

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 17, 2026, immediately following the Finance & Audit
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:

- For SMUD's annual budgets, the Board establishes a minimum target of cash 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

2025 Accomplishments



Credit Ratings Maintained: Fitch Ratings: **AA** Moody's Ratings: **Aa2**

S&P Global Ratings: **AA** negative outlook



Fixed Charge Coverage ratio exceeded 1.50x minimum: 3.71x 2025 actual



First Green Commercial Paper (CP) notes issued by any U.S. municipal electric utility



Issued \$200 million green bonds and \$100 million in refunding bonds



Defeased SFA Outstanding Debt – decarbonizing our debt portfolio and saving \$13.8 million annually



\$93 million Investment Tax Credit (ITC) received for Solano 4 and Battery Energy Storage

Why is a SMUD's AA credit rating important?



Reduces borrowing costs



Enhances our position as strong counterparty



Credit access is vital to support investments in infrastructure

Rating Agency Feedback

Credit Strengths:

Strong Financial Performance as evidenced by:

- Fixed charge ratio around 2.0x over the past two years
- Consistent on-time rate adjustments
- Competitive rates
- Strong cash reserves
- Diverse resource portfolio
- Healthy debt and liability position
- Efficient operations with low costs
- Forward-looking planning and risk protection
- Strong wildfire mitigation activities

Credit Concerns:

- Risk of wildfire damage liability and related legal claims
- Higher capital costs impacting rates and financial health
- Weakened competitiveness and reduced financial flexibility
- Choosing environmental goals or affordable rates over financial strength

Recommendation

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