

## San Francisco Public Utilities Commission

### PROGRAMMATIC POST-ISSUANCE VERIFICATION LETTER

### WATER INFRASTRUCTURE CRITERIA OF THE CLIMATE BONDS STANDARD

**Type of engagement:** Assurance Engagement

**Period engagement was carried out:** September 2019

**Approved verifier:** Sustainalytics

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### Scope and Objectives

In 2016, San Francisco Public Utilities Commission (“SFPUC”) issued green bonds aimed at financing green infrastructure projects within the Sewer System Improvement Program (SSIP). In September 2019, SFPUC engaged Sustainalytics to review the projects funded through the issued green bonds and provide an assessment as to whether the projects met the Post-Issuance Requirements (Part A, Part B and Part C) of the Climate Bonds Standard.<sup>1</sup>

Green bond projects include:<sup>2</sup>

- Wastewater Revenue Bonds Series 2016 A (Green Bonds)

Schedule 1 provides details of the green bond projects and Disbursement of Proceeds.

### Compliance Evaluation Criteria

Post-issuance requirements under Climate Bonds Standards Version 2.1:

- Part A: General Requirements - All the requirements in Part A shall be met to be eligible for post-issuance certification.
- Part B: Eligible Projects & Assets - Part B requirements shall be met based on the projects & assets associated with the bond and the specified eligibility criteria.
- Part C: Requirements for Specific Bond Types - Part C requirements shall be met to be eligible for post-issuance certification and are used selectively, depending on the type of bond in question.

### Issuing Entity’s Responsibility

SFPUC is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, total development cost of each projects, and disbursed amounts.

### Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of SFPUC’s green bond, issued to finance eligible projects, and provided an independent opinion informing SFPUC as to the conformance of the green bond with the Post-Issuance requirements and Water Infrastructure criteria of the Climate Bonds Standard.

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<sup>1</sup> Pre-Issuance Verification Letter available here:

<https://www.climatebonds.net/files/files/SF%20PUC%20Green%20Bond%20May%202016%20Sustainalytics%20pre%20issuance%20letter.pdf>

<sup>2</sup> Wastewater Enterprise Green Bonds Annual Report available here:

<https://sfwater.org/modules/showdocument.aspx?documentid=13672>

Sustainalytics has relied on the information and the facts presented by SFPUC with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by SFPUC.

Sustainalytics makes all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the bond.

**Verifier’s Responsibility**

Sustainalytics conducted the verification in accordance with the Climate Bonds Standard Version 2.1 and with International Standard on Assurance Engagements 3000 (ISAE 3000) – Assurance Engagements other than Audits or Reviews of Historical Information.

The work undertaken as part of this engagement included conversations with relevant SFPUC employees and review of relevant documentation to confirm the conformance of SFPUC’s green bonds with the Programmatic Post-Issuance Requirements (Part A, Part B and Part C) of the Climate Bonds Standard Version 2.1.

**Exceptions**

No exceptions were identified.

All projects aligned with the Post-Issuance requirements of the Climate Bonds Standard and were in conformance to the Water Infrastructure criteria.

**Conclusion**

Based on the limited assurance procedures conducted, nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the allocation of the following SFPUC green bonds, issued to fund eligible green wastewater enterprise projects, is not in conformance with the Post-Issuance requirements of the Climate Bonds Standard.

- USD 258,563,066 from 2016 Series A

**Detailed Findings**

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
<b>Compliance to Part A: General Requirements</b>	Verification of 6 projects funded by the 2016 Wastewater Series A green bond to determine if Part A: General Requirements were met (See Schedule 2A and 2B).	All 6 projects reviewed complied with the General Requirements.	None
<b>Compliance to Part B: Eligible Projects &amp; Assets</b>	Verification of 6 projects funded by the green bond in 2016 Wastewater Series A green bond to determine if projects fall into (i) one of the investment areas of the Climate Bonds Taxonomy (ii) meet the Water Infrastructure technical criteria.	All 6 projects fall under the Water Infrastructure criteria and meet the requirements of the Water Infrastructure technical criteria.	None
<b>Compliance to Part C: Requirements for Specific Bond Types</b>	Bond Type Applicable: Use of Proceeds Bond.	The requirements of Project Holding, Settlement Period and Earmarking have been met.	None

## Schedule 1: Detailed Overview of Nominated Projects and Assets

San Francisco Public Utilities Commission Green Series Snapshot (as of June, 2018)	
<b>2016 Series A Projects</b>	
Project <sup>3</sup>	Total Bond Amount
Collective System Improvements	\$62,076,000
Central Bayside System Improvement	\$19,800,000
Stormwater Management/Flood Control (SIPFC)	\$49,417,066
Northshore To Channel Force Main	\$20,270,000
SSIP Program-Wide Management	\$94,000,000
Urban Watershed Assessment Project	\$13,000,000
<b>2017 Series A Total</b>	<b>\$258,563,066</b>

<sup>3</sup> Eligible projects include all SSIP Projects, subset only listed

## Schedule 2A: Post-Issuance General Requirements of the Climate Bonds Standard

Nominated Projects & Assets	<p><b>4.1</b> Statement on the environmental objectives of the bond</p> <p><b>4.2</b> Nominated Projects meet the Climate Bonds criteria</p> <p><b>4.3</b> Confirmation that Nominated Projects and Assets will not be nominated to other Climate Bonds</p>
Use of Proceeds	<p><b>5.1</b> Net Proceeds of the bond allocated to the Nominated Projects</p> <p><b>5.2</b> Funds allocated to Nominated Projects within 24 months of issuance of the bond</p> <p><b>5.3</b> Estimate of the share of the Net Proceeds used for financing and re-financing</p> <p><b>5.4</b> Net Proceeds of the bond shall be tracked by the Issuer following a formal internal process</p> <p><b>5.5</b> Net Proceeds of the bond shall be no greater than the total investment or the total Fair Market Value of the Nominated Projects &amp; Assets at the time of issuance</p>
Non-Contamination of Proceeds	<p><b>6.1</b> Tracking of proceeds</p> <p><b>6.2</b> Managing of unallocated proceeds</p> <p><b>6.3</b> In the case of a Force Majeure, the Issuer may apply to the Climate Bonds Standard Board for an extension to the asset allocation period</p>
Confidentiality	<p><b>7.1</b> Information about the Nominated Projects &amp; Assets provided to the Verifier and to the Climate Bonds Standard Board</p> <p><b>7.2</b> Issuer should disclose information about the bond and the Nominated Projects &amp; Assets to the market</p>
Reporting Post-Issuance	<p><b>8.1</b> Report containing the list of Nominated Projects &amp; Assets to which proceeds of the bond have been allocated</p>

## Schedule 2B: Conformance to the Post-Issuance Requirements of the Climate Bonds Standard

Procedure Performed	Factual Findings	Error or Exceptions Identified
Verification of Nominated Projects & Assets	<p><b>4.1</b> The objective of the bond is to primarily use proceeds to finance projects within the Sewer System Improvement Program (SSIP).</p> <p><b>4.2</b> SFPUC's management confirms that the nominated projects meet the Eligibility Criteria.</p> <p><b>4.3</b> SFPUC's management confirms that the projects shall not be nominated to other Climate Bonds.</p>	None
Verification of requirements specified under Use of Proceeds	<p><b>5.1</b> Net Proceeds of the bond have been allocated to the 6 Nominated Projects.</p> <p><b>5.2</b> SFPUC's management has confirmed that funds have been allocated to Nominated Projects within 24 months of the issuance.</p> <p><b>5.3</b> SFPUC's management has confirmed that all Net Proceeds of the bond were used for financing only.</p> <p><b>5.4</b> SFPUC's management has confirmed that Net Proceeds of the bond shall be tracked by the Issuer following a formal internal process.</p> <p><b>5.5</b> SFPUC's management has confirmed that the Net Proceeds of the bond shall be no greater than the total investment in the Nominated Projects or the Total Development Cost of the Nominated Projects.</p>	None
Verification of requirements specified under Non-Contamination of Proceeds	<p><b>6.1</b> SFPUC's management confirms that the proceeds have been segregated and tracked in a systematic manner and were exclusively used to finance Nominated Projects.</p> <p><b>6.2</b> SFPUC's management confirms that pending the investment of proceeds, they shall be held in temporary investment instruments (i) that are cash, or cash equivalent instruments, within a Treasury function; or (ii) that do not include greenhouse gas intensive projects which are inconsistent with the delivery of a low carbon and climate resilient economy.</p> <p><b>6.3</b> N/A</p>	None
Verification of requirements specified under Confidentiality	<p><b>7.1</b> SFPUC's management confirms that all relevant information about the Nominated Projects has been provided to the Verifier and to the Climate Bonds Standard Board to support the assessment of conformance with the Climate Bonds Standard.</p>	None

	<p><b>7.2</b> SFPUC’s management confirms that all relevant information about the bond and the Nominated Projects has been disclosed to the market.</p>	
<p>Verification of requirements specified under Reporting Post-Issuance</p>	<p><b>8.1</b> SFPUC’s management has provided a report containing the list of Nominated Projects to which proceeds of the bond have been allocated (See Schedule 1).</p>	<p>None</p>

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## Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. In 2015, Global Capital awarded Sustainalytics "Best SRI or Green Bond Research or Ratings Firm" and in 2018 and 2019, named Sustainalytics the "Most Impressive Second Party Opinion Provider". The firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance in 2018, and in 2019 was named the "Largest Approved Verifier for Certified Climate Bonds" by the Climate Bonds Initiative. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan the Minister of the Environment Award in the Japan Green Contributor category of the Japan Green Bond Awards in 2019.

For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

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