

Exhibit to Agenda Item # 4

Authorize SMUD's Accountant to defer recognition of \$35 million of 2020 operating revenues to offset future one-time specific expenditures in order to match such expenditures in the appropriate accounting period for rate-making purposes.

Board Finance & Audit Committee and Special SMUD Board of Directors Meeting
Tuesday, December 8, 2020, scheduled to begin at 5:30 p.m.

Virtual Meeting (online)

2020 Financials – Unusual events

COVID-19 impact on 2020 Finances

- Revenues higher due to extremely warm summer
- Expenses lower
 - Deliberate effort to reduce costs
 - Indirect impact due to COVID
- Cash balance higher due to borrowing more than planned
 - Operational flexibility
 - Cash intensive enterprise
 - Large capital plan
 - No borrowing planned for 2021
- Increase in customer delinquency balances

Options Considered

1. Revenue Deferral - **Recommended**
2. No Deferral – funds included in unrestricted funds
 - Metrics most favorable for capital project spending
 - 2030 Zero Carbon Plan – initial spending mostly O&M
3. Applied as offset toward 2021 Rate Increase
 - Uncertainty continues
 - No rate increase results in:
 - Loss of addition to rate base
 - Revenue reduction of approximately \$41M in 2021
 - Leads to 6-8% rate increase in 2022-2023
 - Cash intensive business
 - Access to financial markets

Benefits of Deferral of Revenues

- Help offset future one-time expenditures
- Mitigate risks from unforeseen or one-time events
- Provide reserves to cover large contingencies
- Aligns with 2030 Zero Carbon plan initial spending for pilots and programs
- Operational Flexibility - Spending not tied to specific year

Regulatory Accounting

- Governmental Accounting Standards Board (GASB) allows regulated entities to defer revenues as a regulatory liability for recognition in future years
- Deferral allows for appropriate matching of revenue with expense recognition for rate making purposes