

## SECOND PARTY OPINION

### SUMMARY

Kestrel Verifiers is of the opinion that the City of Seattle, Washington Water System Improvement and Refunding Revenue Bonds, 2021 (Green Bonds) ("Bonds") conform with the four pillars of the Green Bond Principles 2018 as follows:

### Use of Proceeds

Proceeds of the Bonds will be used to finance and refinance capital improvement projects for Seattle's drinking water system that include watershed stewardship, conservation, and water quality improvements. The Bonds align with the *Sustainable Water Management* project category under the Green Bond Principles.

### Process for Project Evaluation and Selection

SPU has a transparent and consistent process for evaluating priorities for funding and ensuring that environmental considerations are incorporated into planning processes. Capital investments in the water system are identified in the multi-year CIP and are shaped by the framework established in the Water System Plan that was most recently updated in 2019.

### Management of Proceeds

Proceeds of the Bonds will only be used to finance and refinance capital improvement projects that support the sustainable operation of the water system and to pay costs of issuance. Proceeds will be deposited into a dedicated Construction Account and proceeds for refunding will be allocated directly to refunding the 2010B Bonds.

### Reporting

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



### ISSUER

City of Seattle, Washington

### OPINION ON

Water System Improvement  
and Refunding Revenue Bonds,  
2021 (Green Bonds)

### GREEN CATEGORY

Sustainable Water  
Management

### EVALUATION DATE

June 3, 2021

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## SECOND PARTY OPINION

<b>Issuer:</b>	City of Seattle, Washington
<b>Issue Description:</b>	Water System Improvement and Refunding Revenue Bonds, 2021 (Green Bonds)
<b>Project:</b>	Capital Improvement Projects
<b>Green Category:</b>	Sustainable Water Management
<b>Par:</b>	\$82,220,000
<b>Evaluation date:</b>	June 3, 2021

### GREEN BONDS DESIGNATION

Kestrel Verifiers, an Approved Verifier accredited by the Climate Bonds Initiative, conducted an independent external review of this bond to evaluate conformance with the Green Bond Principles (June 2018) established by the International Capital Market Association.

This Second Party Opinion reflects our review of the uses and allocation of proceeds and oversight and conformance of the bonds with the Green Bond Principles. In our opinion, the City of Seattle, Washington Water System Improvement and Refunding Revenue Bonds, 2021 (Green Bonds) (“Bonds”) are aligned with the four pillars of the Green Bond Principles and qualify for green bonds designation.

### ABOUT THE ISSUER

The City of Seattle, located in the state of Washington, is the largest city in the Pacific Northwest. Seattle Public Utilities (“SPU”) owns and operates various utilities, including the municipal Water System. The Water System has an extensive retail service area, reaching surrounding cities and a portion of King County, and also maintains wholesale contracts with 18 suburban water districts and municipalities. The Water System directly serves a population of approximately 820,000 and indirectly serves a population of approximately 741,000. The water system infrastructure includes:

- the Cedar and South Fork Tolt supply sources;
- three groundwater wells;
- two primary water treatment plants;
- 11 booster chlorination facilities;
- 327 million gallons of treated water storage;
- 31 pump stations;
- approximately 1,900 miles of transmission and distribution system pipelines;
- almost 200,000 meters and service connections;
- more than 21,000 distribution system valves;
- about 18,000 hydrants;
- monitoring and control systems;
- various buildings and other related facilities; and
- 320 million gallons of storage capacity.

SPU's Water System Plan (2019) highlights the organization's sustainability efforts for the Water System. SPU has comprehensive conservation practices and goals and the activities and projects financed by the Bonds directly contribute to SPU's sustainable agenda for the Water System.

SPU has taken a uniquely bold approach to addressing anticipated risks associated with climate change and has produced climate impact assessments since 2002. In the most recent iteration of the study, 40 climate change scenarios were evaluated to identify critical improvements to avoid future negative impacts on supply, storage, and treatment systems. As a founding member of the national Water Utility Climate Alliance, SPU collaborates with 11 other large water utilities to integrate climate research and adaptation into operations and share key recommendations with broader stakeholders. SPU recognizes the potential effects of climate change and catastrophic wildfires on Seattle's water system and regularly evaluates plans to increase resilience and mitigate impacts. SPU will remain engaged in future research on climate change by conducting periodic assessments and continuing to research effective climate adaptation strategies.

## ALIGNMENT TO GREEN STANDARDS

*Green Bonds are any type of debt instrument where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects and which are aligned with the four core components of the Green Bonds Principles (International Capital Market Association definition).*

## Use of Proceeds

The Bonds will be used to finance and refinance water system improvements. Projects financed are eligible green projects as defined by the Green Bond Principles in the project category of *Sustainable Water Management*. The projects serve 1.5 million people and businesses and 18 nearby cities and water districts.

A portion of Bond proceeds will finance capital improvement projects of the 2020-2025 Capital Improvement Program ("CIP"). The remaining proceeds will refund City of Seattle, Washington Water System Improvement and Refunding Revenue Bonds, 2010B ("2010B Bonds") which provided new money for capital improvements and refunded City of Seattle, Washington Water System Revenue Bonds, 1998 ("1998 Bonds"). The scope of activities financed by the new money portion of the Bonds is described in Table 1.

Table 1: Overview of water system program areas receiving Bond proceeds


Program	Examples
<b>Distribution</b>	Rehabilitation and improvements to water mains, storage, and facilities that distribute water; may include projects such as safety upgrades, pump station improvements
<b>Transmission</b>	Rehabilitation and improvements to transmission infrastructure for delivering untreated water to treatment facilities and other water customers; may include seismic upgrades

Program	Examples
<b>Watershed Stewardship</b>	Protection and conservation of water resources in Cedar River and South Fork Tolt River watersheds, including restoration activities, habitat improvements, and responsible management of natural resources
<b>Water Quality &amp; Treatment</b>	Construction and rehabilitation of water treatment facilities and reservoirs, including covering open reservoirs and responding to changing state and federal regulatory standards
<b>Water Resources</b>	Planning and activities to meet anticipated demand for water to support ecosystem health and community needs; includes education and actions to reduce residential and commercial water use and management of water flow requirements for aquatic habitat, riparian vegetation, and wetlands
<b>Habitat Conservation Program</b>	Projects regarding the Cedar River Watershed Habitat Conservation Plan, including activities related to the Endangered Species Act, land acquisition, and investment in in-stream flows, forest and land conservation, and salmon and steelhead fish spawning habitat restoration
<b>Shared Cost Projects</b>	Partnership with other entities to support interdepartmental programs
<b>Technology</b>	Technology improvements to manage billing, project management, system performance metrics, and other technology investments

SPU has a long history of watershed stewardship that is infused in projects financed by the refunded bonds. In 1996, ownership of Cedar River and South Fork Tolt Watersheds was consolidated through the U.S. Forest Service for long-term conservation and management by the City of Seattle. Activities are guided by comprehensive management policies that support sustainable forest management, protection of fish and wildlife habitat, watershed research, and education. In 2000, commercial timber harvest was halted in the Cedar River Watershed and forests may only be cut now for purposes of environmental restoration.

SPU has also demonstrated major success in achieving its water conservation goals. Proceeds of the refunded bonds have enabled these achievements. The One Percent Regional Conservation Program was initiated in 1999 and outlined a goal to maintain stable water demand for ten years while simultaneously experiencing significant population growth. Continuing this commitment to conservation, SPU's 2007 Water System Plan included programs to provide 15 MGD water use savings between 2011 and 2030. This program was identified in response to the Municipal Water Law passed by the Washington state legislature in 2003 that established water use efficiency standards. Projects financed by the 2010B Bonds supported these programs.

The projects financed by the 2010B Bonds fall into the same program areas as the 2021 Bonds. The projects financed by the 1998 Bonds fall into these program areas: Water Infrastructure, Water Quality, Water Supply, Other Agency Projects, and Project in Development. Projects in the CIP included, but were not limited to water conservation activities such as commercial incentives and laundry efficiency, infrastructure rehabilitation, water quality laboratory improvements, metering, habitat conservation, expanded transmission capacity, reservoir covering and rehabilitation, and development of a new Cedar River Ozonation Facility.

STANDARD	ELIGIBLE PROJECT CATEGORY
 <b>The Green Bond Principles</b>	Sustainable Water Management

## Process for Project Evaluation and Selection

SPU has a transparent and consistent process for evaluating priorities for funding and ensuring that environmental considerations are incorporated into planning processes. Capital investments in the water system are identified in the multi-year CIP and are shaped by the framework established in the Water System Plan. The water system capital projects are included in the City-wide capital improvement program and reviewed and adopted annually by the City’s Mayor and City Council. The Water System Plan was last updated in 2019. It covers topics including water demand forecasts, shortage contingency plans, treatment chemicals, design standards, water rates, and land use and zoning maps. The Water System Plan also addresses system resilience in response to climate change.

The Water CIP is guided by the following thematic priorities:

- Asset preservation
- Health and human safety
- Environmental sustainability
- Race and social justice

Water CIP development process follows multiple steps. Initially, SPU identifies projects through planning, emergencies, or other activities. Projects are justified through an analysis that identifies need and a triple bottom line review that accounts for economic, environmental, and social factors. Projects are prioritized based on an established set of criteria that is approved by the SPU General Manager and Asset Management Committee.

The City has multi-decadal watershed management plans that ensure responsible management of water sources and the surrounding ecosystems. Capital improvement projects financed and refinanced by the Bonds align with or directly support these planning documents. The Cedar River Watershed Habitat Conservation Plan (“HCP”) includes fish and wildlife management, forest road abandonment, restoration thinning and tree planting, and riparian, wetland, and stream habitat restoration. The South Fork Tolt Watershed management plan was developed in 2008 to guide similar activities in the South Fork Watershed.

## Management of Proceeds

Proceeds of the Bonds will only be used to finance and refinance capital improvement projects that support the sustainable operation of the water system and to pay costs of issuance. Proceeds will be deposited into a dedicated Construction Account and proceeds for refunding will be allocated directly to

refunding the 2010B Bonds. Proceeds not allocated immediately may temporarily be invested according to the City's investment policy that prioritizes safety and liquidity.

As of December 31, 2020, the City's investments, not including pensions, were allocated in the following assets:

- U.S. Government Agencies 30%
- State Local Government Investment Pool 21%
- Municipal Bonds 12%
- U.S. Government Agency Mortgage-Backed 10%
- Corporate Bonds 4%
- Repurchase Agreements 3%
- Supranational 2%
- Commercial Paper 0%

## Reporting

So long as the Bonds are outstanding, the City of Seattle will submit continuing disclosures to the Municipal Securities Rulemaking Board (MSRB). The City 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. SPU also produces annual water quality reports and Annual Report Cards which provide highlights of capital project delivery and reviews compliance with drinking water standards. These are typically available at [www.seattle.gov/utilities/about/reports](http://www.seattle.gov/utilities/about/reports).

## CONCLUSION

Based on our independent verification, the Bonds (Green Bonds) conform, in all material respects, with the Green Bond Principles (2018) and are in complete alignment with the Sustainable Water Management eligible project category.



## ABOUT KESTREL VERIFIERS



For 20 years Kestrel has been a trusted consultant in sustainable 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 certified Women's Business Enterprise.

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

## DISCLAIMER

This opinion aims to explain how and why the discussed financing meets the ICMA Green Bond Principles based on the information which was available to us during the time of this engagement (June 2021) only. By providing this opinion, Kestrel Verifiers is not certifying the materiality of the projects financed by the Green 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 made publicly available by the issuer. The opinion delivered by Kestrel Verifiers does not address financial performance of the Green 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.

