

CalSTRS

VERIFICATION LETTER FOR THE CLIMATE BONDS STANDARD – Low Carbon Buildings

Borrowing entity: California State Teachers' Retirement System

Bond: California Infrastructure and Economic Development Bank Lease Revenue Bonds (California State Teachers' Retirement System Headquarters Expansion), Series 2019 (Green Bonds – Climate Bond Certified)

Type of engagement: Post-Issuance Verification Report

Period engagement was carried out: 11/12/2020 through 12/30/2020

Approved Verifier: Kestrel Verifiers

Contact address for engagement: Kestrel Verifiers, 2700 Wells Drive, Hood River, OR 97031 USA

Engagement team leader: April Strid, april@kestrel-inc.com, +1 503.860.1125

Scope and Objectives

In December 2019, California State Teachers' Retirement System ("Borrower" or "CalSTRS") through California Infrastructure and Economic Development Bank (the "Issuer" or "IBank") issued California Infrastructure and Economic Development Bank Lease Revenue Bonds (California State Teachers' Retirement System Headquarters Expansion), Series 2019 (Green Bonds –Climate Bond Certified) ("Series 2019 Green Bonds") in order to finance the Headquarters Expansion Project. The bonds were certified by the Climate Bonds Initiative (CBI) Standard Board in 2019. The Climate Bonds Standard requires a Post-Issuance Verification Report within 24 months of bond issuance. CalSTRS engaged Kestrel Verifiers in December 2020 to review the projects funded by the green bonds and provide an assessment as to whether the projects met the CBI Post-Issuance Requirements.

Issuing Entity's Responsibilities

CalSTRS was responsible for providing detailed information and documents relating to:

- The details of the Nominated Project and the project selection process
- Maintaining adequate records and internal controls designed to support the Climate Bond Issuance process
- The collection, preparation, and presentation of the subject matter in accordance with the criteria

Verifier's Responsibilities

Kestrel Verifiers' responsibilities for confirming this Green Bond's alignment with the Climate Bonds Post-Issuance Certification Requirements include:

- Assess the Issuer's internal processes and controls; including selection process for the project and assets, internal tracking of proceeds, and the allocation system for funds
- Review policies and procedures established by the CalSTRS; including reporting
- Assess the readiness of the CalSTRS and these Green Bonds to conform to the Climate Bonds Standard V2.1¹ and Certification Scheme Sector Criteria for Low Carbon Buildings

Independence and Quality Control

Kestrel Verifiers provides green bonds advisory services for corporate and public finance teams and issuers. For over 20 years, Kestrel has been a trusted advisor to state and local governments, non-profits, and corporations. Kestrel Verifiers certifies that there is no affiliation, involvement, financial or non-financial interest in the issuer or the projects discussed. Accredited as an Approved Verifier by the Climate Bonds Initiative in 2017, Kestrel is qualified to evaluate bonds against the Climate Bonds Initiative Standards and Criteria.

Assurance Approach

Our assurance approach was conducted in accordance with the International Standard on Assurance Engagements (ISAE) 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

¹ Version 3.0 of the Climate Bond Standard was released in December 2019. However, the Series 2019 Green Bonds were certified under Version 2.1 before this release.

Project Overview

The 2019 Bonds are being used to finance construction of a 510,000 sf² energy efficient building (the Headquarters Expansion Project) in West Sacramento, California. The purpose of this project is to expand the existing CalSTRS headquarters building by adding a new, state-of-the-art structure with employee offices, parking, and public amenities. The existing headquarters has had a LEED Platinum certification since 2011 and the expansion is expected to achieve the same robust green building certification.



View of the first office level on the 6th floor from Phase I parking level

Status of Project and Construction Update

The Headquarters Expansion Project is progressing on-schedule. As of November 30, 2020, the project is approximately 29% complete and approximately 29% of the project schedule has elapsed. Excavation was completed and foundation systems have been constructed. Concrete has been poured for lobby levels and parking floors. The estimated project completion date is July 2022.

The project is still expected to receive multiple external green building certifications.

- Initial documentation for LEED review has been submitted. It is anticipated that the project will receive a LEED Platinum certification.
- The WELL Gold certification from the International WELL Being Institute is also anticipated and demonstrates the project's commitment to employee health and wellness. Concepts addressed in the WELL certification include air, water, nourishment, light, movement, thermal comfort, sound, materials, mind, and community.
- The Materials Petal Certification from the International Living Future Institute (ILFI)'s Living Building challenge is progressing as anticipated. Over 3,000 building materials have been researched to date.

There have been no changes to the building design which would affect the eligibility of the project under the Climate Bond Standard Low Carbon Building Criteria.



Parking levels from southwest corner of Waterfront and 3rd streets

The project team has consistently met milestones in the established timeline and the Executive Steering Committee evaluates all project decisions at bi-weekly meetings. Twelve change orders have been processed and the project remains within budget.

CalSTRS continues to mitigate project timeline risks. Maintaining communications with planning and approval agencies has kept all parties aware of construction progress and reduced the risk of issues with building code compliance. Contact agencies include City of West Sacramento, Office of the State Fire Marshal, and the Department of the State Architect. COVID-19 has not significantly affected the project timeline since infrastructure workers were deemed to be essential. The effects of COVID-19 on the supply of construction materials are considered to be low-risk.

Use of Proceeds Status

All bond proceeds (100%) are being used exclusively for the Headquarters Expansion Project, capitalized interest, and costs of issuance. CalSTRS has tracked bond proceeds as required and 30% of the full project budget has been expended. Table 1 displays the status of bond proceeds.

Table 1. Bond proceed status as of November 27, 2020.

Outstanding Bond Proceeds	Market Value	Cost Basis
Capitalized Interest Account		
Fidelity Money Market Fund	\$995.07	\$995.07
U.S. Govt. & Agency Securities	\$33,374,436.35	\$32,977,671.11
Total Bond Proceed Investments	\$33,375,431.42	\$32,978,666.18
Project Fund		
Fidelity Money Market Fund	\$59,136,543.89	\$59,136,543.89
U.S. Govt. & Agency Securities	\$165,879,197.17	\$164,703,548.44
Total Bond Proceed Investments	\$225,015,741.06	\$223,840,092.33
Total Bond Proceed Investments	\$258,391,172.48	\$256,818,758.51

Reporting Status

CalSTRS has posted timely Audited Comprehensive Annual Financial Reports on the Electronic Municipal Market Access system. Additional project information on the Headquarters Expansion Project is available on CalSTRS' website: <https://www.calstrs.com/post/calstrs-expanding>.

Basis of the Opinion

Kestrel Verifiers' responsibility was to conduct a reasonable assurance engagement to determine whether the CalSTRS Series 2019 Green Bonds met, in all material respects, the requirements of the Climate Bonds Standard. Our reasonable assurance was conducted in accordance with the Climate Bonds Standard V2.1.

Reasonable Assurance Engagements offer a high level of scrutiny over the subject matter and allow the Verifier to be able to positively conclude whether, based on the procedures performed and evidence obtained, the subject matter, in all material respects, meets the criteria of the engagement.

Kestrel Verifiers performed the post-issuance engagement by reviewing the bi-monthly CEO Reports provided by the Issuer and reviewing CalSTRS' internal financial documents which tracked proceeds of the Series 2019 Green Bonds. Kestrel followed the process and criteria established by the Climate Bonds Initiative to ensure compliance with procedures and practices. Upon reviewing evidence and other available information, Kestrel Verifiers is of the opinion that the uses of proceeds of CalSTRS's Series 2019 Green Bonds comply with the Climate Bonds Standard requirements.

Sincerely,



April Strid
Kestrel Verifiers
December 30, 2020

DISCLAIMER

This report aims to explain how and why the discussed financing meets Climate Bonds Standard based on the information which was available to us during the time of this engagement (December 2020) only. By providing this opinion, Kestrel Verifiers is not certifying the materiality of the projects financed by the Climate 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 Climate 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 report 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. Kestrel is a US-based certified Women's Business Enterprise.

For more information, visit www.kestrelverifiers.com

Appendix 1. Climate Bonds Standard Version 3.0 Post-Issuance Certification Checklist

5. Use of Proceeds		
Climate Bonds Standard Requirement	Findings	Requirement Met
5.1. The Net Proceeds of the Bond shall be allocated to the Nominated Projects & Assets.	The Issuer confirms that the proceeds have partially been allocated to the Low Carbon Building Project and all proceeds are expected to be allocated to the project.	Yes
5.2. All nominated Projects & Assets shall meet the documented objectives of the Bond as stated under Clause 6.1.1 and shall be in conformance with the requirements of Part C of the Climate Bonds Standard.	The objective of the bond is to finance expansion of the CalSTRS Headquarters and achieve a net zero energy footprint.	Yes
5.3. The Issuer shall allocate the Net Proceeds to Nominated Projects & Assets within 24 months of issuance of the Bond, or the Issuer shall disclose in post-issuance reporting as per clause 8.3 the estimated timeline for allocation of net proceeds to Nominated Projects & Assets. Net proceeds may be reallocated to other Nominated Projects & Assets at any time while the Bond remains outstanding.	Bond proceeds shall only be distributed to the Nominated Project. Project completion is scheduled for 2022.	Yes
5.4. Nominated Projects & Assets shall not be nominated to other Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds, green loans or other labelled instruments (such as social bonds or SDG bonds) unless it is demonstrated by the Issuer that:	The Nominated Project & Assets have not been and will not be nominated to other green debt instruments.	Yes
5.4.1. distinct portions of the Nominated Projects & Assets are being funded by different Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds, green loans or other labelled instruments or;	N/A	N/A
5.4.2. the existing Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument is being refinanced via another Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument.	N/A	N/A

<p>5.5. Where a proportion of the Net Proceeds of the Bond are used for refinancing, the Issuer shall track the share of the Net Proceeds used for financing and refinancing and identify which Nominated Projects & Assets may be refinanced. This may also include the expected look-back period for refinanced Nominated Projects & Assets.</p>	<p>N/A</p>	<p>N/A</p>
<p>5.6 The Net Proceeds of the Bond shall be tracked by the Issuer following a formal internal process which is documented in accordance with Clause 3.1.</p>	<p>Net Proceeds of the bond are tracked internally in an appropriate manner.</p>	<p>Yes</p>
<p>5.7. The Net Proceeds of the Bond shall be no greater than the Issuer's total investment exposure or debt obligation to the Nominated Projects & Assets, or the relevant proportion of the total Market Value of the Nominated Projects & Assets which are owned or financed by the Issuer.</p>	<p>The Issuer has confirmed that the Net Proceeds of the bond shall be no greater than the total investment in the Nominated Project.</p>	<p>Yes</p>
<p>5.8. Additional Nominated Project & Assets may be added to, or used to substitute or replenish, the portfolio of Nominated Project & Assets as long as the additional Nominated Project & Assets are eligible under Part C of the Climate Bonds Standard and are consistent with the Bond's objective as set out in Clause 6.1.1.</p>	<p>The Nominated Project & Asset only consists of the Headquarters Expansion Project.</p>	<p>Yes</p>
<p>5.8.1 .Where additional Nominated Projects & Assets are covered by Sector Eligibility Criteria which were not included in the scope of either the Pre-Issuance Verification or the Post-Issuance Verification engagements, the Issuer shall engage a Verifier to provide a Verifier's Report covering at least the conformance of the additional Nominated Projects & Assets with the relevant Sector Eligibility Criteria under Part C of the Climate Bonds Standard.</p>	<p>N/A</p>	<p>N/A</p>

6. Process for Evaluation and Selection of Projects & Assets		
Climate Bonds Standard Requirement	Findings	Requirement Met
6.1. The Issuer shall document and maintain a decision-making process which it uses to determine the continuing eligibility of the Nominated Projects & Assets. This includes, without limitation:	The Issuer has a standard decision-making process for the Headquarters Expansion Project. CalSTRS' Green Bond Framework establishes the principles and processes for determining continuing eligibility and each of the elements below (6.1.1, 6.1.2., 6.1.3., 6.1.4, 6.1.5).	Yes
6.1.1. A statement on the climate-related objectives of the Bond;		Yes
6.1.2. How the climate-related objectives of the Bond are positioned within the context of the Issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability;		Yes
6.1.3. The Issuer's rationale for issuing the Bond;		Yes
6.1.4. A process to determine whether the Nominated Projects & Assets meet the eligibility requirements specified in Part C of the Climate Bonds Standard;		Yes
6.1.5. Other information provided by the Issuer as described in Clause 2.2		Yes

7. Management of Proceeds

Climate Bonds Standard Requirement	Findings	Requirement Met
7.1. The Net Proceeds of the Bond shall be credited to a sub account, moved to a sub- portfolio or otherwise identified by the Issuer in an appropriate manner, and documented.	Bond proceeds are tracked separately from other funds and accounts.	Yes
7.2. The Issuer of the Bond shall maintain the earmarking process to manage and account for allocation of Net Proceeds to the Nominated Projects & Assets as described in Clause 3.1.3	The proceeds have been earmarked for a single project and the Issuer manages draws on the bond account as required.	Yes
7.3. While the Bond remains outstanding, the balance of the tracked Net Proceeds shall be reduced by amounts allocated to Nominated Projects & Assets. Pending such allocations to Nominated Projects & Assets, the balance of unallocated Net Proceeds shall be:	Proceeds have either been allocated to the Nominated Project or held in temporary investments as described below.	Yes
7.3.1. Held in temporary investment instruments that are cash, or cash equivalent instruments, within a Treasury function; or	A portion of proceeds are held in temporary investments in U.S. Government securities and money market funds.	Yes
7.3.2. Held in temporary investment instruments that do not include greenhouse gas intensive projects which are inconsistent with the delivery of a low carbon and climate resilient economy; or	N/A	N/A
7.3.3. Applied to temporarily reduce indebtedness of a revolving nature before being redrawn for investments or disbursements to Nominated Projects & Assets.	N/A	N/A

8. Reporting

Climate Bonds Standard Requirement	Findings	Requirement Met
8.1. The Issuer shall prepare an Update Report at least annually while the Bond remains outstanding.	CalSTRS will submit continuing disclosures to the Municipal Securities Rulemaking Board and will comply with a statewide order to report annually on energy use, water use, total greenhouse gas emissions, energy grid intensity, and total energy generated from renewable sources.	Yes
8.1.2. The Update Report shall be made available to holders of the Bond and to the Climate Bonds Standard Board.	Update reports and impact of the project on natural resources will be publicly available.	Yes
8.1.3. The Issuer should provide an Update Report to holders of the Bond on a timely basis in case of material developments	Material development reports shall be made available on EMMA.	Yes