

Exhibit to Agenda Item #3

Board Finance & Audit Committee Meeting and Special SMUD Board of Directors Meeting

Tuesday, September 4, scheduled to begin at 5:30 p.m.

Customer Service Center, Rubicon Room

Requested Action

- Approve an amendment to the Subordinate Master Resolution 01-06-10, adopted on June 21, 2001, that preserves SMUD's existing lien structure and provides for the issuance of Subordinated Electric Revenue Bonds

SMUD Lien Structure

SMUD's debt has 3 lien levels

Senior

- Traditionally used for fixed rate debt

Subordinate

- Created for non-traditional or variable rate debt
- Has less onerous financial covenants (coverage, etc.)

Commercial Paper

- Created for variable rate debt that can be built up and paid down without restrictions

Need for Amending the Subordinate Lien

- SMUD recently completed a refunding transaction that converted \$88 million of debt issued under the Subordinate Lien Resolution, leaving \$250k outstanding
 - If entirely refunded the Subordinate Resolution would have been dissolved automatically
- The amendment allows SMUD to refund the remaining \$250k debt while maintaining the Subordinate Lien for future use

Keeping the Lien Structure in Place

- Maintains flexibility for future variable rate issuance
- Provides for having less onerous covenants on Subordinate debt
- Provides strength to credit ratings of Senior lien debt and
 - would not require certain covenants typically used for subordinate debt (reporting)
- Continues to subordinate the commercial paper to the third lien level

Subordinate Resolution Amendment

Amend Section 10.01 of the Subordinate Resolution with language that will require SMUD to notify the Bond Trustee of the intent to dissolve the Resolution:

..... at the election of the District (evidenced by a certificate of the District filed with the Trustee signifying the intention of the District to discharge all such indebtedness and this Resolution), this Resolution shall cease,.....