Exhibit to Agenda Item #2
Accept the monitoring report for Strategic Direction SD-3, Access to Credit Markets.

Board Policy Committee and Special SMUD Board of Directors Meeting
February 8, 2023, scheduled to begin at 5:30 p.m.
Virtual Meeting (online)
Strategic Direction SD-3
Access to Credit Markets

Maintaining access to credit markets is a core value of SMUD. Therefore:

• For SMUD’s annual budgets, the Board establishes a minimum target of revenue coverage of all debt service payments (fixed charge ratio) of 1.50x
• When making resource decisions, SMUD shall weigh the impacts of long-term revenue requirements, debt, financial risk and flexibility
• SMUD’s goal is to maintain at least an “A” rating with credit rating agencies
Evidence of Compliance

1. Credit ratings remains strong
   • “AA” Fitch – “Aa3” Moody’s – “AA” S&P
   • SMUD received a "Positive Outlook" from Moody’s

2. Fixed Charge Coverage ratio exceeded minimum 1.50x target
   • 1.64x in 2022 and 2.42x in 2021

3. Successfully issued $133 million in refunding bonds at 2.31% cost of funds
   • Refunded 2012 Series Y bonds
   • Resulted in $31 million of cash flow savings - $2.8 million annual savings through 2033

4. Successfully renewed and restructured $400 million Letter/Line of Credit Program
   • Lower fees than existing program will save SMUD $500k annually through 2025
   • Utilized the Letter/Line of Credit program by issuing $150 million of commercial paper in 2022

5. Successfully renewed property and casualty insurance coverage programs
   • Maintained $800 million property program and $255 million wildfire program; and
   • Obtained a $50 million advance on the Cosumnes Power Plant claim outage.
Why Do Credit Ratings Matter?

➢ Higher ratings = lower borrowing costs
  • If SMUD’s ratings were to fall from AA to A, the impact at today’s rates would be approximately $400k/yr. for every $100 million borrowed.
    ✓ Impact grows in higher rate environments as Federal Reserve tightens

➢ 2022 events make access to credit and financial risk mitigation imperative
  • SMUD reserves and commercial paper provide liquidity
  • Business interruption insurance provides recovery from higher costs.
    ✓ Both support and enhance SMUD financial strength and our AA ratings

➢ Enhances our position as a strong counterparty
  ✓ Lower costs for Commodity procurement function
  ✓ Higher collateral thresholds allow for headroom with volatile commodity prices
Credit Strengths

• Strong financial performance
• Governance structure – autonomous rate setting and no intra-government revenue transfers
• Proactive planning and hedging strategies
• Diverse resource portfolio
• Favorable debt and liabilities profile
• Strong wildfire mitigation program
• Diverse service territory, strong governmental presence
Credit Concerns

- Legal and financial risks from Inverse Condemnation statute interpretation as it relates to potential wildfire liability
- Increased capital forecast and heavier reliance on cash could put pressure on key metrics leading to higher borrowing
- Lower demand growth due to energy efficiency, distributed generation and potential for battery storage
- Prioritizing environmental goals or rate affordability over preservation of the financial profile
- Significant growth in pension liability obligation
### Rating Criteria and SMUD Report Card

<table>
<thead>
<tr>
<th>Category</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Ratios</td>
<td>Positive</td>
</tr>
<tr>
<td>Governance Structure</td>
<td>Strong Positive</td>
</tr>
<tr>
<td>Rate Competitiveness</td>
<td>Strong Positive</td>
</tr>
<tr>
<td>Resource Portfolio (cost)</td>
<td>Neutral</td>
</tr>
<tr>
<td>Risk Management Practices</td>
<td>Strong Positive</td>
</tr>
<tr>
<td>Service Area (demographics)</td>
<td>Neutral</td>
</tr>
<tr>
<td>Regulatory Factors</td>
<td>Negative</td>
</tr>
</tbody>
</table>
Recommendation

Staff recommends accepting the SD-3 Report as evidence of compliance with Strategic Direction-3, Access to Credit Markets
Questions & Discussion?