S&P Global
Ratings

Green Transaction Evaluation

San Francisco Municipal Transportation Agency Proposed Series C 2021 Green Bond

Transaction Overview

The San Francisco Municipal Transportation Agency (SFMTA) is responsible for the management of all ground transportation in the city of San Francisco, including the Municipal Railway (Muni) and bus public transit, as well as bicycling, paratransit, parking, traffic, walking, and taxis. SFMTA plans to issue $123 million in early 2021, with final maturity in 2051. Net proceeds of the bonds will be used to finance the (i) procurement of a communications-based train control system to improve network speed and efficiency; (ii) reconstruction of mixed-flow traffic lanes to improve transit speed; (iii) renovation of the 1200 15th Street facility, including engineering, design, and construction per green building standards; and (iv) costs of issuance of the bonds. Approximately 81% of the proceeds fall within the scope of the S&P Green Transaction Evaluation.

Entity:	San Francisco Municipal Transportation Agency
Subsector:	N.A.
Location (HQ):	United States
Financing value:	$123 million
Amount evaluated:	81%
Evaluation date:	Feb. 16, 2021
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Green Transaction Evaluation Overview

Transaction's transparency

- Use of proceeds reporting
- Reporting comprehensiveness

60

Transaction's governance

- Management of proceeds
- Impact assessment structure

74

Mitigation

Sector →	Net benefit ranking →	Hierarchy adjustments
Green Transport	Urban rail systems: Overground Electric Rapid transit	Carbon
Green Buildings	New Build: General	

79

100

E1

E2

E3

E4

0

Overall Score

E2/74

Weighted aggregate of three

(Transparency + Governance + Mitigation)

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Adaptation NA

Project Description

The agency will use the proceeds of the bond to finance several projects intended to improve the efficiency and environmental footprint of the municipal transportation network. These projects are a part of a multi-year San Francisco transit capacity expansion program.

The first project ($41 mil.) is the design and procurement of a new communications-based train control system for the above- and below-ground light rail network. This will reduce congestion and slowdowns in the system and allow for future network expansion. The second allocation ($35 mil.) is for constructing transit and streetscape improvements along a major city thoroughfare to speed vehicle transit times and reduce congestion. The third project ($20 mil.) is a renovation of SFMTA's facility at 1200 15th Street in San Francisco and will consist of reconstruction of the aging building to expand its capacity to house transportation workers. Construction will follow the LEED Gold green building guidelines, per city building requirements.

Also included in the 2021C issuance are funds ($22 mil.) to replace outdated parking meters with 5G-connected units. While the issuer considers this project to be part of its green bond issuance as it helps the city implement demand-response pricing for parking, we deem this project to be outside the scope of our Green Transaction Evaluation framework.

Scoring summary

This transaction achieves an overall Green Transaction Evaluation score of E2/74, which is the second-strongest score on our scale of E1 (highest) to E4 (lowest). The score reflects the weighted average of the transaction's strong Mitigation score (79) and solid Governance (74) and Transparency (60) assessments. In our view, the expected investments in mass transit systems and infrastructure will serve to accelerate San Francisco's shift to more energy-efficient and lower-emissions forms of transportation. The governance of the transaction benefits from the SFMTA being a pure-play entity with the purpose of increasing transportation efficiency and reducing associated environmental impacts. However, limited evidence of the use of green bond best practices--including detailed reporting of environmental impacts at the project level and independent verification of expenditures and impacts--constrain the Governance and Transparency scores.

Rationale

- The strong Mitigation score (79) reflects our view that the projects will directly improve the efficiency of transportation in San Francisco and reduce associated greenhouse gas (GHG) emissions. The projects will fund all-electric transportation upgrades and investments, reducing reliance on transportation modes that rely on fossil fuels in a city with very high population density. The green facility renovation project benefits from improved carbon and water performance during the building's lifetime, but provides relatively lower GHG reductions than other comparable projects in different regions given the already fairly low carbon intensity of buildings in California generally. The Mitigation score (79) also reflects our view that these projects enable significant decarbonization in sectors that are already aligned with a green economy and are thereby placed in the second-highest tier of our carbon hierarchy, and provides uplift to the net benefit score.
- The above-average Governance score (74) reflects our view that SFMTA is a pure-play entity with the purpose of increasing transportation efficiency and reducing associated environmental impacts. Plan Bay Area has quantitative carbon emissions reductions, sustainable mode shift, and resilience targets for 2035 and 2050, which the SFMTA will help implement through its capital plan and operations. The San Francisco Transit-First policy, outlined in the City Charter, requires all city departments to promote sustainable means of transportation including public transit. The agency utilizes environmental criteria and impact estimates in capital planning, although the agency has not made public detailed, project-specific environmental criteria for the projects financed by the 2021C issuance.
- Additionally, SFMTA has strong internal financial controls and requirements to meet environmental regulations as it receives local, state, and federal funding. Green bond proceeds will be held in a separate account and expenditures are publicly reported to the Bond Oversight Committee on a quarterly basis. We note that the agency does not utilize third-party verification for the allocation of proceeds.

- Our Transparency score (60) reflects that the agency's Bond Oversight Committee discloses use of proceeds at the individual project level in detailed quarterly reports, and in annual progress reports on the status of financed projects. Regarding transparency of environmental impacts, SFMTA tracks project performance metrics including environmental impacts internally and discloses them at the aggregate agency and regional transportation-system level. SFMTA has not published project-specific environmental criteria for some financed projects, and it does not obtain third-party audit or assurance of expenditures or environmental impacts.

Key Strengths And Weaknesses

We believe SFMTA's investments in light rail systems, road, and building infrastructure as outlined would contribute positively to reducing San Francisco's environmental impacts and associated carbon emissions. Prior to the COVID-19 pandemic, the SFMTA had an average weekday ridership of 715,000, including approximately 158,000 passengers on the Muni Metro light rail network, among the busiest networks in the country. San Francisco's high population density enhances the project's overall positive impact as it enables transport modal shifts to San Francisco's large population. The agency's prioritization of electrified mass transit and green buildings aligns with the city's and state's broader climate-related goals. These include San Francisco's Ordinance 81-08 to reduce greenhouse gas emissions 80% below 1990 levels by 2050, its Transit First Policy to reduce the use of individual automobiles, and the SB862 program to invest in the city's light rail fleet. The agency powers the electric portion of its fleet with 100% hydropower-derived electricity and has committed to fully electrify the fleet by 2024.

The agency's focus on green projects underscores its approach to bond proceed allocations. Financed projects are meant to increase transit capacity and reduce transit travel times, driving substantial modal shift away from personal vehicles; the agency has a performance target of shifting 80% of all transportation to sustainable modes by 2030. The agency considers new parking meters as part of the 2021C issuance a green investment because the meters are designed to improve auto traffic flow and reduce vehicle idling times as drivers search for parking spots. This project type is not currently in scope for our Green Transaction Evaluation and is therefore excluded from our analysis.

SFMTA benefits from strong internal financial controls for capital expenditures including bond-financed projects and compliance with relevant environmental regulations for its financed projects. The net proceeds of the financing will be credited to a separate bank account and expenditures are reported at a project-level on a quarterly basis.

SFMTA's internal planning and decision-making has positive characteristics, including use of data and agency-wide environmental goals and projections to select and prioritize projects.

We note that this is SFMTA's first green bond issuance and agency efforts to establish impact disclosure standards were delayed due to COVID-19; management is considering including such disclosures for green bond proceeds in quarterly reports at a future date. Some disclosures of environmental impacts are publicly available in aggregate. For example, SFMTA has agency-level reporting of environmental key performance indicators on its website, including carbon emissions, energy consumption, and modal usage. Additionally, projections of the environmental impact of some SFMTA-wide initiatives are available in various public locations, although they are not aggregated for bondholders. The agency does not disclose the methodology used to calculate expected environmental impacts or have data third-party verified.

Sector-Level Scores

Sector	Location	Technology	Use of proceeds (mil. xxx)	Use of proceeds treatment	Net benefit ranking
Green Transport	San Francisco, CA	Urban rail systems: Overground	41	Estimated	100
Green Transport	San Francisco, CA	Electric rapid transit	35	Estimated	20
Green Buildings	San Francisco, CA	New build: General	20	Estimated	12
			96		

Carbon

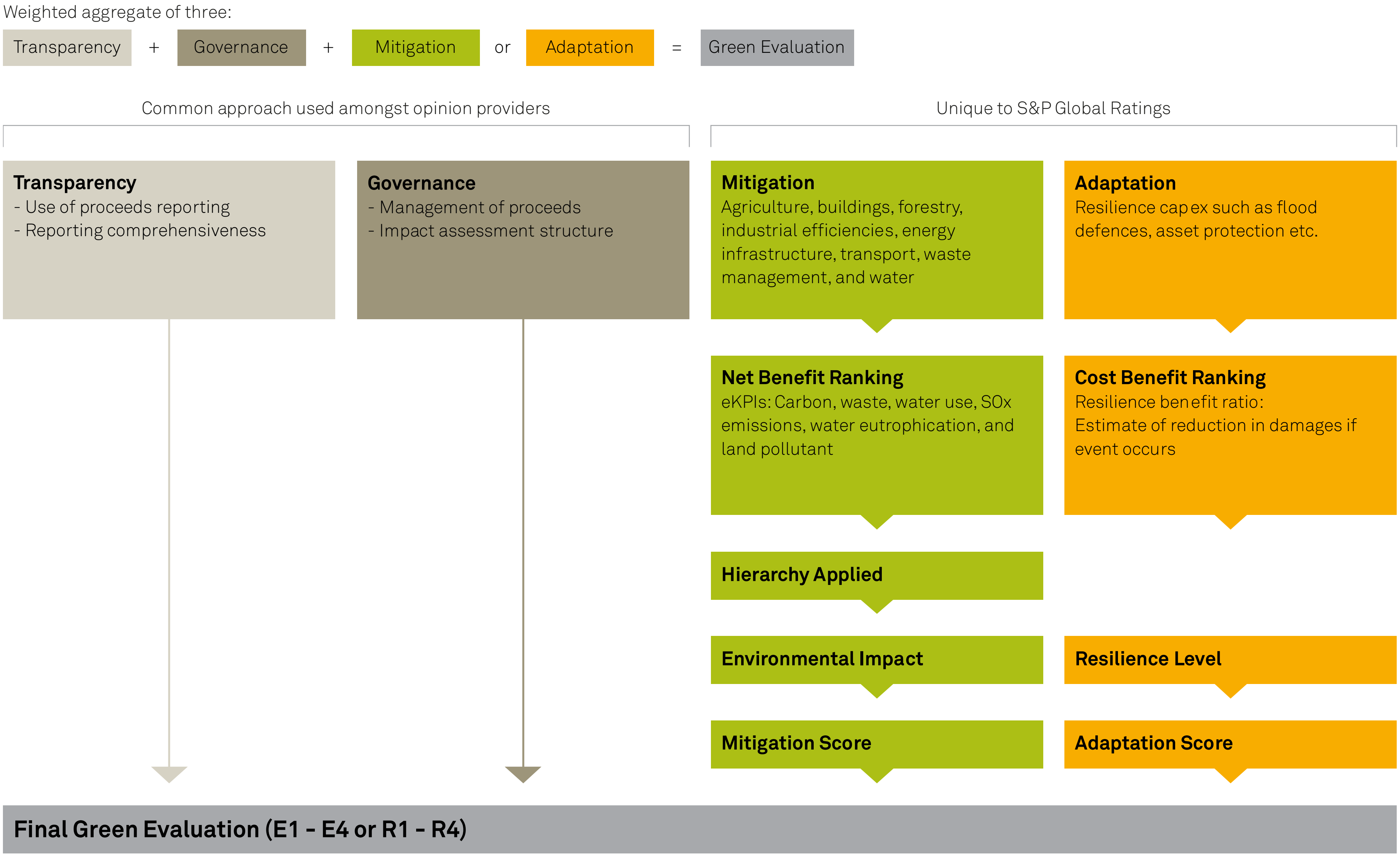
Green Transaction Evaluation Process

60	74	79	Weighted aggregate of three:	E2/74
Transparency	Governance	Mitigation	(Transparency + Governance + Mitigation)	Overall Score

Technology	Baseline carbon intensity	Net benefit ranking	Carbon hierarchy adjustment	Environmental impact score	Proceeds (mil. xxx)
	Medium-high California, USA				
Wind power			Systemic decarbonization		
Solar power					
Small hydro					
Large hydro (excluding tropical areas)					
Energy management and control					
Unspecified					
Green transport without fossil fuel combustion		87	**Significant decarbonization in sectors already aligned with a green economy**	89	76
Green buildings – new build		12		67	20
Unspecified					
Energy-efficient projects (industrial and appliance efficiencies)			Alleviating emissions of existing carbon-intense industries		
Green transport with fossil fuel combustion					
Green buildings refurbishment					
Unspecified					
Nuclear			Decarbonization technologies with significant environmental hazards		
Large hydro in tropical areas					
Unspecified					
Coal to natural gas			Improvement of fossil-fueled activities' environmental efficiency		
Cleaner fuel production					
Cleaner use of coal					
Fossil fuel-based cogeneration					

Increasing decarbonization impact

Our Green Transaction Evaluation Approach



eKPI--Environmental Key Performance Indicator.

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