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

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