

# Exhibit to Agenda Item #1

Authorize the Chief Executive Officer and General Manager to negotiate and execute:

- a. A three-and-one-half-year contract renewal and expansion to \$150 million with **Barclays Bank** for a **Letter of Credit** that supports the outstanding **Commercial Paper Series L**, with terms substantially similar to the attached term sheet.
- b. A three-year contract renewal and expansion to \$150 million with **Bank of America, N.A.** for a **Letter of Credit** that supports the outstanding **Commercial Paper Series M**, with terms substantially similar to the attached term sheet.
- c. A four-year contract with **Wells Fargo Bank, N.A.** for a new **Line of Credit** that supports a new \$100 million **Line of Credit Series N**, with terms substantially similar to the attached term sheet.

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

Tuesday, February 15, 2022, scheduled to begin at 5:30 p.m.

Virtual Meeting (online)

# Commercial Paper Characteristics

## What is it and how is it used?

**Commercial paper is a form of short-term capital borrowing typically issued with 30 to 270 days until maturity**

- Primarily issued as Tax-exempt but can be Taxable
- Can be reissued or "rolled" at expiration or refunded with long term debt
- Due to short term nature and based on an index at the time of borrowing, commercial paper is a form of variable rate debt

# Commercial Paper Program Benefits

## Flexibility to fund capital spending as it arises

- Supports expanded capital spending in support of 2030 Zero Carbon Plan
- Access to capital in a shorter lead time

## Lower initial costs vs. long-term fixed rates

- Allows for market timing flexibility to refund with long term fixed-rate bonds
- Provides for better initial asset-liability matching of costs with interest earnings

## Additional liquidity viewed favorably by the ratings agencies

- Liquidity provides a form of self-insurance that is less costly than increasing coverage

# Credit Facilities – Letters and Lines of Credit

## What are they and how do they work?

**Letter of Credit (LOC) is a bank guarantee that supports the commercial paper program**

- Provides investor with safety knowing SMUD has bank liquidity to pay them back if markets are disrupted on maturity
- Without a letter of credit SMUD cannot issue commercial paper

**Line of Credit (Line) is a bilateral agreement with a bank**

- Provides SMUD with safety and liquidity not dependent on markets functioning
- Allows us to borrow on demand directly from the bank instead of from an investor

# Request for Proposal (RFP) Results

**10 Banks  
responded with  
proposals for  
various product  
types and  
durations from  
three to five  
years**

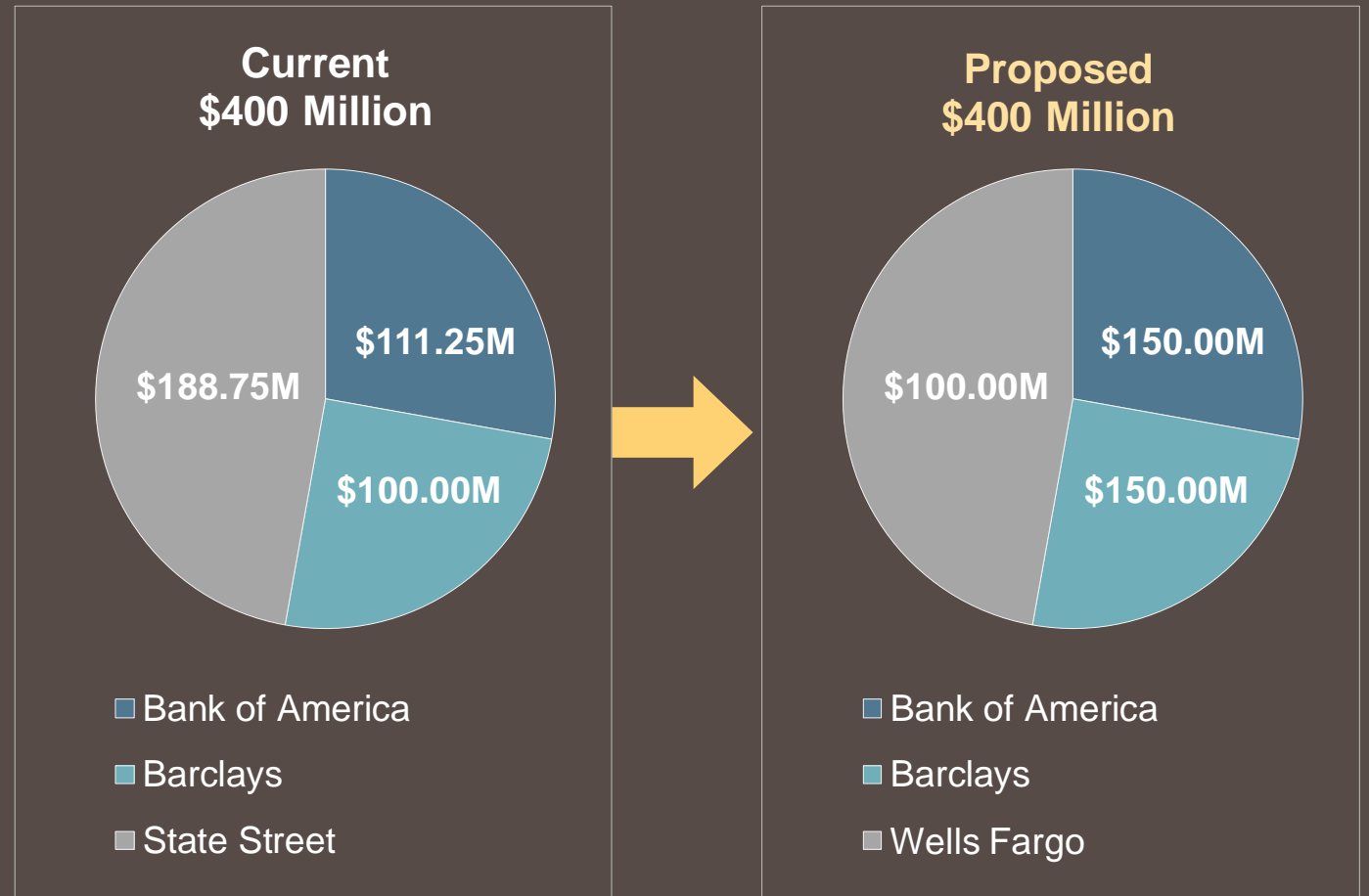
- 7 Letter of Credit responses with fees ranging from 0.24% to 0.50% (current program fees average 0.37%)
- 3 Line of Credit/Standby facility responses with fees ranging from 0.17% to 0.375%
- SMUD chose to ladder (stagger) expirations as a risk mitigation

*The banks and products selected will have average fees of 0.24%*

# Current & Restructured Letter/Line of Credit Portfolio

## Benefits of restructuring:

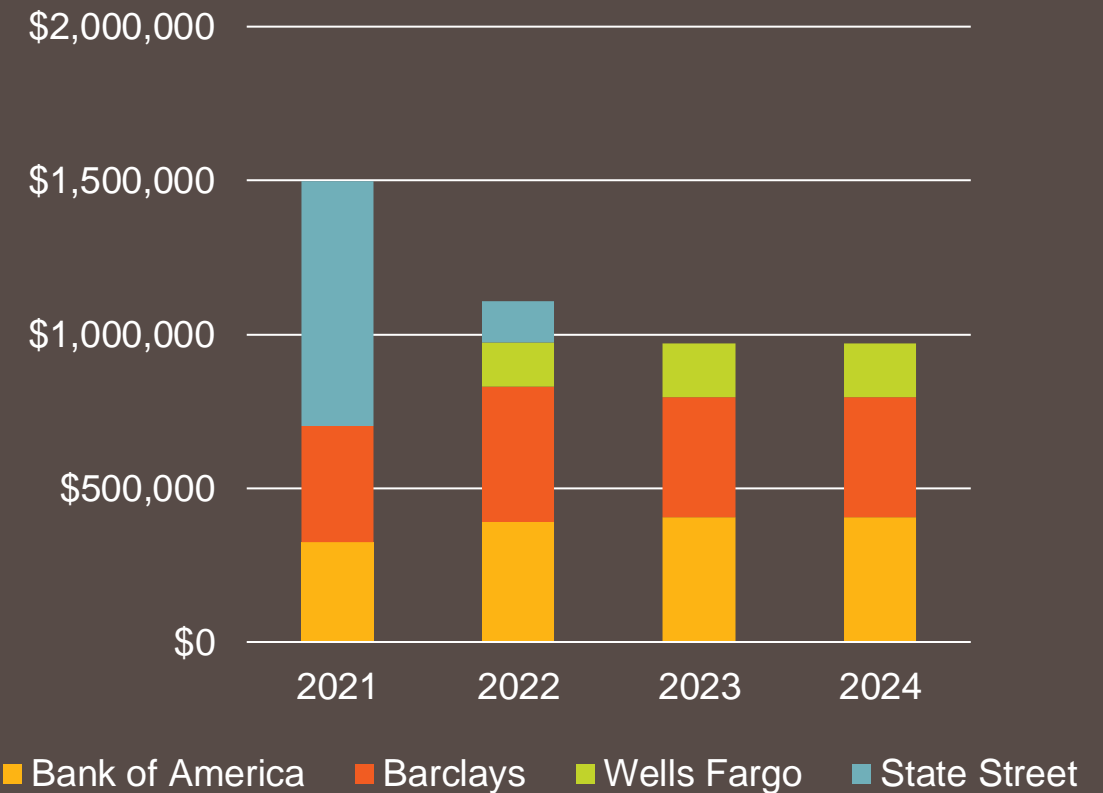
- Increases SMUD liquidity especially in turbulent markets
- Results in savings from lower fees
- Better portfolio diversification while total program stays the same size



# Program Costs

- Due to strong credit ratings and banking relationships, SMUD was able to secure very strong pricing
  - Program reallocation saves \$500k annually and is well below current budget
- Increases liquidity during market disruptions such as Covid in March 2020 or Winter Storm Uri in February 2021

### Bank Fees Forecast





# Questions