
CHIEF EXECUTIVE OFFICER REPORT

Attachment(s): Leasing Activity Dashboard Q2 2024

PowerPoint(s): None

CALSTRS 2024-25 ANNUAL BUDGET REPORT

CalSTRS released its [2024–25 Annual Budget Report](#) in July 2024. 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 [2023–24 Annual Budget Report](#). To achieve the Distinguished Budget Award, the document must serve as an operational and policy guide, financial plan and communications device.



The *2024–25 Annual Budget Report* provides a comprehensive summary of the system’s total board approved budget, including substantive detail on the key drivers of budgetary growth for the 2024-25 fiscal year. In addition, it provides an overview of CalSTRS’ annual budget development process, policies, and branch level information.

CalSTRS’ total 2024–25 budget is \$953.8 million, including 1,401 authorized positions. Highlights include additional funding for the Pension Solution Project to continue 2024–25 system implementation activities, 12 new positions to advance our long-term strategic objectives and support operational and compliance and risk management activities, and 19 new positions in support of CalSTRS’ Collaborative Model.

EMERGING AND EXISTENTIAL RISKS UPDATE

Generative Artificial Intelligence

Overall, the Emerging Risk Universe map from March 2024 has not changed. Instead, this update continues to expand on one of the more dynamic emerging risks discussed in the May 2024 CEO report: Generative Artificial Intelligence. Generative Artificial Intelligence refers to pre-trained artificial intelligence systems capable of generating content, responses, or solutions autonomously. Staff recognizes there are risks and opportunities associated with the use of Gen AI. Technology Services, Enterprise Risk Management and Enterprise Strategy Management

have created a workgroup to coordinate a three-pronged approach in addressing this emerging risk through responsible governance, identification and development of potential use cases and staff training.

Governance: The CalSTRS internal Gen AI working group and the executive team are in the final stages of developing an organization-wide Gen AI policy. The executive team reviewed and approved the Gen AI policy in early July. The policy was forwarded for final legal review and CEO approval. This policy will serve as a crucial framework to guide the ethical and responsible use of Gen AI technologies within our organization.

Use case development: As part of the organization’s commitment to innovation and continuous improvement, potential Gen AI use cases have already been identified and submitted for evaluation. The Gen AI working group received a significant number of use case submissions from various business areas. A small number of promising use cases have been selected to advance to the technology review phase. The selected use cases align with our strategic goals and have the potential to deliver significant value. We will continue to assess additional use cases as time and resources permit.

Training: As we move forward, the Gen AI working group’s next focus area will be on developing targeted Gen AI training for staff who will be directly involved with Gen AI applications. This training will ensure that our teams are well-equipped with the necessary skills and knowledge to use Gen AI tools effectively and responsibly.

STATE LEADERSHIP ACCOUNTABILITY ACT (SLAA) REPORTING

Government Code sections 13400 through 13407, known as the State Leadership Accountability Act (SLAA), were enacted to reduce the waste of resources and strengthen internal controls. SLAA requires each state agency to maintain effective systems of internal controls, to evaluate and monitor the effectiveness of these controls on an ongoing basis, and to biennially report on the adequacy of the agency’s systems of internal controls by December 31 of each odd-numbered year. Additionally, each agency is required to post their biennial SLAA report on their website within five business days of acceptance by the Department of Finance. If an agency’s report includes risks requiring mitigation, the agency must submit an Implementation Plan that describes mitigation efforts and then update the Plan every six months thereafter until all mitigation efforts are implemented. Any efforts not implemented are included in the next biennial report.

CalSTRS uses its Enterprise Risk Management Program documentation to prepare and submit these reports. On December 15, 2023, staff submitted our most recent biennial report, and on April 18, 2024, it was accepted by the Department of Finance and posted [here](#) on CalSTRS.com as required. Our semi-annual Implementation Plan was due June 30, 2024, and was submitted to the Department of Finance on June 17, 2024.

CALSTRS DEI UPDATE

In May 2024, our DEI enterprise project with Guidehouse transitioned from Phase 2: Design and Evolve to Phase 3: Implementation. Phase 2 successfully developed plans of action for each of the five (5) recommendations from Phase 1. Each recommendation has defined outcomes, measures, and actionable steps that guide CalSTRS toward integrating the DEI inclusive culture recommendations into their business operations.

Phase 3: Implementation will be conducted between May 2024 and December 2024. This phase will focus on the successful execution of the action plans. The execution process includes support for culture transformation, change management, monitoring, assessment, and development of a knowledge management framework.

The CalSTRS Voices video series feature CalSTRS diverse staff, sharing their background and experiences. In May, we celebrated the rich culture, language, traditions and achievements of Asian Americans and Pacific Islanders. Candace Kamehaiku from Administrative Services shared her family's traditions of dancing hula and making leis. June celebrated LGBTQ+ Pride and encourages everyone to be their true selves at work as we strive to create a culture of inclusion and belonging. June's CalSTRS Voices Pride video featured John Ewing and Melissa Wiese from Public Affairs, and Lori DeLappe from Administrative Services. [June's CEO video message](#), "the future is inclusive," focused on Pride month, and encouraged staff to celebrate their differences, be their true selves, and create a culture of inclusion and belonging.

The DEI Site in May featured content including videos, articles, and resources for Asian American Pacific Islander Heritage Month and Mental Health Awareness Month. June's site featured content for LGBTQ+ Pride, and Juneteenth.

CalSTRS provided all leaders the opportunity to attend a 2-hour Leadership Forum in June on the topic of Inclusive Leadership. The forum provided insights and tools for championing a leadership style that deeply values diversity, inclusion, and every individual's unique input. Among learning the 6C's of Inclusive Leadership, leaders gained strategies to identify and mitigate personal and organization biases and completed a self-development activity for their continued growth as an inclusive leader.

At the May Investment Committee meeting, staff outlined [three long-term strategic goals](#) to enhance the Diversity in the Management of Investments (DIMI) work plan. The strategic goals addresses: (1) Data collection and measurement; (2) Growth opportunities designed to support staff; and (3) DEI assessment with investment managers. In May, the Investments branch had the opportunity to attend a 1-hour DEI training during its all-staff meeting. During this session, attendees learned the definition of Equity as defined by CalSTRS, as well as explored how equity shows up in the Investments branch, in our work, and in our teams.

In June, the Inclusion Council participated in a focus group to provide a DEI based lens regarding the norms, expectations, and best practices as CalSTRS headquarters expands into a

new space at the West Sacramento Campus, as well as continues working in a hybrid environment. The overall goal is to define what “the CalSTRS experience” is in the context of our evolved hybrid work.

HEADQUARTERS EXPANSION (HOE) CONSTRUCTION UPDATE

The Office of the State Fire Marshal issued a Certificate of Occupancy for CalSTRS headquarters expansion at 200 Waterfront Place signifying a substantial completion date (SCD) of July 1, 2024. Construction is materially complete, with only a few outstanding punch list repairs to complete.

Project Milestones:

The Milestones Chart tracks the approved contract dates, as well as the current schedule update, with a SCD of July 1, 2024.

Project Milestones	Start Date	Approved Schedule (dtd 08/29/22) Completion Date	Schedule Update As of 07.10.24
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
Interior Punch-list/Back-check Complete			07/19/24
Kitchen Equipment – Cooler/Freezer start-up	01/04/23	01/18/23	complete
Bridge Construction including interiors	03/26/21	02/27/23	complete
Fitness Center Equipment Installation	01/12/23	01/26/23	complete
Office Level 04/Atrium Handrail Complete	06/17/21	12/28/22	complete
Fire rated Doors – 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	08/10/24 est
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 inspect.			05/07/24 – 07/19/24
Exterior Emerg. Lighting Add’s			complete
Final Generator Drop Test			complete
FINAL AHJ Inspections	03/01/23	03/28/23	07/01/24
Certificate of Occupancy			07/01/24
Substantial Completion Date		03/28/23	07/01/24

Project Close-Out/Final Completion			08/31/24
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Budget Status:

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

Summary Period: 5/31/24				
Budget Categories	Total Project Budget	Costs to Date	% Complete	Balance to Complete
Hard Costs (*including retention)	\$ 265,113,676	\$ 264,609,552	99.81%	\$ 504,124
Hard Cost Contingency	\$ 238,937	\$ -	0.00%	\$ 238,937
Soft Costs	\$ 37,399,080	\$ 37,004,531	98.95%	\$ 394,550
Owner Costs	\$ 18,632,912	\$ 17,390,826	93.33%	\$ 1,242,086
Project Contingency	\$ 15,395	\$ -	0.00%	\$ 15,395
Totals	\$ 321,400,000	\$ 319,004,909	99.25%	\$ 2,395,091

CHANGE IN HARD COST CONTINGENCY SINCE LAST REPORT:

- Punch List Trade Damage-Pat Baird.....\$ 7,514
- Punch List Trade Damage-Service Metal.....\$ 7,417
- Punch List Trade Damage-Smith Co.....\$ 4,816
- Pipe Protection in garage.....\$38,868
- Bridge T4 Existing Soffit Work.....\$20,362
- Slope RAF Tiles at over-framing.....\$22,503
- Exterior Door sweeps and Terrace Cylinders.....\$ 1,736
- Stair sprinkler pipe paint.....\$ 4,211
- RFI 3587 Added drain on P4.....\$ 8,950
- Punch List Trade Damage-Bayside.....\$ 6,740
- Punch List Trade Damage-Masker Painting.....\$72,345
- South Lobby Head of Wall Rework.....\$41,047
- Atrium Communicating stairs non-lit handrail @ 06/07.....\$ 5,489
- Irrigation for existing landscaping.....\$29,677
- Wood Veneer Adhesion at Lobby door to Stair 22.....\$ 9,617
- Added thresholds at Doors W 625 and 725.....\$11,300
- Interior Glazing trade damage.....\$11,580
- Terrace Waterproofing anchors.....\$12,767
- Post installed bollards at N. loading dock.....\$12,334
- Exterior Plan area stanchions shims.....\$ 3,648
- Childcare Glass rail clamps/end caps.....\$ 2,012

Total Hard Cost Contingency Use from last report is: \$334,933

CHANGE IN PROJECT CONTINGENCY COST SINCE LAST REPORT:

- I.O.R. Inspection Costs.....\$218,110
- I.O.R. Inspection Costs.....\$245,218
- Owner GC’s Construction utilities (PG&E).....\$ 37,014
- AON – Owner GL Insurance funding (Apr/May).....\$ 19,348
- AON – Owner Building Casualty Insurance funding (Apr/May)..\$ 52,642

Total Project Contingency Use from last report is: \$572,332

Note: At the May 2024 board meeting, staff requested another extension of the Chief Executive Officer (CEO) spending authority, not to exceed \$1 million, if needed, to complete the HQE Project. Due to the schedule slippage, staff must utilize the CEO’s spending authority for non-discretionary expenses. Staff will update the Board on the CEO spending authority expense total to date at its July offsite meeting and anticipate providing a final accounting at the September board meeting.

Leasing Activity

The Waterfront Place Activity dashboard has been updated to reflect recent leasing activity. We continue to actively negotiate with two private sector tenants, a law firm for a full floor and an environmental firm for half of a floor. If a final agreement is reached with these prospects, their timing for occupancy is 4th quarter 2025 and 1st quarter 2025, respectively. We submitted a proposal for our other prospect, a technology company who would need approximately one half of a floor; however, the tenant has put their requirement temporarily on hold while they evaluate their growth plans. Tour activity remains at a steady pace with our most recent tour with a large public agency. They are in the early stages of evaluating the market in advance of their lease expiration, where they currently lease approximately 60,000 square feet, but will likely downsize to approximately 40,000 square feet. The Waterfront Place Activity dashboard reflects this recent leasing activity.

Office vacancy in the Sacramento region slightly increased for the 15th consecutive quarter, with negative absorption totaling approximately 39,600 square feet in the 2nd quarter of 2024. With the completion of 200 Waterfront Place and CalSTRS planned relocation to the new expansion building, the available floors at 100 Waterfront Place officially hit the market in the 2nd quarter. Comparatively, Downtown saw occupancy gains for the second consecutive quarter, as the flight to quality trend continues to draw tenants to high quality, well located and amenity-rich office buildings. The rise in tenant demand Downtown helped to realize 49,300 square feet of positive absorption this quarter, bringing year-to-date occupancy gains to 93,400 square

feet. Total vacancy Downtown has declined 200 basis points to 17.5% thus far in 2024. Momentum on Capitol Mall and the Capitol District persisted in Q2, as these micro markets saw vacancy decline to 12.2% and 14.2%, respectively. We anticipate further consolidation from the State of California in the coming quarters that will continue to impact the Sacramento regions office occupancy levels. Four more state departments are planning to vacate large blocks of space with the State Controller vacating three floors at 300 Capitol Mall, CDCR and CalHR vacating 1515 S Street in Downtown, and HCAI vacating 2020 W El Camino Ave in South Natomas.