

## State of Connecticut

**Type of Engagement:** Green Bond Pre-Issuance Review

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### Introduction

In May 2017, the State of Connecticut (the “State”), under its State Revolving Fund (SRF) Programs, developed the State of Connecticut Green Bond Framework<sup>1</sup> under which it issued green bonds (2017 A Bonds) aimed at financing or refinancing of public wastewater treatment and drinking water projects. Sustainalytics provided a Second Party Opinion<sup>1</sup> of the Framework which included the following conclusion:

By providing direct reimbursement to projects in wastewater treatment and drinking water, the State aims to improve water conservation and manage climate change risks by addressing system vulnerabilities. Such actions are recognized by the Intergovernmental Panel on Climate Change as effective climate mitigation and adaptation measures.

The State of Connecticut’s approach to selecting projects and managing green bond proceeds is robust, and its reporting on the use of proceeds is transparent. The State’s SRF green bond follows the guidance provided by the Green Bond Principles and is in alignment with its four pillars – the use of proceeds, process of project evaluation and selection, management of proceeds and reporting. Based on the above considerations, Sustainalytics is of the view that the State of Connecticut’s green bond is robust and credible.

The State intends to issue its 2019 Bonds for the SRF program, including green bonds (2019A Bonds).<sup>2</sup> In June of 2019, the State engaged Sustainalytics to review the projects (the “Nominated Projects”) that will be funded through the issued green bonds and provide an assessment as to whether the projects would comply with the Use of Proceeds section of the Framework.

### Evaluation Criteria

Sustainalytics evaluated the underlying projects that will be funded through the 2019 issuance for compliance based on whether:

1. The Nominated Projects are aligned with the Use of Proceeds Eligibility Criteria outlined in the Green Bond Framework; and
2. The commitments to select projects, manage proceeds, and report on allocation and impact in order to ensure that these commitments are aligned with the ones described in the Framework.

The projects funded by the 2019 green bond issuance are summarized in Appendix 2.

### Issuing Entity’s Responsibility

The State is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including a description of the eligible projects within each eligible category. This information was provided to Sustainalytics to support its review. The State has also confirmed to Sustainalytics that processes for project selection and management of proceeds for the 2019 issuance are consistent with the 2017 issuance and, as such, will remain aligned with the commitments described in the Framework.

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<sup>1</sup> The Framework and the Second Party Opinion are available as an integrated document:

[https://www.sustainalytics.com/wp-content/uploads/2017/05/Green-Bond-Framework-and-Opinion\\_ConnecticutSRF\\_May23final.pdf](https://www.sustainalytics.com/wp-content/uploads/2017/05/Green-Bond-Framework-and-Opinion_ConnecticutSRF_May23final.pdf)

<sup>2</sup> The 2019 Bonds represent the sixteenth and seventeenth series of Bonds issued by the State pursuant to its State Revolving Fund General Revenue Bond Program General Bond Resolution adopted by the State Bond Commission on December 17, 2002.

### **Independence and Quality Control**

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of the State's 2019 green bond issuance. The work undertaken as part of this engagement included verification of the Nominated Projects and confirmation from relevant employees of the State that the use of proceeds, processes for project selection, management of proceeds, and reporting for the upcoming green bond issuance will remain aligned with the commitments described in the Framework.

Sustainalytics has relied on the information and the facts presented by the State with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by the State.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

### **Conclusion**

Based on the limited assurance procedures conducted,<sup>3</sup> nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the State of Connecticut's green bonds (2019A Bonds) are not aligned with their existing State of Connecticut Green Bond Framework.

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<sup>3</sup> Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

## Appendix 1: Framework's Use of Proceeds Eligibility Criteria

### 1. Clean Water SRF Program: Wastewater Treatment Infrastructure Upgrades

The proceeds of the green bond will be allocated to provide direct reimbursement to capital expenditure (CAPEX) projects that (1) result in water quality improvements by removing nutrients (nitrogen and phosphorus) and combined sewer overflow discharges into the surface waters of the State; (2) provide rehabilitation of existing infrastructure in the wastewater collection system; or (3) eliminate groundwater pollution caused by antiquated subsurface sewage disposal systems.

Eligible projects may include:

- Upgrades to wastewater treatment plants to remove nutrients.
- Removal of combined sewer overflow discharges through sewer separation projects, off line storage projects and the construction of a wet weather treatment process at wastewater treatment plants.
- Lining sanitary sewers to minimize groundwater from entering the sewer.
- Rehabilitating sanitary sewer pump stations to improve reliability, energy efficiency and make them more resilient to flooding from rain storms.
- Constructing new septic systems to replace existing septic systems that are polluting the groundwater.

Some of the CAPEX projects will include energy efficiency components.

### 2. Drinking Water SRF Program: Drinking Water Infrastructure Upgrades

The proceeds of the green bond will be allocated to provide direct reimbursement to capital expenditure (CAPEX) projects that leads to safe drinking water and improved reliability of safe drinking water.

Eligible projects may include:

- Rehabilitation or replacement of groundwater wells to replace contaminated or diminished sources and improve the efficiency of water treatment and pumping equipment
- Replacement or rehabilitation of water mains which have exceeded their useful service life to reduce the probability of main breakage and/or water leakage and improve the efficiency of water treatment and pumping equipment
- Installation or replacement of back-up power systems to ensure the delivery of a safe and sufficient drinking water supply to consumers during power outages
- Consolidation of public water systems and interconnections between public water systems to provide for increased resiliency, efficiency and cost-effective delivery of water services

## Appendix 2: Summary of 2019 Green Bond Projects

The proceeds of the 2019 green bonds may be used to refinance and/or finance the projects under the following programs:

### 1. Clean Water SRF Program: Wastewater Treatment Infrastructure Upgrades

- Upgrading of wastewater treatment plants to reduce nutrient (nitrogen and phosphorus) discharges into the State surface waters;
- Eliminating combined sewer overflow discharges into the State surface waters through sewer separation projects, off line storage projects and the construction of wet weather treatment processes at wastewater treatment plants;
- Constructing new septic systems to replace existing inadequate septic systems that are causing groundwater pollution;
- Lining sanitary sewers to minimize groundwater from entering the sewer; and
- Rehabilitating sanitary sewer pump stations to improve reliability, energy efficiency and make them more resilient to flooding from rain storms.

### 2. Drinking Water SRF Program: Drinking Water Infrastructure Upgrades

- Upgrading water treatment plants to improve drinking water quality, comply with federal Safe Drinking Water Act requirements and increase reliability and efficiency of plant operations;
- Upgrading water storage tanks and pump stations to increase reliability, efficiency, sustainability and reduce water loss;
- Rehabilitating or replacing groundwater wells to replace contaminated or diminished drinking water sources and improve the efficiency of water treatment and pumping equipment;
- Replacing or rehabilitating water mains which have exceeded their useful life to reduce the probability of main breakage and/or a water leakage and improve the efficiency of water treatment and pumping equipment;
- Installing or replacing back-up power systems to ensure the delivery of safe and sufficient drinking water supply during power outages; and
- Consolidating public water systems and interconnections between public water systems to provide for increased resiliency, efficiency and cost-effective delivery of water services.

Examples of projects include those undertaken by the City of Middletown and Groton Utilities, such as the City of Middletown's construction of the new state-of-the-art inter-municipal pump station and force main to pump municipal wastewater to the Mattabassett Treatment Facility. The outdated and deteriorated wastewater treatment plant (WWTP) will be decommissioned, and the new pump station in conjunction with the recently completed force main will provide a reliable and efficient treatment of Middletown's wastewater flows at the Mattabassett facility for the foreseeable future. Groton Utilities projects include the installation of three Dissolved Air Flotation basins, a Granular Activate Carbon filtration system, two 1.0-million-gallon water storage tanks and major upgrades to electrical service and building envelop.

## Appendix 3: Sustainalytics' Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
<b>Use of Proceeds Criteria</b>	Verification of the projects funded by the green bond issuance in 2019 (Appendix 2) to determine if the projects aligned with the Use of Proceeds Eligibility Criteria outlined in the State's Green Bond Framework (Appendix 1).	All projects reviewed (Appendix 2) complied with the Use of Proceeds Eligibility Criteria.	None
<b>Project Selection and Management of Proceeds Criteria</b>	Verification of the projects funded by the green bond in 2019 to determine if the commitments under processes for project selection and management of proceeds were consistent with the State's Green Bond Framework.	The State has also confirmed to Sustainalytics that processes for project selection and management of proceeds for the 2019 issuance are consistent with the 2017 issuance and, as such, will remain aligned with the commitments described in the Framework	None

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## Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. In 2015, Global Capital awarded Sustainalytics "Best SRI or Green Bond Research or Ratings Firm" and in 2018 and 2019, named Sustainalytics the "Most Impressive Second Party Opinion Provider. The firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance in 2018, and in 2019 was named the "Largest Approved Verifier for Certified Climate Bonds" by the Climate Bonds Initiative. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan and the Minister of the Environment Award in the Japan Green Contributor category of the Japan Green Bond Awards in 2019.

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

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