



Investment Committee

Item Number 8 – Open Session

Subject: Credit Enhancement Program Policy

Presenter(s): Chairperson

Item Type: Consent Action

Date & Time: March 6, 2024 – 0 minutes

Attachment(s): Attachment 1 – Meketa Opinion Memo

Attachment 2 – Credit Enhancement Program Policy –
Decommission

PowerPoint(s): None

Item Purpose

The purpose of this item is to seek the Committee's approval to decommission the Credit Enhancement Program Policy due to the suspension of the program and new underwriting in 2013. The last commitment was terminated in 2017. No new activity has occurred since then.

Recommendation

Staff recommends that the Board decommission the Credit Enhancement Program Policy (Attachment 2).

Executive Summary

As best practice, CalSTRS reviews its governance structure by evaluating the investment policies periodically, to reassess relevance and impact. Maintaining stale policies can take away valuable staff resources and board time. The Credit Enhancement Program suspended new underwriting commitments in 2013 and terminated the last commitment in 2017.

Background

The primary objective of the Credit Enhancement Program was to earn fee income through the enhancement of municipal or private activity bonds that have a public purpose (e.g., multi-family housing, industrial development, pollution control). CalSTRS would issue a letter of credit to

guarantee the payment of interest and principal as scheduled or provide a liquidity facility for a fee. When a bond issue is credit-enhanced, the investor (purchaser of the bond) relies upon the creditworthiness of the credit enhancer rather than the issuer.

The decision was made to suspend the underwriting of new transactions and wind down the Credit Enhancement Program based on a cost-benefit analysis that concluded the staff resources to administer the program should be reallocated to other higher return opportunities. The market environment for credit enhancement transactions had become more competitive, resulting in lower fee income to CalSTRS while the associated risk assumed with these transactions had remained flat or increased due to ongoing economic challenges experienced by municipalities in the wake of the Great Financial Crisis.

Strategic Plan Linkage: [Trusted Stewards](#)

Board Policy Linkage: [Credit Enhancement Policy](#)
