

SECOND PARTY OPINION

SUMMARY

Kestrel Verifiers is of the opinion that the Capital Improvement and Refunding Bonds, Series 2020-A, B, and C (Social Bonds) conform with the four pillars of the Social Bond Principles 2020 as follows:

Use of Proceeds

APSCA intends to issue Social Bonds to finance capital improvement projects for public schools, higher education institutions, and community colleges across Alabama. The 2020 bonds will finance and re-finance bonds which funded grants for educational facilities projects, including new construction, acquisitions, improvements, repairs, or renovations. Projects may include libraries, vocational training facilities, classrooms, or related improvements. The bonds align with Access to Essential Services project category under the Social Bond Principles.

Process for Project Evaluation and Selection

The Alabama legislature has established criteria and processes for selecting eligible facilities projects. The Board of Directors of APSCA approves capital improvement projects for financing. Project inspections are performed by the Division of Construction Management to confirm that work completed conforms with project standards. This process provides public oversight and assurances that projects selected for funding have positive impacts on education in Alabama.

Management of Proceeds

Bond proceeds will be placed in a separate fund for educational facility improvements. Proceeds will also be allocated to refund the outstanding bonds which were used to finance previous projects. All proceeds from the bonds to be refunded have been allocated to school facility projects.

Reporting

APSCA commits to posting continuing disclosures to the Municipal Securities Rulemaking Board (MSRB) annually through the Electronic Municipal Market Access (EMMA) system. APSCA also intends to produce a voluntary post-issuance report on the allocation status of the social bond proceeds and associated impact metrics, with assistance from Kestrel Verifiers.



ISSUER

Alabama Public School and
College Authority (APSCA)

OPINION ON

Capital Improvement and Refunding
Bonds, Series 2020-A, B, and C (Social
Bonds)

SOCIAL CATEGORY

Access to Essential Services

TARGET POPULATIONS

Undereducated
Living below the poverty line

EVALUATION DATE

October 2020

KESTREL VERIFIERS CONTACTS:

Monica Reid, CEO

monica@kestrel-inc.com
(+1) 541-399-6806

Evan Smith, Lead Verifier

evan@kestrel-inc.com
(+1) 530-919-9162

April Strid, Verifier

april@kestrel-inc.com
(+1) 503-860-1125

SECOND PARTY OPINION

Issuer: Alabama Public School and College Authority
Issue Description: Capital Improvement and Refunding Bonds, Series 2020-A, B, and C (Social Bonds)
Project: Educational Facility Improvements
Social Category: Access to Essential Services
Evaluation Date: October 15, 2020

SOCIAL BONDS SECOND PARTY OPINION

Kestrel Verifiers, an Approved Verifier accredited by the Climate Bonds Initiative, conducted an independent external review of these bonds to evaluate conformance with the Social Bond Principles (June 2020) established by the International Capital Market Association.

This Second Party Opinion reflects our review of the uses of proceeds and conformance of the bonds with the Social Bond Principles. In our opinion, the Capital Improvement and Refunding Bonds, Series 2020-A, B, and C are aligned with the four pillars of the Social Bond Principles and qualify for social bonds designation.

ABOUT THE ISSUER

The Alabama Education Authority (AEA) was created in 1959 and was the precursor to the Alabama Public School and College Authority (APSCA). The AEA had the authority to issue bonds for capital facility improvements for public schools and higher education. In 1965, the APSCA was created for the same purpose, but with expanded powers and revenues to support a greater number of districts and facility needs. Today, APSCA's primary purpose is to provide grants and low-interest loans for capital projects. APSCA is not responsible for educational programming, district boundaries, or other statewide educational policies.

ALIGNMENT TO SOCIAL BOND STANDARDS

Social Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible Social Projects and which are aligned with the four core pillars of the Social Bond Principles (International Capital Market Association definition).

Use of Proceeds

Bond proceeds will be allocated to refund or finance capital improvement projects at public schools, higher education institutions, community colleges, and vocational training across Alabama (all categories of projects combined, "educational facilities projects" or "educational facilities"). These capital improvement projects generally target areas which serve populations defined by a relatively low level of educational attainment, as discussed in the Target Population section below. Table 1 lists the bonds to be refunded by the Series 2020-A, B and C Social Bonds which all funded projects which conform with the Social Bond Principles.

Target Populations

The State of Alabama has made significant strides in educational attainment in recent years. However, the state ranks nationally in the bottom quartile for secondary and post-secondary educational attainment. In 2019, the state ranked 44th out of 51 (including the District of Columbia) for the percent of people over 25 years who have completed high school. Alabama has the same ranking for the percent of people over 25 who have completed a bachelor's degree.¹ Across the U.S., 33% of people 25 and older have completed a bachelor's degree, while in Alabama this number is 26%.²

The public schools, universities, and colleges that will receive grants serve many students from low-income families. In the 2017-2018 school year, the state of Alabama had the 14th highest percentage of students eligible for free or reduced-price lunch.³ The majority of K-12 school districts receiving APSCA allocations from the 2020-A bonds are considered to be mid- or high-poverty school districts, based on National Center for Education Statistics data. APSCA-financed projects at post-secondary educational institutions also benefit students with low socioeconomic status. In 2017-2018, at least 46,000 students were recipients of over \$200 million in Federal Pell Grants at universities receiving 2020-A funds.

School Facilities and Student Achievement

The bond proceeds will provide grants for educational facilities projects, including new construction, acquisitions, improvements, repairs, or renovations. Projects may involve libraries, research facilities, physical education facilities, vocational training facilities, dormitories, classrooms, or related improvements. Given the documented potential for facilities upgrades to significantly improve student academic achievement, the funds allocated for educational facilities and post-secondary institutions have strong positive social benefits for local districts and society as a whole.^{4,5}

There is a documented need for improvements to educational facilities. It is estimated that one quarter of U.S. public schools are in fair or poor condition, either needing frequent and expensive maintenance, or not meeting minimum standards for schools.⁶

Research validates a positive relationship between student achievement and the quality of educational facilities.^{7,8} Furthermore, the potential negative effects of inadequate or poorly maintained facilities may be more pronounced in schools serving low socioeconomic status students.⁹ Strong facility improvement programs can have multiple direct or indirect benefits. Facilities lacking heating or cooling in extreme climates or maintain poor air quality can have significant negative effects on cognitive performance.

¹ Percent of People 25 Years and Over Who Have Completed a Bachelor's Degree, U.S. Census Bureau, 2019 American Community Survey 1-year Estimates Ranking Tables, Table IDs: R1501 & R1502.

² Percent of People 25 Years and Over Who Have Completed a Bachelor's Degree, U.S. Census Bureau, 2019 American Community Survey 1-year Estimates Geographic Comparison Tables, Table ID: GCT1502.

³ U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), Public Elementary/Secondary School Universe Survey, 2000-01, 2010-11, 2016-17, and 2017-18. https://nces.ed.gov/programs/digest/d12/tables/dt12_046.asp

⁴ Uline, C. and Tschannen-Moran, M. 2008. The walls speak: the interplay of quality facilities, school climate, and student achievement, *Journal of Educational Administration*, Vol. 46 No. 1, pp. 55-73. <https://doi.org/10.1108/09578230810849817>

⁵ Lafortune, J. and Schonholzer, D., Do School Facilities Matter? 2018. American Economic Association. <https://www.aeaweb.org/conference/2019/preliminary/paper/2iN6Hbs4>

⁶ Alexander, Debbie and Laurie Lewis, 2014. Condition of America's Public School Facilities: 2012-13. First Look. NCES 2014-022, "National Center for Education Statistics.

⁷ Uline, C. and Tschannen-Moran, M. 2008. The walls speak: the interplay of quality facilities, school climate, and student achievement, *Journal of Educational Administration*, Vol. 46 No. 1, pp. 55-73. <https://doi.org/10.1108/09578230810849817>

⁸ Lafortune, J. and Schonholzer, D., Do School Facilities Matter? 2018. <https://www.aeaweb.org/conference/2019/preliminary/paper/2iN6Hbs4> American Economic Association.

⁹ Rauscher, E. 2019. Delayed Benefits: Effects of California school district bond elections on achievement by socioeconomic status. <https://doi.org/10.1177/0038040719892577>

New or adequately maintained facilities typically cost less to operate, may attract skilled teachers and administrators, have positive effects on student health, and provide suitable student learning environments.


The educational facilities improvements across Alabama financed with the Capital Improvement and Refunding Bonds have potential to reduce educational inequalities. There are three parts of the distributions to K-12 school districts in the 2020 bonds. A portion of the 2020 proceeds will be equitably allocated to high- and lower-income districts. Each district will receive a flat \$400,000 for facilities. While the project evaluation process does not specifically target at-risk populations, funds will be distributed equitably, including to areas where there is a higher concentration of at-risk recipients. The second portion will be allocated based on the district’s student attendance. The third portion will be allocated based on the school district’s receipt of the state’s Public School Fund which is based on school attendance and assessed property taxes.

Furthermore, efficient and updated educational facilities indirectly support the Organization for Economic Cooperation and Development’s (OECD) recommendations for improving low performing disadvantaged schools.¹⁰ The OECD’s five recommendations are:

1. Strengthen and support school leadership
2. Stimulate a supportive school climate and environment for learning
3. Attract, support and retain high quality teachers
4. Ensure effective classroom learning strategies
5. Prioritize linking schools with parents and communities

Well-maintained classrooms, libraries, research facilities, and laboratories attract high-caliber educators and leadership. Additionally, school buildings serve as gathering places for civic meetings, church services, and polling places for elections. These activities prioritize schools as the center of the community.

Allocation of proceeds to community colleges and public and private colleges and universities for facilities projects also supports improved access to education. Three post-secondary institutions to receive 2020-A proceeds are Historically Black Colleges and Universities (HBCUs). Overall, Alabama’s post-secondary educational institutions offer affordable higher education. All colleges or universities receiving 2020-A proceeds have median tuition rates which are significantly lower than the national average of similar institutions. In addition, the state’s community colleges offer affordable options for obtaining core requirements prior to transferring to other four-year institutions. They also offer flexible vocational and career training for students who choose not to pursue a standard four-year degree.

STANDARD	ELIGIBLE PROJECT CATEGORY
 The Social Bond Principles	Access to Essential Services – Education

¹⁰ Organization for Economic Cooperation and Development (OECD), 2012. Equity and Quality in Education: Supporting Disadvantaged Students and Schools, OECD Publishing. <https://doi.org/10.1787/9789264130852-en>

Table 1. Bonds partially or fully refunded by the 2020-A, B and C bonds.

Refunded Bond	Purpose
Series 2007	Projects for 290 recipients were financed with the Series 2007 bonds. Recipients included colleges and universities, K-12 schools, community colleges, and public libraries. Proceeds allocated in accordance with Act 2007-415.
Series 2012-B	Bonds refunded Series 2002-B and portion of Series 2003 which financed vocational training facilities and facilities projects at four schools, as described in Act 2003-436. Districts receiving facilities funds have an average of 30% of families who are eligible for Supplemental Nutrition Assistance Program (SNAP) benefits.
Series 2013-A	Pool bonds provided financing for projects in 14 K-12 districts. An average of 27% of families in these districts are eligible for SNAP benefits.
Series 2013-B	Pool bonds provided financing for projects in one K-12 district. 13% of families in the district are eligible for SNAP benefits.
Series 2013-C	Proceeds financed tornado recovery projects in ten K-12 districts and career training projects for 119 recipients.
Series 2013-D	Pool bonds provided financing for projects in eight K-12 districts. 24% of families in these districts are eligible for SNAP benefits.
Series 2015-C	Pool bonds provided financing for projects in seven K-12 districts. An average of 29% of families in these districts are eligible for SNAP benefits.

Note: Examples of average percentage of families receiving SNAP benefits in the district are provided to offer context and background on a selected sample of demographics in districts which received proceeds from the refunded bonds. Data represents SNAP benefits received within the past 12 months, per the National Center for Education Statistics. In 2019, 12% of the U.S. population receives SNAP benefits.¹¹

Process for Project Evaluation and Selection

Capital improvement project funds from the new money in Series 2020-A and the refunded bonds are/were allocated using the following processes:

All Allocations: All capital improvement projects are approved by the Board of Directors of APSCA. Project inspections are performed by the Division of Construction Management to confirm that work completed conforms with project standards. This process provides oversight and assurances that projects selected for funding have the intended positive impacts on education in Alabama.

Series 2020-A New Money: Proceeds will be allocated to state-supported K-12 public school districts based on Act 2020-167. Additional fund allocations to community colleges are based on the Alabama Community College System Board's approval.

Pool Bonds: Bonds partially or fully refunded by the Series 2020-C bonds are Pool Bonds. Proceeds from APSCA Pool Bonds are solely allocated to K-12 districts, and the allocated amount depends on the amount pledged by the district from their share of the state's Public School Fund. If a district pledges a higher amount from their Public School Funds, the district is eligible to receive more proceeds from the Pool Bonds.

¹¹ Nchako, C., & Cai, Lexin. A Closer Look at Who Benefits from SNAP: State-by-State Fact Sheets. 2020. Center on Budget and Policy Priorities. <https://www.cbpp.org/research/food-assistance/a-closer-look-at-who-benefits-from-snap-state-by-state-fact-sheets#Alabama>

Management of Proceeds

Proceeds from the 2020-A, B, and C Bonds will be allocated to educational facility improvements, and to refund the outstanding bonds which were used to finance previous projects. All proceeds from the bonds to be refunded have been allocated to school facility projects. Upon closing, a portion of the Series 2020A Bonds and the Series 2020-B and 2020-C Bonds will immediately be allocated to the refunded bonds. It is expected that the 2020A proceeds intended for new projects will be distributed to vendors as cost is incurred. Bond proceeds may be invested by the State Treasurer in Permitted Investments, as defined by the authorizing Act 2020-167. These include bonds, government securities, and money market mutual funds. The Act requires bond proceeds to be used for capital improvements for public education or refinancing debt incurred for the same purpose.



Reporting

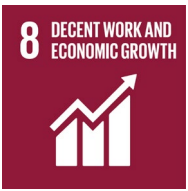
APSCA has committed to submitting continuing disclosures to the Municipal Securities Rulemaking Board (MSRB) so long as the Series 2020 Social bonds are outstanding. APSCA will also provide reports in the event of material developments. This reporting will be done annually on the Electronic Municipal Market Access (EMMA) system operated by the MSRB. APSCA also intends to produce a voluntary post-issuance report on the allocation status of the social bond proceeds and associated impact metrics, and has engaged Kestrel Verifiers to assist with this.

ALIGNMENT WITH THE UN SDGS



By financing school grants and facilities improvements, the Series 2020 Social Bonds are helping to achieve multiple goals of the United Nation's Sustainable Development Goals (UN SDGs). A comprehensive list of targets and background on UNSDGs 1, 4 and 8 are available on the United Nation's website: <https://www.un.org/sustainabledevelopment/>

SDG	SBP Project Categories	Example Indicators*
	<ul style="list-style-type: none"> Access to Essential Services (Target 1.4) 	<ul style="list-style-type: none"> Number of students enrolled Number of people benefitting from improved local school facilities
	<ul style="list-style-type: none"> Access to Essential Services (Targets 4.1, 4.3, 4.4, 4.5, 4.6, 4a) 	<ul style="list-style-type: none"> Number of students enrolled Number of students attaining standard for education level Education facilities for inclusive and effective learning environments School performance metrics

SDG	SBP Project Categories	Example Indicators*
	<ul style="list-style-type: none"> Access to Essential Services (Targets 8.3, 8.6, 8.10) 	<ul style="list-style-type: none"> Employment rates of graduating students Number of students moving upward in income quartiles later in life

Several example indicators included above are from the ICMA's reference, Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals.

CONCLUSION

Based on our independent verification, the Capital Improvement and Refunding Bonds, Series 2020-A, B, and C (Social Bonds) conform, in all material respects, with the Social Bond Principles (2020) and are in complete alignment with the Access to Essential Services project category.

ABOUT KESTREL VERIFIERS



For 20 years Kestrel has been a trusted consultant in environmental finance. Kestrel Verifiers, a division of Kestrel 360, Inc. is a Climate Bonds Initiative Approved Verifier qualified to verify transactions in all asset classes worldwide. Kestrel is a US-based Women's Business Enterprise.

For more information, visit www.kestrelverifiers.com

DISCLAIMER

This opinion aims to explain how and why the discussed financing meets the ICMA Social Bond Principles based on the information which was available to us during the time of this engagement (October 2020) only. By providing this opinion, Kestrel Verifiers is not certifying the materiality of the projects financed by the Social Bonds. It was beyond Kestrel Verifiers' scope of work to review issues relating to regulatory compliance and no surveys or site visits were conducted. Furthermore, we are not responsible for surveillance on the project or use of proceeds. Kestrel Verifiers relied on information provided by the Borrower and publicly available information. The opinion delivered by Kestrel Verifiers does not address financial performance of the Social Bonds or the effectiveness of allocation of its proceeds. This opinion does not make any assessment of the creditworthiness of the Issuer, or its ability to pay principal and interest when due. This is not a recommendation to buy, sell or hold the Bonds. Kestrel Verifiers is not liable for consequences when third parties use this opinion either to make investment decisions or to undertake any other business transactions. This Opinion may not be altered without the written consent of Kestrel Verifiers. Kestrel Verifiers certifies that there is no affiliation, involvement, financial or non-financial interest in the issuer or the projects discussed. Language in the offering disclosure supersedes any language included in this Second Party Opinion.