Bond Case Briefs

Municipal Finance Law Since 1971

California Pension Fund Goes Green With Muni-Bond Debut.

- **Environmentally friendly headquarters apt for Calstrs**
- **Even at just 64% funding, pension would see demand for bonds**

The California State Teachers' Retirement System may have just missed its investment goal but its debut municipal-bond sale Thursday is right on target.

The public pension, the second-biggest in the nation, is selling $281 million in tax-exempt municipal green bonds at a time when wealthy Californians are snapping up such debt to drive down their tax bills and when buyers are increasingly seeking investments intended to lessen the impact of climate change. The pension, which posted a 6.8% return shy of its 7% expectation for the year that ended in June, is using the bond proceeds for an expansion of its West Sacramento headquarters designed to meet high environmental standards, including the ability to achieve zero net energy consumption.

While investors generally haven't paid higher prices for assets complying with environmental, social and governance principles, that may change in the future, said Eric Friedland, director of municipal research at Lord Abbett & Co. That makes the Calstrs bonds, which are already linked to a strong state credit because of the financing California provides for the pension system, even more appealing, he said.

"If you believe that there will be more of an ESG focus going forward, and that people will pay a premium for green bonds, then you're basically getting that for free right now," Friedland said.

The new building, a 10-story tower, will link to the current headquarters and ultimately encompass 510,000 square feet serving 1,200 employees, according to bond documents. Elements include a child-care center, "irresistible stairwells" to encourage people to take stairs instead of riding an elevator and a cafe offering healthy meals with ingredients from the on-site garden, Calstrs Chief Financial Officer Julie Underwood said during the Environmental Finance conference at the Milken Institute in October.

Vanessa Garcia, a spokeswoman for Calstrs, said in an email that officials wouldn't make public statements on the bond issuance through the California Infrastructure and Economic Development Bank until after the closing of the sale. The building is expected to open in 2022.

The pension hired Kestrel Verifiers to vouch that the securities meet the standards for green bonds from the Climate Bond Initiative. It makes sense that Calstrs would sell green bonds given how it uses its influence as a shareholder to drive social and environmental change, said Ksenia Koban, a municipal-credit analyst at Payden & Rygel Investment Management in Los Angeles. Calstrs, for example, has pressured Duke Energy to cut carbon emissions and retailers to adopt best practices for firearms sales.

Calstrs officials are "putting money where their mouth is in mainstreaming ESG practices and ideas," said Koban, who called the bond offering "a great issuance."

The state, which has booked years of surpluses thanks to its growing economy, plays a large role in

the pension’s bottom line: it directly made 36% of all contributions Calstrs received last fiscal year and provides significant aid to school districts, which make their own payments to the pension. California lawmakers in this year’s budget made a supplemental payment to pay down the state’s share of the unfunded liabilities for the organization that represents more than 960,000 educators and their beneficiaries.

The system, which by law has limits on how much it can hike contribution rates, is five years into a plan to reach 100% funded by 2046. It has about 64% of the assets needed to cover its liabilities, according to the latest data.

The new bonds are rated A+ by S&P Global Ratings, which gives the rating a stable outlook because it expects the pension’s funded ratio to improve over the next two years. Moody’s Investors Service ranks the debt A1 and Fitch Ratings grades it AA.

Bloomberg Markets

By Romy Varghese

December 4, 2019, 6:00 AM PST Updated on December 4, 2019, 10:49 AM PST