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Sacramento Municipal Utility District, California: Fitch New Issue Report

Revenue is predominantly provided by retail (residential, commercial and industrial) electric sales to a modestly growing service area in and around the state capital. Demographic trends are favorable and SMUD has the exclusive right to provide electric service in its service area, providing strong revenue resiliency. Residential sales provide approximately 50% of annual revenue and no concentration exists in the customer base. Although the utility receives wholesale revenue, which can be more variable than retail sales, SMUD budgets conservatively, resulting in strong revenue performance to budget. Very strong rate flexibility is reflected in highly competitive rates and supported by the district board's independent legal ability to set its own rates. Rate affordability is high, with average annual electric costs accounting for only 1.8% of the city median household income. The rate structure does not include a natural gas or power cost adjuster but does include a hydro adjuster that recovers higher costs in low hydroelectric output years. The board adopts regular annual base rate increases, including 5.5% base rate increases in 2024 and 2025, split into two stages of implementation each year, on Jan. 1 (2.75%) and May 1 (2.75%). These increases are higher than in past years to keep pace with the inflationary cost environment given the lack of a power cost adjustment in the rate structure.

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