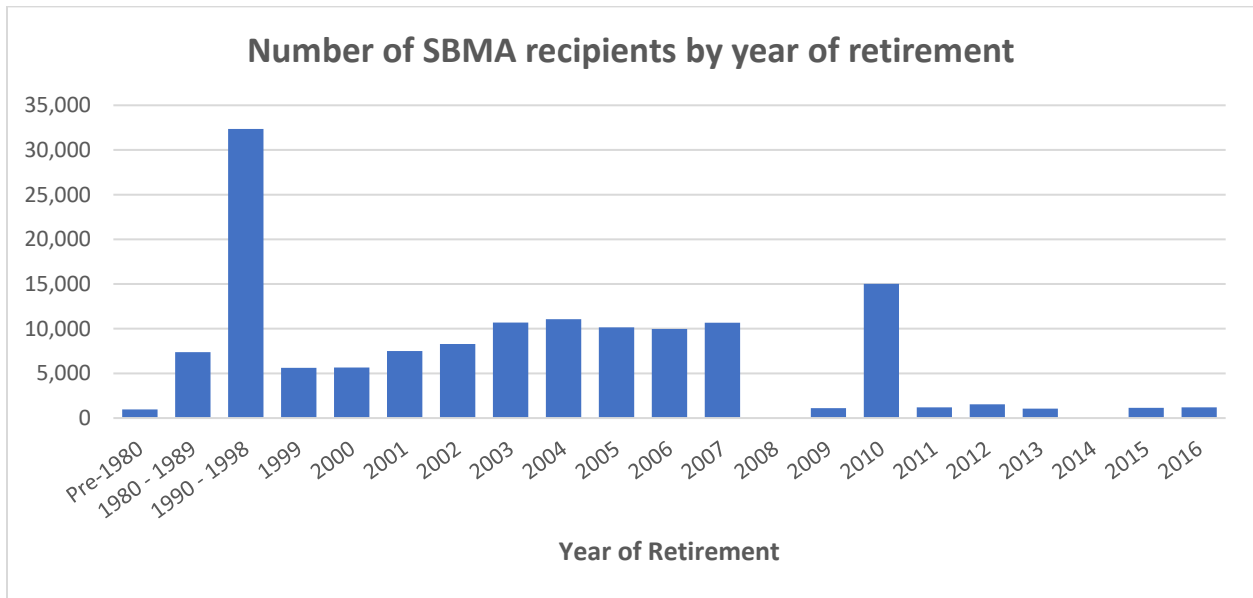
Also impacting a member's purchasing power is the timing of when a member received their first 2% annual benefit adjustment. The annual benefit adjustment is awarded every September 1st following the one-year anniversary of the member's retirement date. Members must be retired one full year before they become eligible for the annual benefit adjustment. Due to this timing, members who retire in September through December experience a quicker decline in purchasing power than members who retire in January through August.

In fiscal year 2024-25, all members and their beneficiaries who retired in 2007 or earlier are receiving SBMA. Because of the deflation in California in 2008-09, members who retired in 2008 have not yet seen their purchasing power fall below 85% and are not eligible to receive SBMA. Members who retired in 2010 are eligible while other years of retirement are dependent on the month of retirement. The chart below shows which members are eligible for SBMA benefits in fiscal year 2024-25 by retirement year and month.

Members eligible for SBMA by year and month of retirement

Retirement year	Retirement month: January to August	Retirement month: September to December
2007 and earlier	Yes	Yes
2008	-	-
2009	-	Yes
2010	Yes	Yes
2011	-	Yes
2012	-	Yes
2013	-	Yes
2014	-	-
2015	-	Yes
2016	-	Yes
2017 and later	-	-

As shown above, some members who retired as recently as December of 2016 have seen their purchasing power fall below 85% and are now receiving SBMA. Below is a chart showing how many members are receiving an SBMA payment in 2024-25 by year of retirement.



Staff continues to monitor inflation levels and their impact on the SBMA. Every two years an actuarial projection of the SBMA is performed to evaluate the long-term sufficiency of SBMA assets and contributions. The next sufficiency projection is currently scheduled for May 2026.

Emerging and Existential Risks

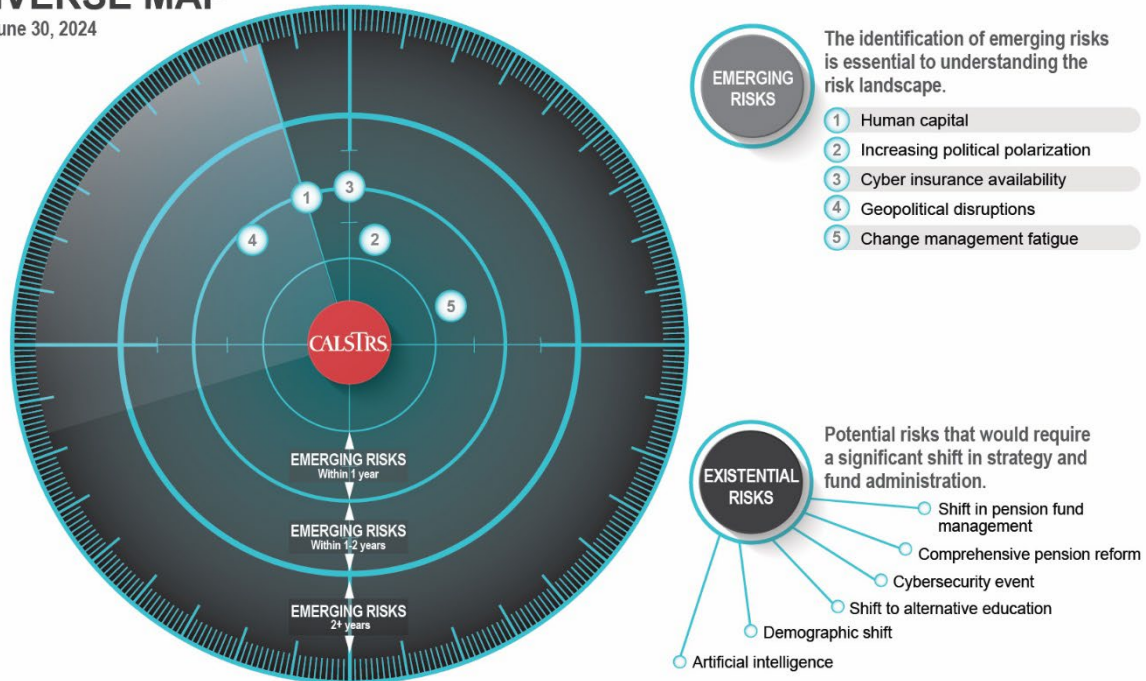
At the September 2024 Audits and Risk Management committee meeting, the Enterprise Risk Management (ERM) team presented the semi-annual enterprise risk management report, as of June 30, 2024, that included the Emerging Risk Universe Map. The map reflects emerging and existential risks that management are actively monitoring. See [here](#) to view the committee item.

For this update, the risks shown in the Emerging Risk Universe Map have not changed since the September board meeting. However, as part of the ERM maturity plan, staff continue to explore how best to communicate, evaluate, and update the Emerging Risk Universe Map to reflect events that could potentially have an adverse effect on CalSTRS. For example, the topic of increasing political polarization is being monitored to ensure its effects are not detrimental to operations, culture or employee morale. Risks associated with deepening political divisions include increased volatility in the regulatory environment, workplace disruptions from interpersonal tensions, and shifting foreign policy. We expect this risk may continue to be elevated even after the U.S. presidential election occurs in November. These types of imminent risks are monitored and mitigated by the affected business areas as part of regular operations, including the recognition of the risk(s) in our enterprise risk matrix when appropriate.

The Emerging Risk Universe Map displayed below shows the risks and their placement as they were reported in September.

EMERGING RISK UNIVERSE MAP

As of June 30, 2024



The ERM team continues to regularly evaluate emerging and existential risks to determine whether these risks require active mitigations, revision, 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. We expect to provide an updated Emerging Risk Universe Map to the board in January 2025.

CalSTRS DEI Update

Guidehouse is continuing work on Phase 3: Implementation to assist strengthening our commitment to DEI. Since the last update, CalSTRS Points-of-Contact staff have begun to evaluate the timeline and framework of the Action Plan recommendations. Guidehouse is contracted through the end of December 2024, and will present a project update with CalSTRS staff to closeout the project and provide recommendations for continued success.

The CalSTRS Voices project added two additional staff stories to the series. Gisela Villa from Customer Service, shared [her story for Hispanic Heritage Month](#) (9/15/24 to 10/15/24), discussing her families Mexican roots and keeping her culture alive within her own family. Daymian Helms, also from Customer Service, shared his story for Veteran’s Day (11/11/24).

CalSTRS thanks Daymian and all veterans for supporting and protecting our freedom. [October's CEO video message](#) focused on various happenings at CalSTRS such as open enrollment, National Customer Service Week, disability awareness, and Halloween celebrations.

We offered our staff several DEI based learning opportunities. In September, Leadership Development in Human Resources hosted a Leadership Forum for all leaders. The two-hour session, entitled “Generational Intelligence: Seeing Past the Surface,” was facilitated by Kelvin Jenkins with The Centre for Organization Effectiveness. During this session, leaders learned to expand awareness of generational diversity, gained deeper appreciation for life perspectives, and practiced their ability to reframe. Also in September, our 2024 calendar year cohort for the Mentorship Program ended. During this six-month program, 129 staff participated as a mentor or mentee. Staff were also able to participate in two virtual workshops from Stanford's VMware Women's Leadership Innovation Lab. September's workshop was on designing inclusive conversations of performance and potential to diagnose bias in talent and performance evaluations. October's workshop was on how passion may be worth rethinking as they plan their careers.

October is National Disability Employment Awareness Month (NDEAM), an observance to recognize the skills, diversity, and talent that people with disabilities bring to the workforce. To honor the 2024 theme, Access to Good Jobs for All, five staff represented CalSTRS at the Disability Employment Awareness Fair at the West Lawn of the State Capitol on 10/10/24. CalSTRS HR Leaders also participated in a Governmental Operations Agency Operations Working Group to learn from various state departments who are modeling the way in hiring people with disabilities.

In October, our enterprise DEI Specialist participated as a panelist during the National Council on Teachers Retirement (NCTR) Conference in Atlanta, GA. He represented CalSTRS as the DEI practitioner on the panel entitled *Artificial Intelligence: Help or Hindrance in the DE&I Space?*

Employer Reporting to Final Benefit Project Legacy: AB 1997

In 2021, staff presented to the board about efforts related to the Employer Reporting to Final Benefit project, a cross-organizational approach to addressing common employer misreporting that could lead to benefit adjustments for our members. Staff has since implemented many of the recommendations from the project, such as a quality and risk management team and a new focus on pre-benefit account reviews in Employer Services. The project also addressed legislative updates, the first of which involved partnering with member and employer stakeholders on their legislative proposal that became AB 1667(Cooper), effective January 1, 2023. The remaining project goal was to create legislation that would simplify the rules related to creditable compensation reporting to address the root causes of potential employer errors. Staff again partnered with member and employer stakeholders and internal staff on a proposal, and the Governor signed AB 1997 (McKinnor) on September 27. This innovative legislative package will streamline the rules employers follow to determine what compensation is reportable to

CalSTRS and how to report it. The new rules are expected to be effective July 1, 2027, and staff have already begun initial steps to update CalSTRS creditable compensation regulations as well as prepare updates to affected technology systems and the employer training curriculum.

Annual Fiduciary Education

The Board Governance Manual requires board members receive fiduciary training annually. At the board's request, this is provided through videos produced by your fiduciary counsel. The training consists of three short videos, the first two cover the basic tenets of fiduciary duty and the third video is updated annually to reflect recent developments or concerns. Fiduciary Counsel has prepared an updated third video which will be posted on Diligent in the next two weeks. As a reminder, board members should complete review of the videos prior to the end of the calendar year.

Leasing Activity

The Waterfront Place Activity dashboard has been updated to reflect recent leasing activity. Building tours for interested parties in the market have remained steady at 100 Waterfront Place. Notably, we are negotiating with a government agency who is seeking two full floors, for approximately 50,000 square feet. We are also in the early stages of negotiations with a financial services firm for a full floor for approximately 25,000 square feet, and we recently toured another entity interested in approximately 25,000 square feet and are anticipating receiving a proposal.

Overall market fundamentals continue to be tenant favorable with increases in vacancy and concessions. Occupancy in the Sacramento region declined by another 211,300 square feet in Q3, extending net occupancy losses post-pandemic for the 16th consecutive quarter. Total vacancy has increased 6.1 percentage points during this timeframe to 21.2%. Further re-evaluation and consolidation of the State of California's office footprint was realized in Q3, despite otherwise positive indicators for Sacramento's office market. The Department of Housing and Community Development and the State Controller's Office combined to give back approximately 238,000 square feet at 2020 W. El Camino Ave in South Natomas and 300 Capitol Mall in Downtown, respectively. As a result, South Natomas saw total vacancy increase 4.1 percentage points to 25.7% while year-to-date net absorption in Downtown turned negative. Vacancy is anticipated to rise further in these two submarkets as the Department of Corrections and Rehabilitation and the Office of Statewide Health Planning and Development give back space in early 2025. Leasing declined quarter-over-quarter as the average lease size remained under 10,000 square feet for the fourth consecutive quarter. This comes despite two of the largest post-pandemic leases transacting this quarter. Clear Blue Commercial renewed 213,300 square feet in West Sacramento and Alta Regional Center signed a relocation from 2241 Harvard Street into 118,000 square feet at Centene's former campus at 4151 E. Commerce Way in Natomas. Official occupancy will be reflected in Q1 2025 and will be a net expansion from the non-profit's current footprint of approximately 87,000 square feet.

Over the next few quarters, vacancy will increase as State relocations and consolidations continue. However, tenant demand tracked by JLL has shown marked increases year-over-year which could result in an uptick leasing activity. Class A assets, which have seen nearly 70% of year-to-date leasing, will continue to see the majority of tenant demand and reinforcing the flight to quality trend throughout the market.

Headquarters Expansion (HQE) Construction Project – Final Update

The HQE Construction Project has reached Final Project Completion, with close-out documentation received from the contractor along with the final Guaranteed Maximum Price (GMP) billing and the Final Commissioning Report. Ridge Capital, CalSTRS Construction Manager has delivered the Contractor Closeout documents along with Ridge Capital compiled documents and files. There remain two Office of State Fire Marshall (OSFM) punch list items in process prior to the final OSFM permit approval. This serves as the last HQE Construction Project update to the Board.

Final Project Milestones:

The Milestones Chart tracks the approved contract dates, as well as the actual Certificate of Occupancy issuance date of July 1, 2024. Final Project Completion was reached on October 25, 2024.

Project Milestones	Start Date	Approved Schedule (dtd 08/29/22) Completion Date	Project Complete As of 10.25.24
Exterior Envelope/inc. Garage All Complete		03/21/23	complete
Lobby Level Furniture Installation (café) (<u>mezz/training room chairs</u>)	02/15/23	03/16/23	complete
Punch-list			complete
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 – Auto openers			complete
Furniture Final Clean/Placement	01/25/23	02/21/23	complete
Final Smoke Control Testing			complete
Start-Up and Commissioning (<u>Final Report</u>)	11/08/22	03/24/23	complete
Battery Test			complete
Fire Alarm IOR/OSFM Testing-Acceptance restart	02/07/24		complete
Fire Alarm Unification Testing			complete
Interior Emerg. Lighting Add's w/ final contractor testing			complete
Exterior Emerg. Lighting Add's			complete
Final Generator Drop Test			complete
FINAL AHJ Inspections for Cert of Occup.	03/01/23	03/28/23	Complete-10/25/24
AHJ Final Approval of Lighting			complete
Certificate of Occupancy			07/01/24
Substantial Completion Date-rev.		03/28/23	08/16/24
CalSTRS stocks building/Tech set up			complete
CalSTRS Occupies Office Level 04			complete
CalSTRS Occupies Office Level 03			complete
CalSTRS Occupies Office Level 05			complete
CalSTRS Occupies Office Level 06-7			complete
Project Close-Out/Final Completion			10/25/24

Final Project Budget:

With the transfer of unused funds from Owner items and a deductive change order to the GMP, the Project Contingency is projected to end with a positive balance of \$292,758, without the use of any of the CEO’s spending authority, not to exceed \$1 million, for non-

discretionary expenses, previously approved by the Board. Final billing will occur over the next several months, which could slightly impact the final cost, but is not expected to.

Summary Period: 10.25.24				
Budget Categories	Total Project Budget	Costs to Date	% Complete	Balance to Complete
Hard Costs (*including retention)	\$ 265,282,748	\$ 265,297,747	100.01%	\$ (14,999)
Hard Cost Contingency	\$ 15,000	\$ -	0.00%	\$ 15,000
Soft Costs	\$ 37,634,561	\$ 37,634,560	100.00%	\$ 0
Owner Costs	\$ 18,176,595	\$ 18,176,595	100.00%	\$ 0
Project Contingency	\$ 292,758	\$ -	0.00%	\$ 292,758
Totals	\$ 321,401,662	\$ 321,108,902	99.91%	\$ 292,759

NO CHANGE IN HARD COST CONTINGENCY SINCE LAST REPORT

CHANGE IN PROJECT COST CONTINGENCY SINCE LAST REPORT:

- CoWS Inspection Costs.....\$2,793
- OSFM Inspection Costs.....\$1,460
- Intertek Door Recertification..... \$1,665
- SWRCB annual permit fee (est.).....\$ 900
- Owner temp power for trailer site.....\$ 26

Total Project Contingency Use from last report is: \$6,844

TRANSFER OF UNUSED SOFT COSTS AND GMP CHANGE ORDER TO PROJECT CONTINGENCY:

- Grading Deposit Refund from CoWS.....(\$60,656)
- Sustainability Commissioning(\$36,630)
- Sustainability Certification fees.....(\$52,695)
- GMP deductive change order for AV scope.....(\$54,865)

Total transferred to Project Contingency: (\$204,846)