kestrel

# Sustainability Intelligence™

## Methodology



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# 1. INTRODUCTION

In today's market, identifying sustainability and resilience attributes in municipal bonds remains challenging. The idiosyncrasies of the municipal bond market, with its lack of standardization and regional differences, coupled with the sheer diversity of bond issuers and financed infrastructure and activities, make identifying and evaluating sustainability, resilience and impact attributes especially complex.

Some data providers approach these challenges by focusing on bond issuers. However, we believe that the true impact and long-term performance of the investment are best understood by considering material sustainability characteristics of the bond-financed activities.

# 2. METHODOLOGY OVERVIEW

## 2.1. Objective

Our view is that what is material to E, S and T (transparency) is best defined at the sub-sector level. We evaluate bond-financed activities through the lens of environmental and social science, deepened by a practitioner's understanding of real-world operationally feasible best practices and regulatory frameworks that apply to municipal issuers.

Through Kestrel's Sustainability Intelligence™, we provide key insights on value and risk to help market participants make more informed decisions and execute faster.

## 2.2. Our Approach

Kestrel believes that sector-specific best practices for E and S factor into long-term positive financial and operational performance and help mitigate physical, transition and societal risks associated with climate change. Credits that incorporate best practices will ultimately outperform ones that don't. Climate change poses an immediate threat to physical infrastructure and operations, and following scientifically identified sector-specific best practices helps mitigate the risks. Kestrel's Sustainability Intelligence reveals how well financed activities align with the transition to a low-carbon economy, evaluate the impact on the environment and society, and assess the preparedness to function in a changing climate.

At the core of our approach is a fundamental commitment to science, independence, and serving the market. Efficient markets require participants to have all available information, and we recognize that this information must be easy to integrate into workflows. We collaborate with top asset managers to design and build Sustainability Intelligence products that provide truly meaningful insights on sustainability, transition alignment, resilience, and impact to enable faster, more informed decision-making.

## 2.3. Key Features

- Our **numeric Sustainability Scores**—Environmental (E), Social (S), Transparency (T), and Composite Score—provide an industry benchmark. Using a scale of 1-5, high scores reflect exemplary bonds with positive impacts and presence of sustainability and resilience features.
- Our **Sustainability Analysis** identifies the key drivers of each numeric score. These drivers are sub-sector-specific and support thematic strategies.
- Our **Use of Proceeds Analysis** is a helpful summary of what exactly is being financed and what is material to sustainability, impact and resilience. This is an original assessment from subject matter experts, tailored to US public finance at the sub-sector level, using one of our 100+ evaluation pathways for a taxonomy of 160+ sub-sectors.

Additional analyses offer detailed information on the bond-financed activities to support thematic and exclusionary strategies.

All fields in Kestrel Sustainability Intelligence are described in Section 4. The methodology behind these fields is described in more detail in Sections 3 and 5.

## 2.4. What Sets Us Apart

- Our Sustainability Intelligence is 100% original and independently developed.
- Our innovative approach leverages deep understandings of complex uses of proceeds, and state and local government regulatory and governance frameworks, to provide transparency at the series level.
- Kestrel reveals if bond-financed activities are aligned with sector-specific best practices to address greenhouse gas emissions, sustainability, impact and resilience.
- Our coverage extends to municipal bonds in primary and secondary markets.
- We follow a robust and transparent methodology and summarize our findings in original, easy-to-understand Sustainability Intelligence that is both qualitative and quantitative. Our methodology is grounded in science-based international standards, summarized in our Sustainable Finance Principles.
- Kestrel analysts, who are environmental and social scientists or engineers, perform detailed reviews of bonds at the series level to understand exactly how bond proceeds will be used. We efficiently navigate the complex plans and policies that motivate bond-financed activities, and illuminate connections between infrastructure, target populations, sustainability plans and climate action.
- Our Sustainability Intelligence is backed by the quality and integrity we have established in more than 24 years as an industry leader in sustainability and municipal finance. Kestrel is the market leader for Second Party Opinions on Green, Social and Sustainability Bonds in the US municipal market. This allows us to engage with issuers, stay abreast of emerging best practices and perform deep research.

## 3. METHODOLOGY FOUNDATIONS

### 3.1. Sustainable Finance Principles

Kestrel's methodology is centered around five Sustainable Finance Principles. These offer a science-based approach to interpreting sustainability, impact and resilience in the context of municipal activities and infrastructure.

**E**

**Transition to a decarbonized economy** – In every sector, there are immediate ways to decarbonize and best practices to reduce greenhouse gas emissions. Kestrel reveals the presence or absence of these best practices which indicate if investments are transition-aligned.

**Integrate resilient and sustainable design features** – Infrastructure should be designed for resilience to diverse physical risks. Energy-efficient buildings are key to a low-carbon future.

**Preserve, enhance, or restore natural capital** – The UN has declared a biodiversity state of emergency. Depletion and lack of stewardship of water, soil, air, plants, and animals is widespread and intimately linked to the changing climate. Ecosystem services, food security, human health, and community well-being all hinge on sound and restorative management of natural resources.

**S**

**Promote a more equitable society and a just transition** – Inequalities are present in many forms in the US and will continue to incite hardships and division without attention to equity when activities are prioritized for financing. A more equitable society is conducive to a well-functioning and sustainable economy.

**G**

**Disclose activities, impacts and risks** – Transparency ensures accountability to constituents and investors alike. Adequate disclosure regarding financed activities is essential to understanding and pricing risk.

Our approach is shaped by studies, plans, initiatives and international standards, including the following primary sources:

- The United States of America nationally determined contribution (NDC) in line with Article 4 of the Paris Agreement[1], as established prior to US withdrawing from the Agreement Effective January 2026.
- Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report[2]
- Project Drawdown Framework for Climate Solutions[3]
- United Nations Sustainable Development Goals

[1] "Nationally Determined Contribution - Reducing Greenhouse Gases in the United States: A 2030 Emissions Target," US Government, April 21, 2021, https://unfccc.int/sites/default/files/NDC/2022-06/United States NDC April 21 2021 Final.pdf.
[2] "Climate Change 2022: Mitigation of Climate Change," Working Group III contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC), April 4, 2022, https://www.ipcc.ch/report/ar6/wg3/.
[3] https://drawdown.org/

- United Nations Environment Program Finance Initiative
- Financial Stability Board's Task-Force on Climate-related Financial Disclosures[4]
- Science-based Targets Initiative
- International Capital Market Association (ICMA) Green Bond Principles and Social Bond Principles
- Climate Bonds Initiative Standard and Certification Scheme
- *Envision* sustainable design protocols established by the American Society of Civil Engineers and the Institute for Sustainable Infrastructure at Harvard University

Sustainability Intelligence does not use any information disclosed as part of EU Sustainable Finance Disclosure Regulation (EU) 2019/2088 or the EU Accounting Directive 2013/34.

### 3.2. Taxonomy

Our proprietary classification system includes sector and sub-sector criteria for the wide range of industries and activities financed in the municipal market. This includes traditional industries such as water, transportation and housing, as well as developing industries such as community choice aggregation and microgrids. We examined many taxonomies in use by other data providers and aimed to be as consistent as possible with these, while also incorporating our nuanced understanding of real-world activities in each sector. For most sectors of the market, Kestrel has defined multiple sub-sectors in order to reflect the full range of potential activities. In total, the Kestrel Taxonomy has over 160 sub-sectors, and more than 100 specific evaluation pathways to address these.

### 3.3. Evaluation Pathways

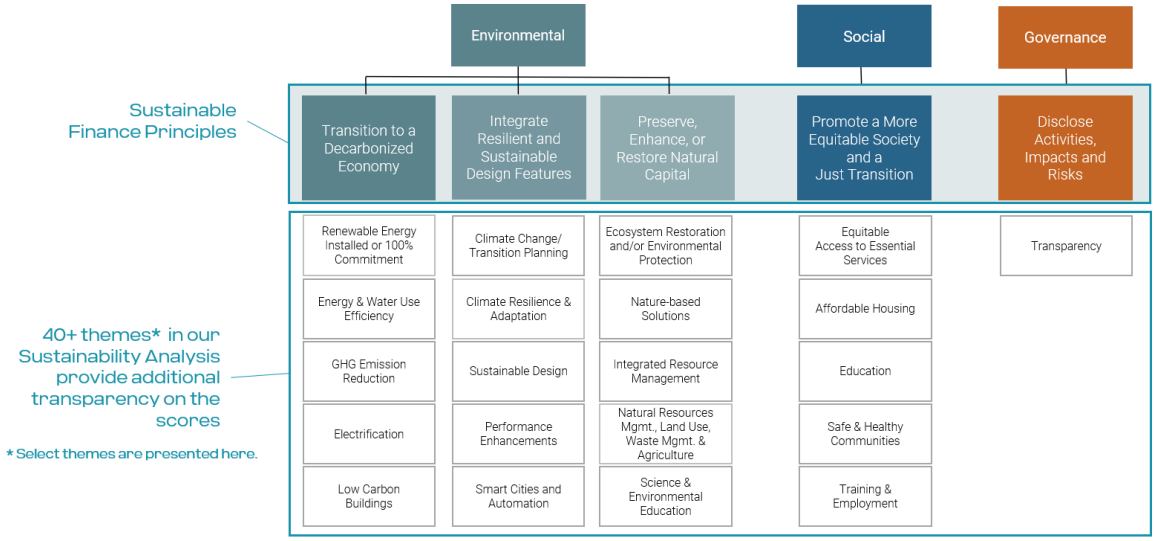
Evaluation pathways for producing Kestrel's Sustainability Intelligence are based on the best practices in each sector that advance the Sustainable Finance Principles, while also taking into consideration the legal and regulatory frameworks that issuers operate within. When we review bonds, we identify whether operationally feasible sector-specific best practices are present in bond-financed activities. We call these best practices "material factors" and they reflect the sustainability, impact and resilience profile of the bond that could lead to superior long-term performance, and progress toward the five Sustainable Finance Principles.

The sector- and sub-sector-specific material factors we consider are a result of deep understandings we've formed from over 20 years of consulting with state and local governments on sustainable infrastructure, and best practices for transition-alignment, resilience and social equity. Our methodology reflects the understanding that the potential for positive environmental and social impact can vary greatly depending on the sector and sub-sector. For example, within the Education sector, our method for examining K-12 education bonds is markedly different from the method for colleges and universities.

[4] Subsequently integrated into the International Sustainability Standards Board (ISSB) standards

### 3.4. Sustainability Themes

Sector-specific best practices for sustainability ("material factors") are grouped into themes ("Sustainability Themes"), such as *Electrification*, *Climate Change/Transition Planning*, and *Safe and Healthy Communities*. These Sustainability Themes communicate the key drivers of each numeric score and alignment to the Sustainable Finance Principles.




## 4. KESTREL ANALYSIS AND SCORES

In this section, we provide a description for each data field in Kestrel Sustainability Intelligence.

### 4.1. Analysis

#### 4.1.1. Use of Proceeds Analysis (Including Resilience Features)

The Use of Proceeds Analysis is a summary of Kestrel findings, including key bond-financed activities and their material sustainability and impact attributes, as well as climate resilience strategies – actions being taken that reduce exposure to physical and/or transition risks.

This is an original analysis, prepared by human Kestrel analysts.

#### 4.1.2. Sources of Repayment Analysis

Kestrel assesses the funding sources for bond repayment and identifies these as "Generally Acceptable" or a "Possible Flashpoint." Possible flashpoints identify red flags or possible friction points for certain investors and investment strategies. Sources of repayment do not affect scoring.

Sources of repayment classifications are presented below.

Generally Acceptable Sources

These revenue sources are derived from taxes and fees from the activities listed below and are identified as "Generally Acceptable" by Kestrel.

- 501(c)(3) - Other
- Airport
- Broadband
- Corporate - Non-Utility
- Electric Utility
- Federal Grants/Loans
- General Obligation
- Hospital
- Independent Schools
- Lease Revenues
- Life Plan Communities/Continuing Care Retirement Communities
- Loan Receipts
- Mortgages
- Nuclear
- Parking
- Port
- Public Transit
- Research Institutes
- Skilled Nursing/Nursing Home
- Solid Waste
- State Appropriations
- Student Loans
- Tax Revenues
- Tolls/Turnpike Revenues
- University/College
- Vehicle Registration Fees
- Water/Sewer

Possible Flashpoint Sources

These revenue sources could be viewed as potentially controversial by certain investors. A revenue source may be considered a "flashpoint" by broadly accepted social, environmental, or moral standards, and/or may include mixed sources where a portion of repayments may be sourced from flashpoint enterprises.

- Alcohol/Liquor
- Cannabis
- Casinos
- Correctional
- Fuel
- Gas Utility
- Certain Lease Revenues
- Lottery
- Oil, Coal, Gas
- Tobacco

### 4.1.3. Sustainability Analysis

The Sustainability Analysis fields identify key drivers of the scores.

**Environmental Sustainability Themes** include but are not limited to:

Airside Impacts
Business as Usual
Business as Usual - Conventional Building
Business as Usual - Conventional Design
Carbon-Free Energy
Circular Economy
Climate Change / Transition Planning
Climate Resilience & Adaptation
Crude Oil Pipeline
Decommissioned Fossil Fuel Energy
Ecosystem Restoration and/or Environmental Protection
Electrification
Energy & Water Use Efficiency
Fossil Fuel Terminal
Fuel Source
GHG Emission Reduction
Hydrogen-Ready
Impacts of Dredging and Filling
Impacts of New or Expanded Dams
Impacts of Ports
Impacts of Roads
Integrated Resource Management
Low Carbon Buildings
Natural Resources Management, Land Use, Waste Management, and/or Agriculture
Nature-Based Solutions
Neutral Activity
Performance Enhancements
Preservation of Open Space
Renewable Energy Installed or 100% Commitment
Science & Environmental Education
Smart Cities and Automation
Some Green Building Features or Some Low Carbon Buildings
Sustainable Design

**Social Sustainability Themes** include but are not limited to:

- Access to Healthcare
- Affordable Housing
- Biocultural Advancement or Preservation
- Business as Usual
- Education
- Equitable Access to Essential Services
- Impacts of Casinos
- Innovative Care Model
- Lead Water Line Removals
- Neutral
- Pollution Prevention Outreach
- Preschool/Early Childhood Education
- Restricted Access to Healthcare
- Retirement
- Safe & Healthy Communities
- Toll - Restricted Access
- Training & Employment
- Transit-Oriented Development

**Transparency Sustainability Themes** include but are not limited to:

- Transparency

### 4.1.4. United Nations Sustainable Development Goals

Kestrel examines how each bond aligns with the 17 Goals and 169 Targets defined by the United Nations Sustainable Development Goals (SDGs).

Kestrel maps the impact of each bond to the Target level to provide specific insights and transparency about the environmental and social benefits of the intended use of proceeds.

### 4.1.5. Green, Social or Sustainability Bond Eligibility

Kestrel reveals unlabeled but eligible Green, Social or Sustainability Bonds. Each scored bond is reviewed for eligibility for a Green, Social, or Sustainability Bond designation under the ICMA Green Bond Principles, Social Bond Principles, or Sustainability Bond Guidelines.

As per our analysis, approximately 60% of unlabeled municipal bonds are eligible for Green, Social or Sustainability Bond designation under the ICMA principles.

### 4.1.6. Controversy Check on Green, Social or Sustainability Bond Eligibility

If the bond is eligible for ICMA Green, Social, or Sustainability Bond designation, we perform an additional controversy check to identify if Kestrel—the muni market leader for verification—has any reservations. If so, we provide our justification (potential controversy, benefits uncertain, performance uncertain, etc.).

#### 4.1.7. Climate Risk Disclosure Assessment

We search the official statement for keywords such as “climate change” or “climate” or "climate risk" and provide "Yes", "No" or "Not Discernible" in this field. "Not Discernible" appears when the official statement is not searchable.

This is summarized in our Climate Risk Disclosure score on a scale of 1 to 3.

| Score | Definition |
|---|---|
| 1 | The words "climate change" or "climate risk" or “climate” do not explicitly appear in the official statement or do not appear in a relevant context |
| 2 | Potential climate change-related risks are mentioned in passing |
| 3 | Climate change-related risks discussed in general or issuer-specific terms |

The Climate Risk Disclosure score is separate from the Sustainability Scores and does not contribute to the Composite Score.

#### 4.1.8. Green Building and Sustainability Certifications

We identify more than a dozen national or regional green building and sustainable infrastructure certifications when they apply to bond-financed activities.

When some financed projects are built to a green standard, but not all, we provide a ‘Yes’ in the ‘Partial Certification’ field.

### 4.2. Sustainability Scores

#### 4.2.1. Environmental (E) Score

The E score is a numeric score on a scale of one (1) to five (5), where high scores reflect exemplary bonds with sustainability best practices, positive impacts and presence of climate risk mitigants.

The E score reflects the presence or absence of attributes detected in our review that support these Sustainable Finance Principles:

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

Bonds that are strongly positive include activities that may directly or indirectly reduce greenhouse gas emissions, incorporate renewable energy or include sustainable design features, for example. Some climate risk mitigants, such as resilient design, are also assessed as part of the E score.

Kestrel’s approach to the environmental score is informed by the International Capital Market Association (ICMA) Green Bond Principles, the Climate Bonds

Initiative Climate Bonds Standard, and the American Society of Civil Engineers *Envision* sustainable design protocols, in addition to other research.

Evaluation pathways are sub-sector specific. Appendix B provides examples of how we approach complex sub-sectors like K-12 Education and Wastewater.

We see the following distribution of E scores across our published municipal universe:

| E Score | Definition | Percentage[5] |
|---|---|---|
| 1 < E < 2 | Significant negative impact on the environment | <1% |
| 2 < E < 3 | Some negative impact on the environment | ~24.6% |
| 3 < E < 4 | Baseline (business as usual) | ~45% |
| 4 < E < 5 | • Drives progress toward Kestrel's 3 environmental Sustainable Finance Principles<br>• Has some positive environmental impact<br>• Follows certain sector-specific operationally feasible best practices<br>• Some risk mitigants may be present | ~17% |
| E = 5 | • Drives progress toward Kestrel's 3 environmental Sustainable Finance Principles<br>• Has exceptional positive environmental impact<br>• Follows sector-specific operationally feasible best practices<br>• Evident risk mitigation | ~13% |

### 4.2.2. Social (S) Score

The S score is a numeric score on a scale of one (1) to five (5), where high scores reflect exemplary bonds with positive impacts and presence of climate risk mitigants related to promoting a just transition.

A bond's social score (S score) reflects the presence or absence of attributes that indicate alignment with the Principle of *promoting a more equitable society and a just transition*.

A more equitable society is essential for a well-functioning economy. We look for sector-specific best practices, as defined in our sector-specific evaluation pathways, that foster improved access to essential services, affordable housing and/or socioeconomic empowerment. In assessing the social benefit

[5] Percentages based on Kestrel's published municipal universe as of July 2023.

characteristics, we consider the primary purpose of the bond-financed activity as well as the population it serves.

We assess the potential benefit of the financed activities for target populations as defined by ICMA Social Bond Principles which includes the following groups:

- Living below the poverty line
- Excluded, historically disinvested, and/or marginalized populations and/or communities
- Persons with disabilities
- Migrants and/or displaced persons
- Undereducated people
- Underserved, owing to a lack of quality access to essential goods and services
- Unemployed people
- Women and/or sexual and gender minorities
- Aging populations and vulnerable youth
- Other vulnerable groups, including as a result of natural disasters
- Kestrel considers rural communities in the United States to be a target population.

Evaluation paths are sub-sector specific. Appendix B provides examples of how we approach complex sub-sectors like K-12 Education and Wastewater.

We see the following distribution of S scores across our published municipal universe:

| S Score | Definition | Percentage[6] |
|---|---|---|
| 1 < S < 2 | Significant negative impact on society | <1% |
| 2 < S < 3 | Some negative impact on society | <1% |
| 3 < S < 4 | Baseline (business as usual) | ~37% |
| 4 < S < 5 | • Drives progress toward Kestrel's 1 social Sustainable Finance Principle<br>• Has some positive social impact<br>• Follows certain sector-specific operationally feasible best practices<br>• Some risk mitigants may be present | ~24% |
| S = 5 | • Drives progress toward Kestrel's 1 social Sustainable Finance Principle<br>• Has exceptional positive social impact<br>• Follows sector-specific operationally feasible best practices<br>• Evident risk mitigation | ~36% |

[6] Percentages based on Kestrel's published municipal universe as of July 2023.

### 4.2.3. Transparency (T) Score

The T score is a numeric score on a scale of one (1) to five (5), where high scores reflect exemplary transparency and disclosure when it comes to the bond-financed activities.

A bond's transparency score (T score) is a score on transparency (only) and reflects alignment with the Sustainable Finance Principle of *disclosing activities, impacts and risks*. We assess the degree to which the issuer has made information about bond-financed activities readily available. This score also reflects Kestrel's degree of confidence on the E score and S score.

In assigning the T score, Kestrel is not limited to the Official Statement. Analysts utilize a variety of publicly available documents.

We see the following distribution of T scores across our published municipal universe:

| G Score | Definition | Percentage[7] |
|---|---|---|
| G=1 | Project sector unknown, missing OSs to evaluate | <1% |
| G=2 | Only sector readily available, no project detail defined | ~1% |
| G=3 | Project vaguely or partially defined | ~26% |
| G=4 | Budget not included, project defined; Budget included, project not defined | ~57% |
| G = 5 | Budget included, project defined | ~16% |

### 4.2.4. Composite Score

The Composite Score is a numeric score on a scale of one (1) to five (5), where high scores reflect exemplary bonds with positive impacts, presence of resilience, and a high level of transparency.

The Composite Score is the weighted sum of the E, S and T scores. This score puts the bond's sustainability, impact and resilience characteristics in a broader market context allowing for benchmarking and comparison among different sectors.

[7] Percentages based on Kestrel's published municipal universe as of July 2023.

## 5. HOW KESTREL APPLIES THIS METHODOLOGY

In this section, we describe how we implement our methodology to produce Kestrel Sustainability Intelligence.

### 5.1. Sector Mapping and Evaluation Pathway Selection

First, the bond-financed activity (e.g., project) is mapped to a sector (e.g., Education) and sub-sector (e.g., K-12 Education) within our Taxonomy.

When bond-financed activities span multiple sectors or sub-sectors, we utilize "parallel scoring," and aggregate scores for each sub-sector. The order of sub-sector selection does not reflect the relative allocation of proceeds.

Our proprietary software guides analysts through the appropriate sub-sector-specific evaluation pathway(s).

### 5.2. Evaluating the Bond-Financed Activities

Once the appropriate evaluation pathway is selected, Kestrel's proprietary software guides analysts through a detailed evaluation of the bond-financed activities.

#### 5.2.1. Use of Proceeds Analysis

Following the selected evaluation pathway, analysts perform a detailed assessment of the use(s) of bond proceeds. Research includes a review of the offering documents, publicly available information from the issuer and other reputable sources, and our own independent research.

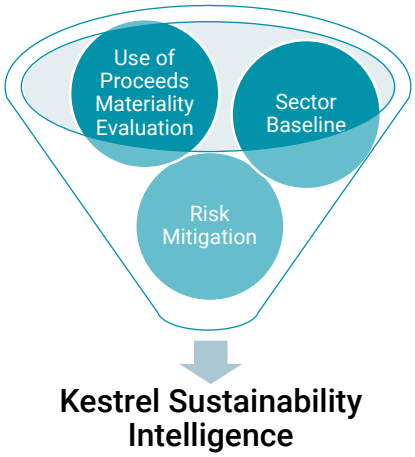
This analysis also includes information which **informs risk evaluations**:

- For **transition risk**, we are examining how well the financed activities address the transition to a low-carbon economy. We identify net-zero aligned uses of proceeds, to support climate-aligned investment strategies.
- For physical **climate risk**, we are assessing the level of climate risk disclosures provided in the offering documents. The Climate Risk Disclosure score is presented as a separate data field, and is not factored into the E, S and T scores or the Composite Score.
- We also provide **resilience insights** by identifying implemented strategies that reduce exposure to climate risks, i.e., physical climate risks and/or transition risks. Municipal bonds finance the infrastructure of the US, and bonds' long-term performance is tied to the stability and preparedness of the underlying infrastructure to withstand impacts of climate change. Planning for resilience in infrastructure can reduce liabilities to state and local governments and extend the lifespan of the asset. Lack of appropriate risk mitigation could lead to stranded assets or early asset retirement, operational disruptions, increased

maintenance expenses, increased insurance costs, credit risk and more. Similarly, on the social side, access to education, essential services, affordable housing, and employment opportunities helps address inequities in society and reduces societal risks. Example risk mitigants are provided in Appendix A.

A key result of this analysis is our **Use of Proceeds Analysis**, which summarizes what's being funded, what's material in terms of sustainability, and what risk mitigants, if any, are present. This is an original analysis, prepared by human Kestrel analysts.

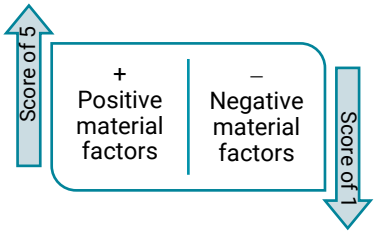
A second result of this analysis is identification of the key sustainability features. These material factors will contribute to the **Scores** as well as the **Sustainability Analysis**, as described in more detail above.




### 5.2.2. Determination of Sustainability Scores

Material factors identified in the above analysis are utilized in scoring calculations.

For E and S scores, each sector or sub-sector has a baseline score which increases or decreases based on the presence of positive or negative material factors, respectively. Positive material factors represent sector-specific best practices.




Following this approach, each bond receives an environmental, social and governance score, each on a one (1) to five (5) scale. Scores are absolute rather than relative. They are determined based on defined criteria ("evaluation pathways") and a standardized scoring scale. A score does not depend on how other bonds perform.

E, S and T scores may be compared *within* a sector using the raw scores. For example, Sustainability Scores of *Hospital Bond A* can be directly compared to those of *Hospital Bond B*. To compare across *different* sectors, we use a Composite Score which puts the bond's sustainability and resilience characteristics in a broader market context. This allows, for example, comparison of a hospital bond to a school bond.

#### 5.2.2.1. Composite Score

The Composite Score is the weighted sum of E, S and T scores. This numeric score on a scale of one (1) to five (5) puts the sustainability characteristics in a broader market context, allowing for comparison within and across sectors.

As shown in the table below, environmental and social scores are weighted differently based on the municipal sector, whereas the transparency weight is consistent across all sectors.

**Example Weights Across Different Sectors**

| Sector | E | S | G |
|---|---|---|---|
| A | 30% | 50% | 20% |
| B | 45% | 35% | 20% |
| C | 40% | 40% | 20% |
| D | 55% | 25% | 20% |

Weighting is assigned based on where the sector has the greatest opportunity for impact, and is founded in academic research and industry knowledge. For example, since the transportation sector contributes more than 25% of all US greenhouse gas emissions[8], and a sustainable future requires decarbonization of our transportation system, Kestrel weighs the environmental score for transportation bonds more heavily than the social score.

As another example, in the Wastewater (Sewer) sector, the weighting considers the robust regulatory frameworks in which US state and local governments must operate, as well as the understanding that access to basic sanitation is nearly universal in the US, with several notable exceptions. In this context, Kestrel generally views the Wastewater sector as having a greater environmental benefit than social benefit. By over-weighting the environmental score, the Composite Score for these bonds will

[8] "Fast Facts on Transportation Greenhouse Gas Emissions," United States Environmental Protection Agency, May 2022, https://www.epa.gov/greenvehicles/fast-facts-transportation-greenhouse-gas-emissions.

clearly highlight the strong environmental benefit of sewer projects.

As another example, in the Education sector we prioritize the social benefit with a higher weight (S score), whereas in the power (electric utility) sector, the environmental score is given priority.

Lastly, weighting does not inherently prioritize certain sectors. The quantitative or qualitative impact of a bond depends on many factors, including the sector, size, and local context. For example, while public schools provide social benefit by ensuring equitable access to education, a bond that finances reconstruction of a bridge in need of critical repairs also provides strong social benefits by protecting public safety.

We see the following distribution of Composite Scores across our published municipal universe:

| Composite Score | Definition | Percentage[9] |
|---|---|---|
| 1 < Total < 2 | Significant negative impact on the environment and society | <1% |
| 2 < Total < 3 | Some negative impact on the environment and society | <1% |
| 3 < Total < 4 | Baseline (business as usual) | ~49% |
| 4 < Total < 5 | • Drives progress toward Kestrel's Sustainable Finance Principles<br>• Has some positive environmental and social impact<br>• Follows certain sector-specific operationally feasible best practices<br>• Some risk mitigants may be present | ~45% |
| Total = 5 | • Drives progress towards Kestrel's Sustainable Finance Principles<br>• Has exceptional positive environmental and social impact<br>• Follows sector-specific operationally feasible best practices<br>• Evident risk mitigation | <1% |

[9] Percentages based on Kestrel's published municipal universe as of July 2023.

## 5.1. Complexities We Address / Special Situations

Some bonds may refund prior bonds. We assess the sustainability characteristics in what was originally financed, as well as the new money, and all activities are reflected in the data. Many bonds contain multiple refundings. In these cases, we review at least three offering documents for refunded bonds and a significant enough portion of the refunding to accurately capture uses of proceeds and score the bond.

## 5.2. Validity Period and Time Horizon

Sustainability Intelligence data fields reflect sustainability and resilience characteristics of bond-financed activities and do not have an expiration. If infrastructure projects have already been completed, the information is historical. If infrastructure projects have not been completed or activities are still ongoing, the information provided is forward-looking. Data fields include a Published Date indicating the date of last review and update of the analysis. Analysis results are valid as of the Published Date.

## 5.3. Key Rating Assumptions

Production of Kestrel Sustainability Intelligence is based on underlying assumptions which dictate how the methodology is applied. The methodology assumes that sustainability and resilience performance can be evaluated using defined, evidence-based criteria, while recognizing that relevant material factors vary by sub-sector. Assessments are informed by publicly available documentation and data, and subject to limitations in completeness and reliability. More detail on assumptions is provided below.

- **Sector Materiality** – The relevance of sustainability and resilience factors varies across sectors and therefore Kestrel applies sub-sector specific evaluation pathways. Scores from 1–5 represent comparable levels of sustainability and resilience performance across sectors.

- **Evidence-based Assessment** – Our analysis and resultant scores are based on available, credible information and documented evidence. Analysis results reflect the information available to analysts as of the date of publication. The transparency (T) score allows users to quantify this assumption.

- **Missing Information** – Unavailability of information is reflected in the transparency (T) score. Missing information is treated as neutral for Environmental (E) and Social (S) Scores. Lack of information does not trigger use of extrapolation or estimation models. The Use of Proceeds Analysis provides a summary of available information and results from the analysis for data users.

## 5.4. Data Sources

Kestrel Sustainability Intelligence is developed through independent analysis of relevant information, with an emphasis on reliable, verifiable primary sources. Analysts with expertise in environmental science, social science, engineering, and related disciplines evaluate information according to established sector-specific criteria.

Primary sources typically include bond offering documents, regulatory filings, issuer disclosures, financial and capital planning documents, and other publicly available records relevant to the financed activities.

Analysts evaluate the relevance, reliability, and completeness of available information related to the bond-financed activities. Kestrel does not estimate or extrapolate missing information. Where reliable information is unavailable, there is a neutral effect on the analysis.

## 5.5. Ensuring Data Integrity

Kestrel uses multiple tools to ensure data integrity.

- **Proprietary Software** - Our proprietary software enables Kestrel analysts to conduct fast, consistent, and robust bond reviews.
- **Analyst Training** - A repeatable, objective, and reliable process begins with comprehensive training for each analyst. Training is designed to maintain efficiency, reduce subjectivity and produce replicable results.
- **Methodology** - Our methodology is rule-based, systematic, and provides a transparent approach to scoring. Analysts follow detailed standard operating procedures. Our proprietary software and guidance documents ensure consistency of reviews across analysts.
- **Quality Assurance and Quality Control** – Kestrel Sustainability Intelligence is reviewed in daily committee meetings to reconcile outstanding concerns and address discrepancies. Auditor-analysts review scored bonds for consistency within and across sectors. We perform rigorous data tracing and archiving to maintain a strong audit trail.

## 5.6. Consistent and Replicable Scoring

We adhere to a comprehensive set of best practices designed to remove bias, ensure checks and balances, and provide consistency in our Sustainability Intelligence. Our analysts follow strict procedures, guided by our proprietary software to ensure consistency and independence. Our robust quality assurance and quality control procedures employ both automated methods within our software as well as auditor and committee reviews to ensure data integrity. We have a daily committee meeting to review Sustainability Intelligence for primary market bonds.

## 5.7. Artificial Intelligence

Kestrel Sustainability Intelligence is produced and validated by human analysts. Artificial intelligence (AI) tools may be used to validate research results or augment analysis performed by an analyst in accordance with this methodology and the relevant evaluation pathway. No component of the methodology for Sustainability Intelligence is wholly completed by an independent AI.

## 5.8. Ownership Structure and Conflicts of Interest

Kestrel 360, Inc. (Kestrel) is a privately held Delaware C corporation. Kestrel is a single entity, and no parent or subsidiary companies are tied to Kestrel 360, Inc. Kestrel identifies, prevents, manages and documents actual and potential conflicts that could compromise, or reasonably appear to compromise, the objectivity of analysis and scores. Established controls address potential conflicts of interest related to commercial relationships, compensation, and activities of personnel and senior management.

## 5.9. Criteria for Establishing Client Fees

Kestrel 360, Inc. operates a subscriber-pays business model for its standard Sustainability Intelligence ratings and associated data services. Kestrel does not charge municipal bond issuers for the analysis and scoring of their bonds as part of its standard Sustainability Intelligence offering.

Subscribers include investment managers, institutional investors, asset owners (including insurance companies), and financial data platforms.

Kestrel charges annual subscription fees using a tiered pricing structure. Fees are determined primarily by the subscriber's municipal bond assets under management (AUM) and the intended use of Kestrel's Sustainability Intelligence products and data.

Separately, municipal bond issuers may engage Kestrel for transaction-specific services, including Second Party Opinions. These services are distinct from Kestrel's standard Sustainability Intelligence subscription offering and may involve issuer-paid fees.

Fees for these services do not determine or influence Kestrel's Sustainability Intelligence ratings, scores, or analytical conclusions. Subscribers and issuers cannot purchase or influence a particular rating outcome.

# Appendix A.
## EXAMPLE RISK MITIGANTS

While there are various data providers that focus on physical risk, Kestrel provides insights into issuer and bond-financed activities that help mitigate these risks. Bonds that finance infrastructure with these risk mitigants could outperform the ones that don't. Here are few examples of risk mitigants in specific bond issuances:

- **State of Oregon, Revenue Bonds (68607V4H5)** – Financed projects include wildfire housing recovery needs by reconstructing and **replacing damaged homes with disaster-resilient housing,** particularly for low- and moderate-income persons and the under- or uninsured.
- **Board of Education of Ogden City School District, Utah (676295GD4)** – Finances the renovation of Polk Elementary **to address seismic risks**, including a complete structural and systems update.
- **County of Palm Beach, FL (696543WZ6)** – Projects include, but are not limited to, **equipping County facilities with generators and hardening building envelopes to provide resilience to storm events. Facilities are prioritized by outages that pose a safety risk to occupants, have sheltering capabilities, and support government operations and public services.**
- **NJ Housing and Mortgage Finance Agency (646108T91)** – The property rehabilitation will include new ADA-compliant apartments, **as well as sustainable and flood-resilient design,** solar panels, energy-efficient appliances, an emergency generator, a potable water storage tank, and charging stations for necessary equipment such as oxygen machines **to be used in weather-related emergencies**.
- **Hampton Roads Transportation Accountability Commission, VA (409328AW1)**– The new bridges will be eight-lane superstructures constructed seven to ten feet higher than the previous bridges **to accommodate future sea level rise,** and the highways serve as **coastal evacuation routes**.

When present, risk mitigants are provided in our **Use of Proceeds Analysis** and in many cases, they also appear in the **Sustainability Themes**.

# Appendix B.
## METHODOLOGY UPDATES & VERSIONING

Version 1.6 – October 2026

Version 1.5 – March 2025

Version 1.4 – February 2025

Version 1.3 – August 2023

Version 1.2 – February 2022

Version 1.1 – December 2021

Version 1.0 – March 2021

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## ABOUT KESTREL

Kestrel is an Infrastructure Finance Intelligence company that transforms fragmented infrastructure and financial disclosures into structured, decision-useful intelligence. We evaluate transactions in public and private markets, providing trusted analysis and benchmarks that make complex information easier to compare and understand.

Kestrel provides Second Party Opinions, Sustainability Intelligence™, and related reporting services. Covering more than 17,000 municipal bond series representing over $3.3 trillion in par value, Kestrel supports investors, issuers, underwriters, and other market participants with independent analysis to improve transparency, comparability, and insight.

Kestrel is a certified Women's Business Enterprise.

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