



# Kestrel ESG Impact Data Scoring Criteria

## EDUCATION: K-12 PUBLIC SCHOOLS

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### SCOPE

This document outlines Kestrel’s evaluation criteria for the K-12 Public Schools sector. For information on Kestrel criteria for other sectors and sub-sectors, visit [kestrelesg.com/methodology](https://kestrelesg.com/methodology).

### INTRO TO KESTREL METHODOLOGY

Kestrel ESG Impact Data provides a comprehensive assessment of real risk mitigants and positive impact opportunities associated with environmental (E), social (S), and governance (transparency) (G) factors of individual municipal bonds.

Kestrel’s science-based approach to assessing environmental and social impacts has been shaped by [many primary sources](#), including studies, plans and initiatives. These sources have helped establish our analytical approach, which is centered around five overarching sustainable finance goals.

1. Transition to a decarbonized economy
2. Integrate resilient and sustainable design features
3. Preserve, enhance, or restore natural capital
4. Promote a more equitable society and a just transition
5. Disclose activities, impacts and risks

Our ESG evaluation framework is built around the concept of materiality. When we review bonds, we identify whether sector-specific operationally feasible best practices are present in bond-financed activities. The sub-sector-specific material factors we consider are a result of deep understandings we have formed from over 20 years of consulting with state and local governments on sustainable infrastructure and best practices to achieve social equity. Our methodology reflects the understanding that potential for positive environmental and social impact can vary greatly depending on the sector and sub-sector.

## **How We Apply Our Methodology to Produce Original Data**

Whereas the market tends to assign ESG materiality at the issuer or industry level, Kestrel E and S Impact Scores reflect the presence or absence of sector-specific operationally feasible best practices in bond-financed activities. In many situations, the best practices we identify also represent real risk mitigants. The G score reflects transparency and disclosure pertaining to the bond-financed activities. Because the G score represents the availability and quality of relevant information about the bond-financed activities, it also reflects Kestrel's degree of confidence on the E score and S score.

Kestrel ESG scores are not issuer-level ratings, physical risk assessments, or surveillance of regulatory compliance. Geospatial analysis on physical risks is outside the scope of Kestrel ESG Impact Data. However, Kestrel does reveal certain factors such as sustainable and resilient building design, that mitigate real risks from climate change or natural disasters.

## **Data Sources**

Kestrel ESG Impact Data is 100% original and independently developed. Our team of smart analysts follows sector-specific methodologies which require review of bond offering documents as well as other primary sources in the public domain. We typically review issuer and bond oversight committee websites, approved budgets and capital plans, financial statements, regulatory filings, and Electronic Municipal Market Access (EMMA) filings on the MSRB website.

## **INTRO TO K-12 PUBLIC SCHOOLS**

US public school districts provide essential educational services for students from kindergarten through 12th grade, and in many cases provide access to pre-kindergarten. While providing K-12 education is a responsibility of state government, this service is administered and delivered at the local level. Kestrel's ESG Impact Data provides information on the sustainability characteristics of the use of bond proceeds and attributes of the individual school district that are relevant to the bond-financed activities. State funding frameworks for public school districts or academic performance of students in a school district do not influence Kestrel ESG scores. The scoring methodology does not vary by school size, demographic profile or location. Bonds funding a single project or dispersed districtwide projects are analyzed under the same methodology. However, public charter schools and debt issued for statewide school financing authorities are scored using related but distinct methodologies.

Public K-12 school district bonds typically finance new construction, improvements to district facilities and acquisition of property, vehicles or equipment. Growing districts often finance new construction to expand student capacity, whereas more established districts commonly use bond proceeds to renovate and improve existing academic facilities. While all education is recognized as having positive social benefits, Kestrel aims to provide key insights to enable meaningful comparison of social impact between bonds financing capital improvements in K-12 public school districts.

## Key Drivers of Impact / How We Think About K-12 Public Schools

### Sustainable Finance Goals

#### Environmental

1. Transition to a decarbonized economy
2. Integrate resilient and sustainable design features
3. Preserve, enhance, or restore natural capital

#### Social

4. Promote a more equitable society and a just transition

Kestrel's Environmental score reflects how well the bond-financed activities advance the first three sustainable finance goals.

For the Environmental score in the K-12 Public School sector, **we place the most value on energy-efficient and sustainably designed buildings.** We assess this in a variety of ways, ranging from presence of green building certifications or requirements to incorporation of certain energy efficiency measures.

- We view deep energy retrofits as particularly impactful.
- We view the use of renewable energy as impactful.
- We view incorporation of resilient and sustainable design features that mitigate physical risk, such as flood risk, as impactful.
- We take a positive view of projects that incorporate features to enhance biodiversity, such as preservation of open space or responsible sourcing of building materials.

Kestrel's Social score reflects how well the bond-financed activities advance one sustainable finance goal: *promote a more equitable society and a just transition.*

We look for a few key factors that reflect this:

- **We place value on the presence of meaningful plans and programs to address social equity,** such as, but not limited to, certain social and emotional learning and disciplinary frameworks.

We value intentionally addressing social equity because the more faculty and staff recognize how cultural and familial differences can impact behaviors and the understanding of expectations, the more equitably student behaviors will be treated.

- **In public high schools, we value meaningful career and technical education programs.**

We place value on these because 49.4% of occupations (nationally) require at least a high school diploma (or equivalent), but less than a 4-year college degree.<sup>1</sup> This makes work-based learning opportunities and preparatory components essential for

<sup>1</sup> "Employment Projections: Occupations that Need More Education for Entry are Projected to Grow Faster Than Average," US Bureau of Labor Statistics, September 8, 2022, <https://www.bls.gov/emp/tables/education-summary.htm>.

## Sustainable Finance Goals

### Social *(continued)*

### Governance

5. Disclose activities, impacts and risks

supporting students not pursuing four-year degrees. Earning an industry-based certification or credential directly qualifies a student for employment post-graduation.

- **We view projects that address seismic resilience or removal of lead or other serious contaminants in schools as being particularly important for children.** These activities are examples of physical or public health risk mitigants.
- **We view public Pre-K education as a key mitigator of adversity and poverty.**

Children who attend preschool programs are better prepared for kindergarten than those who don't; and while most, if not all, children benefit from preschool, poor and disadvantaged children often make the most gains. "Researchers who study Pre-K education often find that children who have had early experiences of economic scarcity and insecurity gain more from these programs than their more advantaged peers."<sup>2</sup>

Kestrel's Governance score reflects the level of transparency surrounding the bond-financed activities, impacts and risks. We utilize publicly available information to assess this, and place the most value on clear project descriptions and project budgets that can be found in the public domain.

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<sup>2</sup> "The Current State of Scientific Knowledge on Pre-Kindergarten Effects," Brookings Institution, 2017, [https://www.brookings.edu/wp-content/uploads/2017/04/duke\\_prekstudy\\_final\\_4-4-17\\_hires.pdf](https://www.brookings.edu/wp-content/uploads/2017/04/duke_prekstudy_final_4-4-17_hires.pdf).

## Criteria Table

Representative examples as per the K-12 Public Schools methodology are provided in the table below. These are examples, and not exhaustive. *Business as Usual* indicates no alignment with sustainable finance goals, *Progressing Toward Goals* indicates there is some positive momentum toward sustainable finance goals. *Leaders* reflects exemplary best practices in the context of Kestrel’s five sustainable finance goals. Certain districtwide commitments or programs which are supported by bond-financed activities can also influence the Environmental or Social scores.

	Business as Usual	Progressing Toward Goals	Leaders
Environmental*	No publicly available information on energy efficiency of the buildings.	District design policy is that new construction and renovated buildings are to be energy efficient.	District policy requires all buildings to meet a robust green building standard. Bond proceeds finance construction of a new high school built to meet an ambitious green building standard.
	No publicly available information on reducing emissions.	District committed to 100% renewable energy by 2050.	District has established a net zero goal and bond proceeds finance solar installation.
	District has fossil fuel-operated school buses.	District has some electric school buses.	Bonds finance acquisition of electric school buses and installation of EV chargers at every school.
Social*	No evidence of support for non-traditional academic programming.	District provides career and technical education.	District has significant programmatic support for students including academic, technical and career-oriented training. Bond proceeds finance a new Career and Technical Education Center.
	No evidence of special programs to support students outside of the academic core.	Programs are available to support certain cohorts of students.	Specific programs have been established to support marginalized or disadvantaged students.
	District facilities meet the mandatory health and safety requirements.	Bond proceeds finance some facility improvements to improve student health and safety.	Bond proceeds used specifically to improve student health and safety and integrate innovative designs to maintain a healthy learning environment.
Governance*	There is uncertainty associated with financed activities – transparency is lacking.	General details are available regarding use of proceeds and associated projects.	Specific details surrounding the use of proceeds is available and projects and budgets are clearly delineated.

\*There may be attributes that negatively impact the score.

## Relative Weighting of Environmental and Social Impacts

Because the primary impact of education bonds is social, the S score is weighted more heavily.

## Negative Influences on ESG Scores

Controversies must be significant and directly relate to bond-financed activities, or in limited cases, relate to the issuer. A school district in receivership is an example where the scoring could be negatively impacted, as would accreditation loss. As another example, if a district issues bonds to fund construction of a new school building but the building is never built, the bond scoring could be negatively impacted depending upon the reason for the project cancellation.

## Green or Social Designation Eligibility

- Green: 100% of proceeds go to ICMA Green Bond eligible activities.
- Social: 100% of proceeds go to public school education and no schools that receive funding are in receivership.
- Sustainability: 100% of proceeds go to ICMA Green and Social eligible activities.

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### About

Kestrel provides ESG Impact Data and verification services designed to bring greater transparency and insight to fixed income, helping to set the market standard for sustainable finance.

We are a team of environmental and social scientists, engineers, and finance professionals with deep, nuanced understandings of how state and local governments finance and deliver public projects. We understand the complex activities and infrastructure financed with municipal bonds and provide meaningful, material insights on their ESG characteristics with our innovative data offering.

We are also a leading provider of external reviews for green, social and sustainability bond transactions in US public finance, consistently garnering over 60% of the market share by par and by number of reviews. We are qualified to evaluate corporate and municipal bonds in all asset classes worldwide for conformance with international green and social bond standards.

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