

Exhibit to Agenda Item #8

- a. Authorize the issuance of the 2020 Series H Revenue Bonds, the distribution of the Preliminary Official Statement, and the Chief Executive Officer and General Manager's execution of all necessary documents, including the Bond Purchase Agreement.
- b. Authorize the issuance of 2020 Series I Taxable Refunding Bonds, the distribution of the Preliminary Official Statement, and the Chief Executive Officer and General Manager's execution of all necessary documents, including the Bond Purchase Agreement, and as an alternative to issuing 2020 Series I Taxable Refunding Bonds, authorize the Chief Executive Officer and General Manager to enter into interest rate swaps or similar agreements to provide for refunding savings or hedge interest rate risk relating to a future refunding of the 2013 Series A & B Revenue Bonds.

Board of Directors Meeting

Thursday, April 16, 2020, scheduled to begin at 5:30 p.m.

Overall Economic Impact

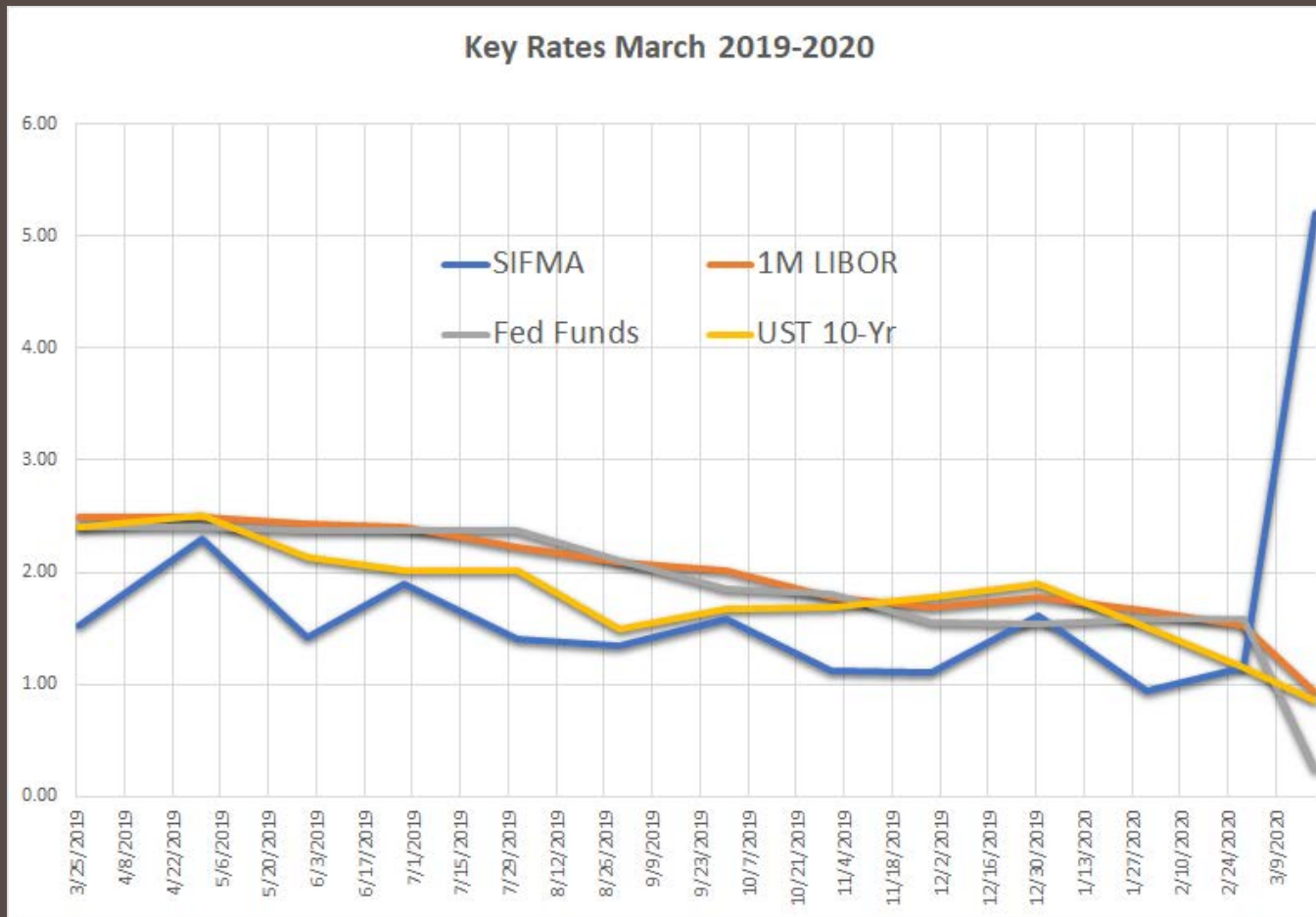
A recession larger and faster than 2008 is expected and reflected in market instability

There is **uncertainty about how long and how large** additional impacts may be:

- Long-term lock-downs
- Financial market instability
- Political environment

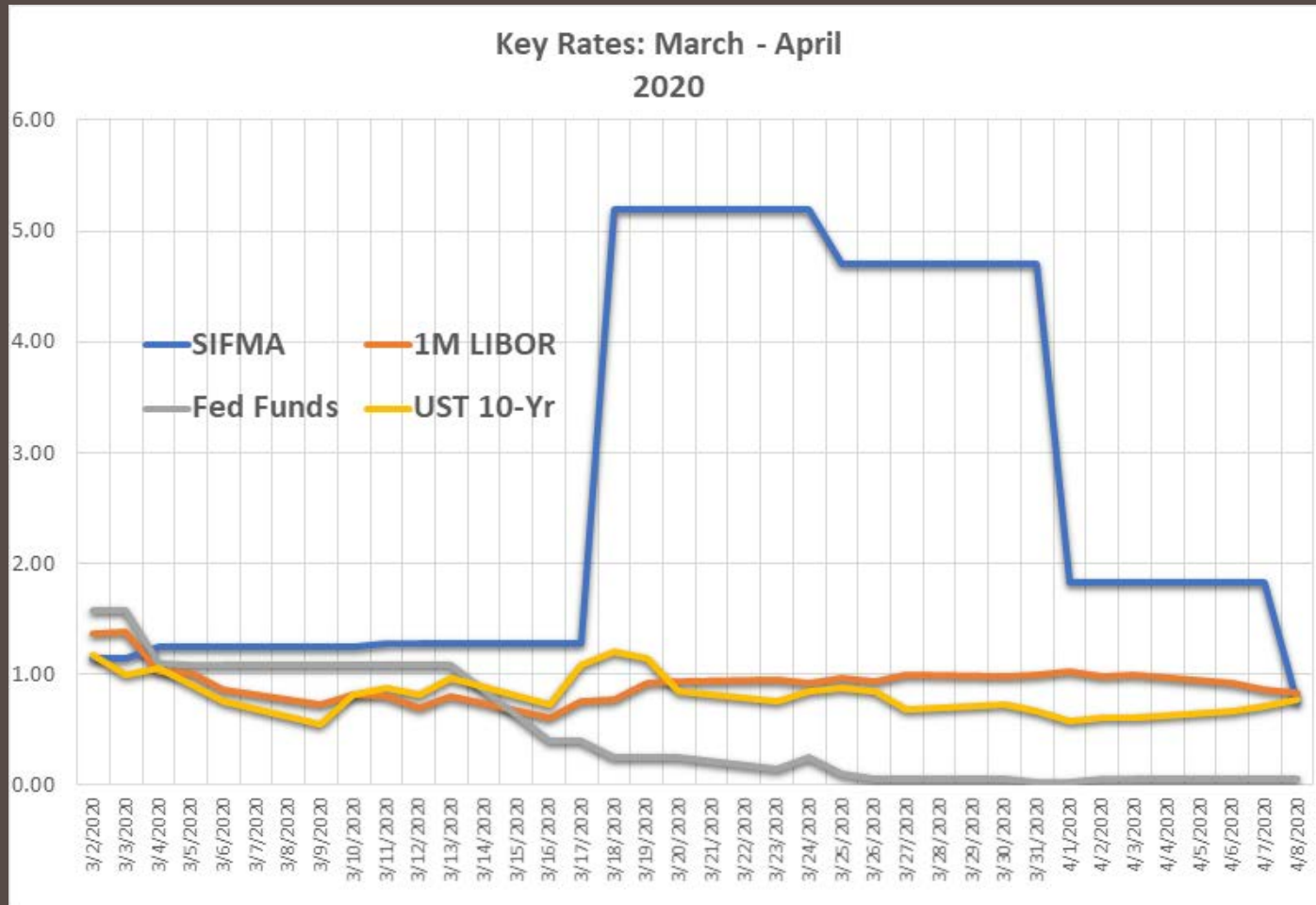
Federal Reserve has acted more aggressively and quickly than in 2008. Underlying economic foundations are strong, which may aid in recovery when pandemic is controlled

FED Uncertainty - Caused Municipal Rates to Spike



- FED acted more swiftly than in the past 2008 Financial crisis
- Initial \$2 Trillion stimulus was silent on Municipal Market support
- Taxable rates such as US Treasuries and LIBOR responded to the stimulus by declining
- Muni Rates, including SIFMA spiked, markets froze and took longer to normalize

FED Actions - Helping to Calm Markets



- Expanding the Money Market Mutual Fund Liquidity Facility (MMLF) to include municipal variable rate notes (VRDNs)
- Expanding the Commercial Paper Funding Facility (CPFF) to include high-quality, tax-exempt commercial paper as eligible securities
- Second \$2.3 Trillion package announced April 9th, included \$500 billion for Municipals
- After FED action focused on Muni market, rates began to normalize

Market Summary

Debt Markets: SMUD accesses funding for capital projects

- Short-term municipal market (Commercial Paper borrowing)
- Long-term municipal market activity (Revenue Bond borrowing)

- 1. Market access initially impaired, currently recovering**
- 2. Interest rates have reduced back to normal levels**
- 3. Questions remain on investor demand**

Commodity markets:

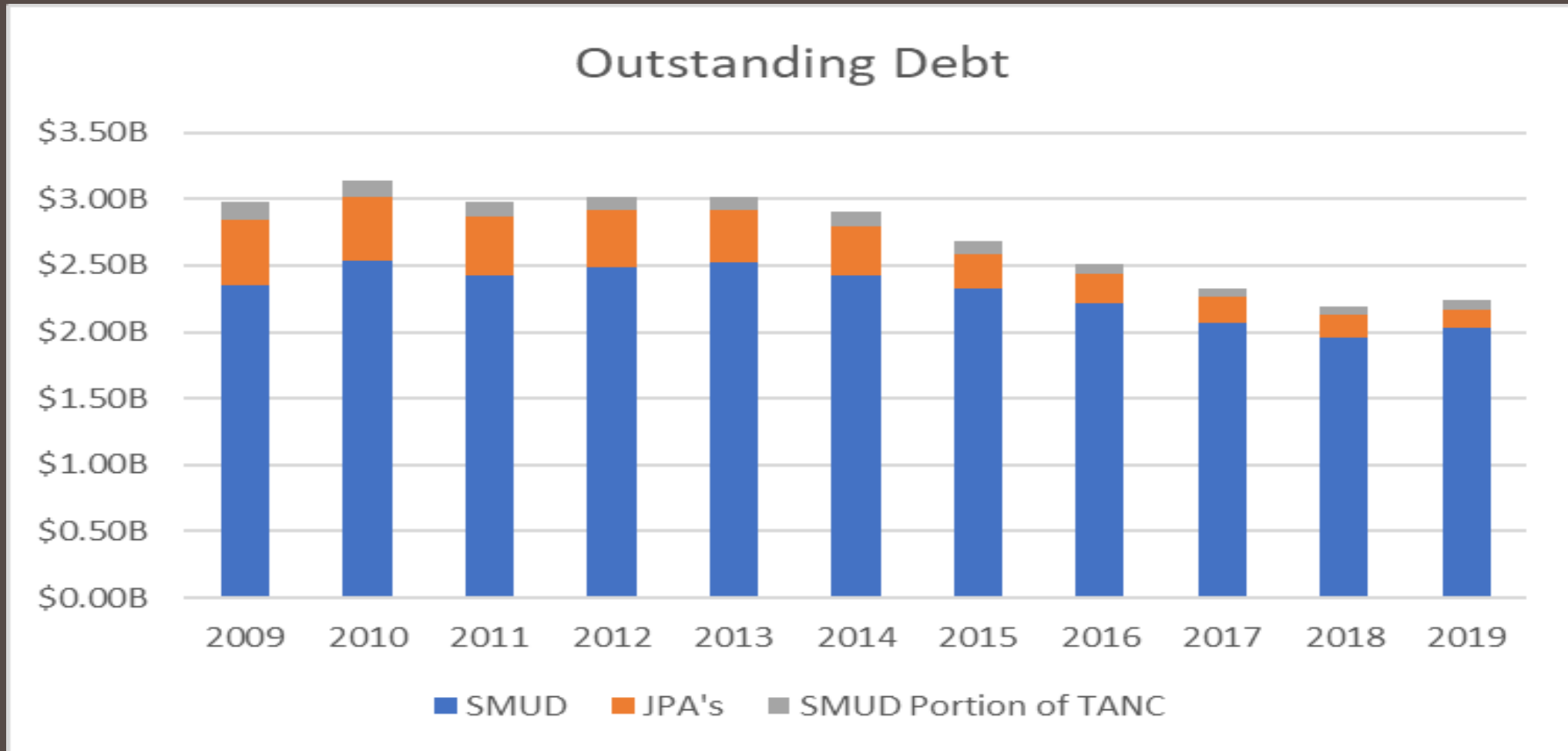
- Crude Oil and Natural Gas prices very low; Power markets stable
- Counterparties being monitored for solvency issues

Borrowing Strategy

1. Issue \$400 million of new money bonds at low interest rates
 - Provide \$350 million of funding (\$300 million in budget resolution)
 - Refund all outstanding Commercial Paper -\$50 million
 - Monitor cash flows for changes in revenue stream
 - Utilize commercial paper for additional liquidity needs, if necessary
2. Refund or enter into agreement to lower debt cost for \$203 million outstanding 2013 A&B bonds
3. Plan has us borrowing \$200 million in 2021
 - Issue Commercial Paper and refund with Long-term Bonds
 - Target 2nd half of 2021 to refund the Commercial Paper

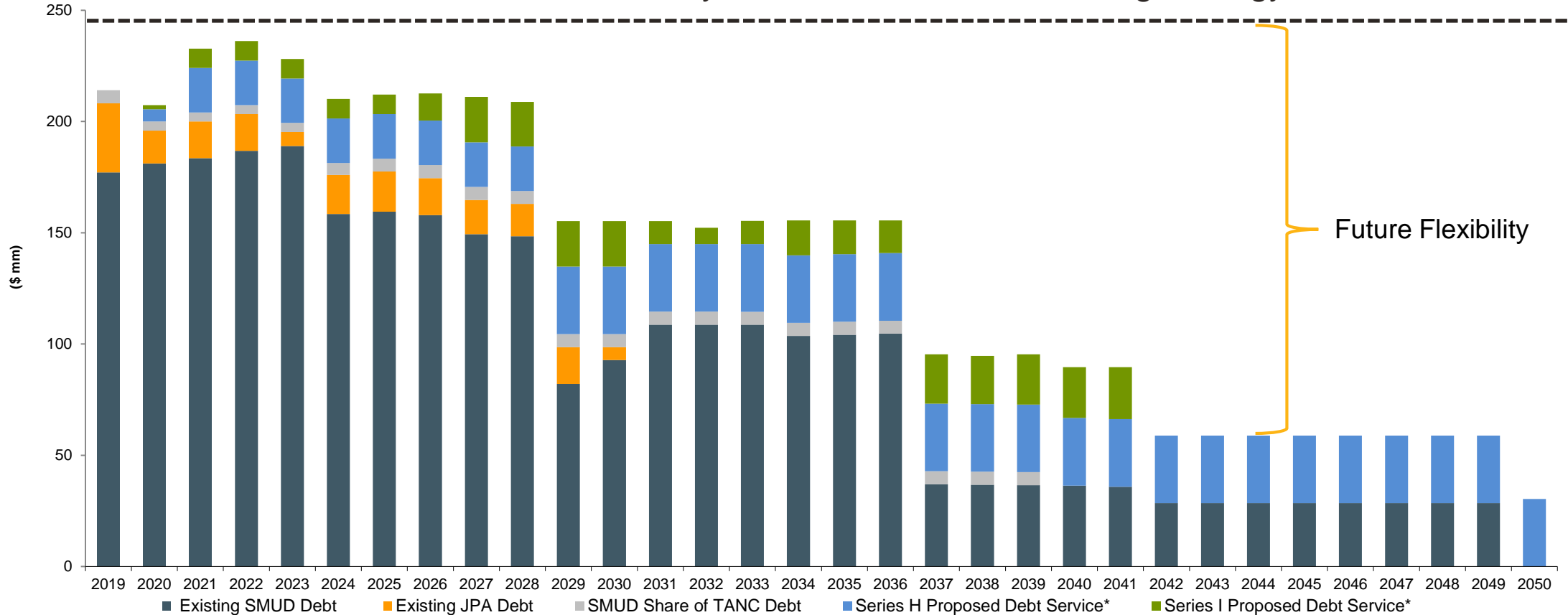
Debt Outstanding Is Declining

SMUD has lowered debt outstanding by approximately \$1 billion since the Great Recession



Strategically Positioned Debt Service Profile

Provides future flexibility to address SMUDs evolving strategy



2020 Series H – New Money issuance

2020 Series H Revenue Bonds

SMUD Plans to issue up to \$400 million of new money bonds to:

1. Provide \$350 million new capital funding for projects in 2019, 2020 and 2021
2. Refund \$50 million outstanding Commercial Paper issued in 2019
3. Issue **Green Bonds** for qualified green capital project expenditures (\$38 million portion of the \$350 million)

2020 Series H - Portion will be sold as Green Bonds (\$38 million)

Green/ESG certified investments sought by certain investors

- Growing but young market with developing compliance
- SMUD continuing to show leadership and enhance market growth

Projects Financed:

HQ - designed to achieve LEED Gold Certification

Rancho Seco 2 – Solar Project

Small Hydro Generation Improvements – Jones Fork and South Fork

2020 Series H Transaction Benefits

- Provides liquidity for the uncertain period ahead
 - Full \$400 million Commercial Paper capacity available for future capital spending and liquidity, increasing financing flexibility
 - Provides certainty of capital funding for 2020 and part of 2021
 - Interest rates recovering and are still at historically low levels provides attractive borrowing costs
- **Issue SMUD's 2nd "GREEN BONDS"**
 - **Continue to develop investor base for issuing to fund additional capital spending that will help meet SMUD decarbonization targets**

2020 Series I - Refunding or Interest Rate Swap to provide savings for 2013 Series A&B

Pre-COVID – Savings on Refunding significant and SMUD favored for immediate cash flow savings

2-3 weeks ago – Savings non-existent but are now improving with market normalizing

Criteria for selection between two options (Refunding or Swap):

- Typically use largest NPV, but not only criteria
- Timing of savings: Refunding has savings starting in 2020 while Swap delays savings until after 2023

Staff seeking approval for both transactions similar to 2016 and 2017, to allow staff to make a decision on pricing date

Option 1 - Taxable Refunding

- \$203 million 2013 A&B Bonds are not callable until 2023
 - Tax laws changed in 2017 and took away ability to advance refund using tax-exempt bonds
- SMUD can refund now using taxable bonds
 - Savings would be realized starting in 2020
- SMUD has not used taxable bonds with exception of BABs in 2009 and 2010
- SMUD typically targets minimum +5% NPV savings for Refundings
 - Recently forecast to provide 8-10% NPV savings (\$15-20 million)

Option 2 - Interest Rate Swap (Hedge)

- \$203 million 2013 A&B Bonds are not callable until 2023
- SMUD can lock in future refunding savings by entering into an interest rate swap
 - SMUD can refund using tax-exempt bonds in 2023
 - Savings would be realized after a 2023 refunding
- SMUD has utilized this strategy successfully in the past in 2016 and 2019
- Recently forecast to provide as much as 30% NPV savings (\$60 million)

Good Faith Estimate Disclosure Requirement

Government Code Section 5852.1 requires: a Good Faith Estimate of Costs provided by an Underwriter or Financial Advisor

Current Estimated Cost Summary:

	Series 2020 H New Money	Series 2020 I Refunding
True Interest Cost (TIC)	3.54%	2.75%
Cost of Issuance	\$ 938,230	\$ 561,085
Bond Proceeds	\$ 486,666,785	\$ 239,210,000
Total Payment Amount	\$ 834,093,805	\$ 340,527,042

Planned Bond Sale

Pricing is planned for April 28th but is market dependent

- Marketing efforts will begin with sending out Official Statement on or around 4/21
- SMUD will have a retail order period- investors can access through various platforms
- SMUD will notify interested parties and customers through a ListServ

Requested Action

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