

Exhibit to Agenda Item #2

Discuss the monitoring report for **Strategic Direction SD-3, Access to Credit Markets.**

Board Policy Committee and Special SMUD Board of Directors Meeting
Tuesday, February 6, 2024, immediately following the Strategic Development
Committee and Special SMUD Board of Directors Meeting scheduled to
begin at 6:00 p.m.

SMUD Headquarters Building, Auditorium

Strategic Direction SD-3, Access to Credit Markets

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

Therefore:

- a) For SMUD's annual budgets, the Board establishes a minimum target of cash coverage of all debt service payments (fixed charge ratio) of 1.50 times.
- b) When making resource decisions, SMUD shall weigh the impacts of long-term revenue requirements, debt, financial risk and flexibility
- c) SMUD's goal is to maintain at least an "A" rating with credit rating agencies

2023 Accomplishments

Credit ratings remained strong

- AA from Fitch AA from S&P Global Ratings Upgraded to Aa2 from Moody's on Jan. 31

Exceeded 1.50 fixed charge coverage ratio target

- Exceeded target in 2023 with a 2.32 ratio and in 2022 with a 1.65 ratio

Successfully issued \$493 million in refunding bonds

- Refunded 2013 Series A bonds and 2023 Series B bonds, including the negotiation of a Standby Bond Purchase agreement to support the variable rate bonds sold
- **\$7 million savings per year over the next decade; \$4.8 million average savings through 2041**
Total cash flow savings of \$98 million – net present value savings of \$64 million
- Refunded \$200 million outstanding commercial paper opening commercial paper capacity in full
- Issued SMUD's first ever Climate Bond Certified Green Bonds

Successfully renewed property and casualty insurance coverage programs

- Maintained \$800 million property program and \$275 million wildfire program
- Continued negotiations regarding Consumnes Power Plant outage claim

Why Do Credit Ratings Matter?

Higher credit ratings = lower borrowing cost

- If SMUD's ratings were to decrease from AA to A, the increase (at today's rates) would be approximately \$373,000 per year, for every \$100 million borrowed.
- **Impact grows in higher rate environments**

Events over the past four years make access to credit and financial risk mitigation imperative

- SMUD reserves and commercial paper program provide liquidity
- Business interruption insurance provides recovery from higher unplanned costs
- **Both support and enhance SMUD financial strength and our AA ratings**

Enhances SMUD's position as strong counterparty

- **Lower costs for commodity procurement function**
- **Higher collateral thresholds allow for headroom with volatile commodity pricing**

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
- Ongoing net pension liability obligation

Recommendation

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

Questions & Discussion?