

Exhibit to Agenda Item #4

Authorize SMUD's Accountant to defer recognition of certain expenses related to the net Pension and net other post-employment benefits (OPEB) liability in order to match such costs in the appropriate accounting period for rate-making purposes.

Board Policy Committee and Special SMUD Board of Directors Meeting
Wednesday, November 16, 2022, scheduled to begin at 5:30 p.m.
Virtual Meeting (online)

Overview

- Background
- Current Situation
- Request for Authorization

Background

2014

Implemented Governmental Accounting Standards Board (GASB) 68, which required SMUD to record net Pension Liability of ~\$327M

2017

Implemented GASB 75, which required SMUD to record net Other Postemployment Benefit (OPEB) Liability of ~\$101M

Implementation

Recorded initial liabilities using regulatory accounting and recognize expense when included in rates over 25 years

Changes to Net Pension & OPEB Liabilities

After implementation, every year the net Pension and OPEB liabilities change as follows:

Stable & Certain

- **Employee contributions**
- **Employer contributions**
- **Benefit payments**

Volatile & Uncertain

- **Experience rate** – *expected vs. actual*
- **Assumptions** – *economic or demographic factors*
- **Investment earnings** – *projected vs. actual*

Volatile & Uncertain Changes Impact Accounting Reporting

Unknown until December

- Change in discount rate (interest rate)
- Experience rate

Large \$ swings in PERS returns from year-to-year

- 2021 – \$312 million variance in investment earnings
- 2022 – projected large investment losses

Financial impact

- GASB requires recording non-cash expenses
- Possible changes in financial statements from Net income to Net loss

Mitigate the Reporting Impact

Current state:

- Amortize these changes over 4-5 years
- Large negative and positive adjustments annually

Proposed future state:

- Use regulatory accounting for these annual changes – amortize over 15 years
- Minimize the negative and positive adjustments annually

Request for Authorization

Authorize SMUD's Accountant to defer recognition of certain expenses related to the net Pension and net other postemployment benefits (OPEB) liability in order to match such costs in the appropriate accounting period for rate-making purposes.