



## GREEN BOND SECOND PARTY OPINION

# ELECTRIC REVENUE BONDS, 2019 SERIES G GREEN BONDS ("2019 Series G Green Bonds")

<b>Issuer:</b> Sacramento	Municipal Utility District
<b>GBP Category:</b>	Green Buildings
<b>Location (HQ):</b>	6301 S St, Sacramento, CA, USA
<b>Financing value:</b>	\$75,000,000
<b>Amount evaluated:</b>	100%
<b>Evaluation date:</b>	July 2, 2019
<b>Contact:</b>	Evan Smith, Lead Technical Verifier, Kestrel Verifiers +1 530.919.9162, evan@kestrel-inc.com

### TRANSACTION OVERVIEW

Sacramento Municipal Utility District ("SMUD") plans to issue \$200,000,000 in Electric Revenue Bonds, 2019 Series G with \$75,000,000 identified as Green Bonds ("2019 Series G Green Bonds"). These Green Bonds are a select part of the Series G offering maturing on August 15, 2029 and annually thereafter through 2036.

This Second Party Opinion reflects our view of SMUD's project and financing, allocation and oversight, and conformance of the bonds with the Green Bond Principles.

Proceeds from the 2019 Series G Green Bonds will be used to renovate and upgrade SMUD's existing headquarters building ("SMUD Headquarters") to reduce energy and water consumption. The renovations are designed to meet the Leadership in Energy and Environmental Design (LEED) Gold standard.

In our opinion, the 2019 Series G Green Bonds to be issued by SMUD are aligned with the Green Bond Principles 2018.

### INTRODUCTION

The Sacramento Municipal Utility District, also known as SMUD, is a community-owned, not-for-profit electric service in Sacramento, California. SMUD has been serving Sacramento for over 70 years and is

now the nation's sixth-largest community-owned electric utility. SMUD is a recognized leader in environmental and sustainability initiatives. As the first California utility to receive more than 20% of its energy from renewable sources, SMUD continues to be a leader in greenhouse gas emissions reductions.

SMUD has established goals that support emissions reductions and a low-carbon trajectory, including goals in using renewable energy and reducing fleet fossil fuel use. To achieve this sustainability vision, SMUD has further established sustainability targets for buildings and office space by setting a primary goal to double energy savings at existing buildings.

SMUD plans to issue these bonds and use the proceeds to finance and reimburse expenditures related to renovation and upgrades on the existing SMUD Headquarters to reduce energy and water consumption.

SMUD has engaged Kestrel Verifiers to provide an independent Second Party Opinion on the alignment of the 2019 Series G Green Bonds with the Green Bond Principles 2018 (the "GBP"), as administered by the International Capital Market Association (the "ICMA"), and to the United Nations Sustainable Development Goals ("SDGs"). Kestrel Verifiers is an Approved Verifier, as per the Climate Bonds Initiative, for Green Bonds and Climate Bonds. The Kestrel review team included a Green Buildings specialist.

As part of this engagement, Kestrel Verifiers examined public and non-public information, and interviewed members of SMUD's management and finance teams. Our goal was to understand sustainability impacts of the business, planned use of proceeds, procedures for management of proceeds, and plans and practices for reporting. This document contains Kestrel's opinion of the 2019 Series G Green Bonds.

## **SACRAMENTO MUNICIPAL UTILITY DISTRICT'S SUSTAINABILITY STRATEGY**

Kestrel believes that the Sacramento Municipal Utility District has a strong sustainability strategy supported by a robust governance structure. SMUD's goals and commitment to environmental quality are supported through a governance system for managing and integrating sustainability into the utility and setting clear, attainable and effective goals.

SMUD's vision is to "be the trusted partner with our customers and community, providing innovative solutions to ensure energy affordability and reliability, improve the environment, reduce our region's carbon footprint, and enhance the vitality of our community." This vision drives the organization toward sustainability. To achieve its sustainability vision, SMUD has established sustainability guiding principles which include:

- Supply 33% of energy from qualified renewable sources by 2020 (wind, water, sun and landfill gas) and 60% by 2030;
- 50% reduction in petroleum use in vehicles through expansion of their fleet of plug-in hybrids and battery electric vehicles; and
- Double energy savings at existing buildings.

It is this last guiding principle aimed at doubling energy savings at existing buildings which is the core idea behind the SMUD Headquarters renovation project financed by the 2019 Series G Green Bonds. SMUD is following through on their vision and goals to promote a sustainable future.

**PROJECT DESCRIPTION**

The 2019 Green Bonds will be issued as a part of the larger Electric Revenue Bonds, 2019 Series G. The Green Bonds with \$75 million out of the \$200 million total offering will cover the upgrades and renovations to the SMUD Headquarters, designed to the LEED Gold standard. These renovations focus on reducing energy use and water consumption for an office building which houses over 420 employees.

Table 1 summarizes the project components of the 2019 Series G Green Bonds that are being funded by this offering.

**Table 1. Summary of new improvements**

2019 Project Component
High-efficiency, low-volume mechanical systems
New insulated glazing
LED lighting
Low water use fixtures
Incorporation of biophilic features
Rainwater management site improvements
Landscape water-use reduction

The high-efficiency mechanical systems represent a significant savings in energy use through the modernization of the HVAC system. This major improvement, coupled with LED lighting and insulated glazing, will lead to dramatic reductions in energy use for climate control and lighting. Additionally, the project is incorporating 26 electric vehicle charging stations that will encourage zero emissions vehicles for commuting. Increased natural light resulting from these renovations saves energy. Potentially even more pertinent in water-scarce California is the water-saving technology being incorporated as a part of the renovations. Use of low water fixtures, rainwater capture, and low water use landscaping all contribute to reducing water use at the Headquarters building.

Table 2 summarizes historic water use at the SMUD Headquarters compared to estimated future water use after renovation, illustrating a drastic reduction.

**Table 2. Water use at SMUD Headquarters**

2019 Project Component	
Annual baseline water consumption (actual)	541,975.20 (gallons/year)
Annual future water consumption (estimated)	318,711.12 (gallons/year)
Percent water use reduction (%)	41.19%

By incorporating insulating, energy savings, and water saving technologies, SMUD has invested in a renovated Headquarters building that will reduce environmental impacts, save money, and promote a healthy work environment.

## **ENVIRONMENTAL BENEFITS**

The SMUD Headquarters renovation project includes many green and modernizing features including: energy efficiency upgrades through insulation and lighting, installation of low water use fixtures and landscaping, and high-efficiency mechanical systems such as modern HVAC systems. In general, energy use in commercial buildings is one of the biggest potential reductions in greenhouse gas emissions from current levels. Furthermore, due to changing climate, California can be affected by droughts that drive a need for water conservation technologies, as demonstrated in this project.

## **ALIGNMENT WITH GREEN BOND PRINCIPLES**

### **Use of Proceeds**

One hundred percent of bond proceeds will be used for Green Buildings, which is recognized by the ICMA Green Bond Principles as an eligible project category with positive environmental benefits.

### **Project Evaluation and Selection**

SMUD's project evaluation and selection process is executed through a dedicated environmental team supported by the Finance and Audit Committee and the Board of Directors. Kestrel assesses this process as a best market practice due to the active participation of the Board and management.

### **Management of Proceeds**

SMUD's management of proceeds is in line with market practices. The net proceeds will be tracked by SMUD's Finance Team and will be 100% allocated and reimbursed in full at bond closing.

### **Reporting**

SMUD will file the appropriate reports and financial statements as detailed in the Continuing Disclosure Agreement. Kestrel Verifiers will provide one post-issuance Use of Proceeds report, which SMUD will post on the Electronic Municipal Market Access (EMMA) system operated by the MSRB. From time to time, SMUD will make and keep readily available a sustainability report which will be posted to the agency's website.

## **ALIGNMENT WITH UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS**

In addition to following the guidelines of the Green Bond Principles, SMUD also recognizes the United Nations Sustainable Development Goals ("SDGs"). The 2019 Series G Green Bonds align with the following SDGs:

- **SDG 9: Industry, Innovation and Infrastructure**, which includes targets to upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes. The SMUD Headquarters renovation aligns with this goal by retrofitting a historical building to current standards and incorporating environmental technology to achieve greater sustainability.
- **SDG 12: Responsible Consumption and Production**, which includes targets to encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle. SMUD exemplifies this goal through the directives from the Board of Directors and Sustainability Reports that coincide with the SMUD Environmental Roadmap 2020.

## IMPACT OF USE OF PROCEEDS

The eligible project category for the use of proceeds—Green Buildings—is recognized as impactful by the GBP, and Kestrel views the selection of this project category positively.

Kestrel is of the opinion that the financing of SMUD’s operations will deliver a significant positive environmental contribution by reducing energy and water consumption.

Beyond the environmental benefits, green buildings also yield clear social and economic benefits in the form of energy cost savings, increased property value, and worker health and well-being. Economically, energy and water costs will be reduced dramatically while maintaining high property value for SMUD. Socially, employees working in green buildings that focus on clean well-ventilated spaces—similar to the spaces SMUD will achieve with upgraded high-efficiency systems—and natural light are more productive, sleep better, and live happier, healthier lives.<sup>1</sup>

Overall, Kestrel believes that the eligible projects will contribute to improving the environment through Green Buildings.

## SECOND PARTY OPINION ON GREEN BOND PRINCIPLES ALIGNMENT

SMUD intends to issue the 2019 Series G Green Bonds which will be used to finance green assets and green activities related to Board Action. These activities are recognized as impactful under the “Green Buildings” category of the Green Bond Principles. SMUD’s project selection process and management of proceeds are also in line with market practices. Based on these tenets and that 100% of proceeds have or will be allocated to green projects, we expect this bond to meet the basics of the four pillars of the GBP.

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### SMUD has committed to:

- ☑ allocating the full amount of the net proceeds of bonds to eligible green projects, as defined by the Green Bond Framework;
  - ☑ using clear “green” criteria, as defined by the issuer, to select projects for funding;
  - ☑ managing and tracking proceeds; and
  - ☑ a one-year post-issuance report.
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Kestrel is of the opinion that the green activities funded by the proceeds of the 2019 Series G Green Bonds will provide a meaningful contribution to the Sacramento Municipal Utility District’s strong sustainability commitments and targets, and positively contribute to the transition toward a more circular and low-carbon economy.

Based on the above, Kestrel is of the opinion that the Sacramento Municipal Utility District is well positioned to issue the green bonds; that their corresponding sustainability plans are credible, robust and aligned with the four pillars of the Green Bond Principles 2018; and the use of proceeds is aligned with United Nations Sustainable Development Goals 9 and 12.

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<sup>1</sup> U.S. Green Building Council, “Benefits of green building” available online at <https://new.usgbc.org/press/benefits-of-green-building>

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**About Kestrel Verifiers**

To public and corporate finance teams who are preparing green bonds, Kestrel is an Approved Verifier with direct and varied project experience in many sectors: green buildings, water, renewable energy, energy efficiency, pollution prevention and control, sustainable water and wastewater management, climate change adaptation and natural resources. As bespoke US municipal specialists, we strive to provide a personal, focused approach and dedicated support. We bring real-world experience, relationships and tools to efficiently verify and report on green bonds and Climate Bonds. Kestrel is a Woman-Owned Small Business and a certified Women's Business Enterprise.

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