

SECOND PARTY OPINION - SUSTAINABILITY BONDS

EXECUTIVE SUMMARY

Kestrel Verifiers is of the opinion that the 2020 General Obligation Bonds (2018 Election Measure O: Affordable Housing) (Federally Taxable) (Sustainability Bonds) issued by the City of Berkeley, California conform with the four pillars of the Green and Social Bond Principles 2018, and therefore meet the Sustainability Bond Guidelines. This assessment is based on the following:



USE OF PROCEEDS

The eligible categories for the use of proceeds - Green Buildings and Affordable Housing - are aligned with those recognized by the Green and Social Bond Principles 2018. Furthermore, the bond-funded projects affect target populations including: those living below the poverty line, underserved, vulnerable, and disabled individuals. This is in alignment with the Social Bond Principles. Kestrel Verifiers considers that the City of Berkeley's investments in these areas will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically Goal 11 (Sustainable Cities and Communities).



PROCESS FOR PROJECT EVALUATION AND SELECTION

Measure O authorizing funds for these projects was placed on the ballot by the City of Berkeley City Council and approved by voters in the November 2018 election. The Measure O Bond Oversight Committee evaluated and selected candidate projects for funding.



MANAGEMENT OF PROCEEDS

Proceeds from Sustainability Bonds issued by the City of Berkeley will be separated in a fund used only for the eligible project types listed in the Use of Proceeds. The City commits to an annual independent financial audit to ensure proceeds are expended only for affordable housing.



REPORTING

The City of Berkeley commits to posting continuing disclosures to the Municipal Securities Rulemaking Board (MSRB) done annually on the Electronic Municipal Market Access (EMMA) system.

ISSUER:

CITY OF BERKELEY, CALIFORNIA

OPINION ON:

**2020 GENERAL OBLIGATION
BONDS
(2018 ELECTION MEASURE O:
AFFORDABLE HOUSING)
(FEDERALLY TAXABLE)
(SUSTAINABILITY BONDS)**

SECTORS:

**GREEN BUILDINGS
AFFORDABLE HOUSING**



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SECOND PARTY OPINION

CITY OF BERKELEY, CALIFORNIA 2020 GENERAL OBLIGATION BONDS (2018 ELECTION MEASURE O: AFFORDABLE HOUSING) (FEDERALLY TAXABLE) (SUSTAINABILITY BONDS)

Issuer:	City of Berkeley, California
Project:	Affordable Housing Improvements
Green Category:	Green Buildings
Social Category:	Affordable Housing
Bond Designation:	Sustainability Bonds
Target Population:	Those living below the poverty line; vulnerable groups; people with disabilities; underserved populations.
Par:	\$38,000,000.00
Evaluation date:	4/1/2020

ABOUT THIS ENGAGEMENT

Kestrel Verifiers, an Approved Verifier accredited by the Climate Bonds Initiative, conducted an independent review of this bond for conformance with the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines established by the International Capital Market Association.

TRANSACTION OVERVIEW

The City of Berkeley, California is issuing \$38,000,000.00 in City of Berkeley, California 2020 General Obligation Bonds (2018 Election Measure O: Affordable Housing) (Federally Taxable) (Sustainability Bonds) ("General Obligation Affordable Housing Bonds").

The City of Berkeley proposes financing the construction of affordable housing, hereafter referred to as the "Affordable Housing Improvements" with the General Obligation Affordable Housing Bonds.

This Second Party Opinion reflects Kestrel Verifiers' view of the City of Berkeley's project and financing, allocation and oversight and conformance of the bonds with the International Capital Market Association's Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines. The General Obligation Affordable Housing Bonds meet these criteria through the eligible Green Bond category of Green Buildings and the eligible Social Bond category of Affordable Housing.

In Kestrel Verifiers' opinion, the General Obligation Affordable Housing Bonds issued by City of Berkeley are aligned with the Sustainability Bond Guidelines.

ABOUT THE CITY OF BERKELEY, CALIFORNIA

The City of Berkeley (“the City” or “Berkeley”) plans to use the proceeds of these bonds to finance Affordable Housing Improvements. City of Berkeley is in Alameda County, California and has the highest population density of any city in East San Francisco Bay Area with a population of 123,328 as of January 1, 2019. Berkeley is the home to University of California, Berkeley, which plays a significant role in the economic and social culture of the city. The City is committed to environmental sustainability, as demonstrated by City voters approving a goal of reducing greenhouse gas emissions by 80% by 2050 in a 2006 ballot measure, and by the City Council adopting a Climate Action Plan (Plan) in 2009. Under the city’s Plan, all major city building projects must achieve zero net energy consumption and be designed to meet LEED Silver certification at a minimum.

The Office of Energy & Sustainable Development leads the City’s sustainability efforts through the Climate Action Plan. In 2015, Mayor Tom Bates signed the Compact of Mayors, the world’s largest cooperative effort among mayors and City officials to reduce greenhouse gas emissions, track progress, and prepare for impacts of climate change. In 2017, Mayor Jesse Arreguin signed the Mayors National Climate Action Agenda as a demonstration of the City’s ongoing commitment to accelerate climate progress.

The Climate Action Plan recognizes encouraging development of affordable housing as a key feature of the city’s continued sustainable growth. Under U.S. Department of Housing and Urban Development (HUD) requirements, the city conducts a homeless count each year. As of the 2019 count, the City of Berkeley’s homeless population made up 14% of the entire county’s homeless population, but the City represents only 7% of the total county population. Alameda County has set a goal to reduce the number of people experiencing homelessness in the county from the 5,600 in 2018 to less than 2,200 by the year 2023 (EveryOne Home Plan to End Homelessness: 2018 Strategic Update).

THE BOND-FINANCED PROJECT

The City of Berkeley has identified significant affordable housing needs and voters adopted Measure O in November 2018 which authorized the issuance of \$135 million of general obligation bonds to construct and preserve housing to reduce homelessness in the city.

Proceeds from the General Obligation Affordable Housing Bonds will be used in combination with other funding sources to fund multiple projects. Bond proceeds will primarily fund the ongoing Berkeley Way housing construction project. Construction on the relatively smaller Oxford project is also a funding priority. Remaining funds, as available, will be allocated to four additional projects as seen in Table 1.



Project	Units	About
Berkeley Way (2012 Berkeley Way)	189	89 affordable apartments, 53 permanent supportive housing units, 12 transitional beds, and 32 men's shelter beds, some reserved for veterans
Oxford (1601 Oxford)	37	Low-income seniors and homeless households
Blake Apartments (2527 San Pablo)	63	30-60% AMI, units set aside for formerly homeless and residents with intellectual and developmental disabilities, studios, one-bedrooms, two bedrooms
San Pablo (1740 San Pablo Ave)	51	Less than 30%-90% AMI, studios, one-bedrooms, two bedrooms, and 3 units for lower income artists
North California Land Trust's Anti-Displacement Project (2321-2323 10th St)	8	Approximately 30-80% AMI, one and two-bedrooms
Ashby (2001 Ashby)	87	20-80% AMI, studios, one-bedroom, two-bedrooms, and three-bedrooms, 12 units for formerly homeless and disabled residents

Table 1. Affordable housing projects approved for funding contributions from Measure O bonds. AMI refers to Area Median Income. According to the California Department of Housing and Community Development, 0-30% of AMI is considered to be extremely low income, 30-50% of AMI is very low income, 50-80% of AMI is lower income, and 80-120% of AMI is moderate income.

TARGET POPULATION

The affordable housing projects target certain populations. More broadly, Measure O adopted by voters supports acquisition and construction of housing for “low-, very low-, low-, median-, and middle-income individuals and working families, including teachers, seniors, veterans, the homeless, students, people with disabilities, and other vulnerable populations.” The selected projects target moderate to very low-income levels. Each funded project also aims to serve a particular population as described in Table 1.

GREEN BUILDINGS

In addition to conforming with the affordable housing category of the Social Bond Principles, the projects also address environmental sustainability through green building standards. The Leadership in Energy and Environmental Design (LEED) certification program demonstrates a building's adherence to a scorecard for green building criteria. Points are received based on site selection, water efficiency, energy and atmosphere, materials and resources, indoor environmental quality, and innovation in design. Similarly, the GreenPoint Rated program rates buildings in five categories including, energy and water conservation, indoor air quality, sustainable building materials and community benefits.

Both Oxford and Berkeley Way projects are designed to meet LEED or GreenPoint sustainable building standards. Estimated completion dates for Oxford and Berkeley Way are 2021 and 2022, respectively. The buildings have a combination of photovoltaic systems, EnergyStar appliances, drought-tolerant landscaping, innovative construction waste management, and are located close to public transit and other amenities. The four projects approved for excess funding allocations will include new construction designed to meet LEED Gold or GreenPoint Gold standards. In addition, California's Title 24 statewide building codes also ensure energy efficient construction.


ALIGNMENT TO SUSTAINABILITY STANDARDS

USE OF PROCEEDS



The General Obligation Affordable Housing Bonds will be used to finance the Affordable Housing Improvements exclusively. The Affordable Housing Improvements are an eligible green project as defined by the Green Bond Principles in the project category of Green Buildings. The Affordable Housing Improvements are an eligible social project as defined by the Social Bond Principles in the project category of Affordable Housing. The target population includes those living below the poverty line; vulnerable groups; people with disabilities; and underserved populations, owing to a lack of quality access to essential goods and services. These are consistent with the Social Bond Principles.

The project intentionally conforms to the Green Bond Principles and Social Bond Principles, and therefore qualifies as a Sustainability Bond.

Sustainability Bonds are bonds in which the proceeds will be exclusively applied to finance or re-finance a combination of both Green and Social Projects. Sustainability Bonds are aligned with the four core components of both the Green Bond Principles and Social Bond Principles.

BOND LABEL:	ELIGIBILITY CRITERIA:
	<p>Green Buildings: Buildings which meet regional, national or internationally recognized standards or certifications.</p> <p>Affordable Housing with target populations that include: those living below the poverty line; vulnerable groups; people with disabilities; underserved populations, owing to a lack of quality access to essential goods and services</p>

The 2030 Agenda for Sustainable Development adopted by all United Nations Member States in 2015 provides a shared “blueprint to achieve a better and more sustainable future for all.” The United Nations’ Agenda describes 17 Sustainable Development Goals (SDGs) to achieve by the year 2030. The Affordable Housing aligns with the following SDGs:

	ELIGIBILITY CRITERIA
	<p>SDG 11: Sustainable Cities and Communities, which includes targets to make cities and human settlements inclusive, safe, resilient and sustainable.</p>

PROCESS FOR PROJECT EVALUATION AND SELECTION

The City of Berkeley uses a transparent decision-making process to select capital projects for financing. The City adopted a Long-Range Development Plan and Capital Improvement Program to outline community needs and projects to prioritize for financing. Housing needs were identified as part of the EveryOne Home Plan to End Homelessness: 2018 Strategic Update that was adopted by the City in 2019. The measure authorizing bond issuance, Measure O was placed on ballot by City Council and adopted by voters in the November 2018 election.

The Housing Advisory Commission and Measure O Bond Oversight Committee (MOBOC), Planning Commission, Homeless Services Panel of Experts, City Staff, and the City Council all hold regular public meetings and play a role in recommending and implementing affordable housing projects.

Following the selection of the two priority projects for this first bond issuance, the City solicited applications for projects to be funded with remaining funds through the City's Housing Trust Fund. Four applications were received and a subcommittee of MOBOC evaluated and selected candidate projects for funding.

MANAGEMENT OF PROCEEDS

100% of the bond proceeds are required to be allocated to the Affordable Housing Improvements.

The City of Berkeley will establish a debt service fund for the 2020 Measure O Bonds which will be established as separate funds to be maintained distinct from all other funds of the City. Furthermore, The City commits to an annual independent financial audit to ensure proceeds are expended only for affordable housing. Finally, the City Manager will produce an annual report disclosing fund allocations and status of housing projects.

Debt proceeds not allocated to authorized affordable housing projects may be invested in authorized investment types for bond trustees. These proceeds are subject to the City of Berkeley's Investment Policy. The City's Investment Policy includes stringent guidelines for Responsible Investing, requiring all investment to comply with the following:

- Nuclear-Free Berkeley Act
- Oppressive States Contract prohibition
- Divestment from Gun Manufacturers and Tobacco Companies
- Divestment from Publicly Traded Fossil Fuel Companies and Banks that
- Finance Pipelines and Fossil Fuel Infrastructure
- Divestment from Prisons Resolution and Immigration
- Detention Companies
- Divest from Any Companies Designing, Building or Financing the U.S. – Mexico Border Wall
- No Investment in Any Entity Involve in the Production and Manufacturing of Weapons
- Integrate Environmental, Social, and Governance Principles (ESG) for All Investment Decision Making Processes

Kestrel Verifiers views this management of proceeds as aligned with best practices of the Green and Social Bond Principles.

REPORTING

So long as the General Obligation Affordable Housing Bonds are outstanding, the City of Berkeley will submit continuing disclosures to the Municipal Securities Rulemaking Board (MSRB). This reporting will be done annually on the Electronic Municipal Market Access (EMMA) system operated by the MSRB. An annual report will include independently audited financial statements to ensure proceeds are expended only for affordable housing.

The City Manager will produce an annual report disclosing fund allocations and status of housing projects.

SECOND PARTY OPINION

Based on our independent verification, the City of Berkeley, California's 2020 General Obligation Bonds (2018 Election Measure O: Affordable Housing) (Federally Taxable) (Sustainability Bonds) conform, in all material respects, with both the Green Bond and Social Bond Principles, leading to a designation of Sustainability Bonds. Furthermore, they are aligned with the United Nations Sustainable Development Goal 11.

It is the opinion of Kestrel Verifiers that these bonds are in complete alignment with the Green Buildings category of the Green Bond Principles and the Affordable Housing category of the Social Bond Principles, and therefore qualify as Sustainability Bonds. The City of Berkeley, California is demonstrating leadership toward a more sustainable future with the Affordable Housing Improvements.

DISCLAIMER

This opinion aims to explain how and why the discussed financing meets the ICMA Sustainability Bond Guidelines based on the information which was available to us during the time of this engagement (April 2020) only. By providing this opinion, Kestrel Verifiers is not certifying the materiality of the projects financed by the Sustainability 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. The opinion delivered by Kestrel Verifiers does not address financial performance of the Sustainability 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.



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. Our project experience includes green buildings, renewable energy, water, energy efficiency, affordable housing, pollution prevention and control, climate change adaptation, natural resources and land uses. Kestrel is a US-based Woman-Owned Small Business and a certified Women's Business Enterprise.

For more information, visit www.kestrelverifiers.com