

CFO Report to the Board of Trustees on Debt and Access to Credit Markets

March 29, 2017



Board Adopted “Public Power Model”

In 2015, LIPA Trustees adopted a policy to serve the long term interests of the Authority’s customers by establishing revenues by using fixed obligation coverage and establishing sound financial planning metrics including:

- Developing financial plans that lead to bond ratings of at least A2/A/A from Moody’s, S&P and Fitch over five years
- Achieving fixed obligation coverage* of 1.20x in 2016, 1.30x in 2017, 1.40x in 2018 and 1.45x in 2019 and beyond
- Generating sufficient cash flow coverage such that no more than 64% of capital expenditures are funded with debt
- Maintaining cash on hand and available credit of at least 120 days of operating expenses

*Assumes LIPA debt service plus capitalized leases

Rating Agency Update

Key Points:

- ▲ *LIPA made progress on the first of its metrics with a Moody's upgrade of LIPA from Baa1 to A3*
- ▲ *LIPA's new financial policy charts the path to achieve A2 / A / A bond ratings within 5 years*
- ▲ *All three rating agencies provided direction on securing higher ratings, some of which are highlighted below*

Moody's

- "Improvements in LIPA's operating performance, better customer satisfaction levels... expectation for better financial performance on a sustained basis"
- "Debt ratio is expected to continue its declining trend..."
- "Consideration of a higher rating if... fixed obligation coverage were to reach 1.50x while its debt ratio declined below 100% on a sustained basis"

S&P

- "...\$3 billion of securitizations reduced the \$7 billion balance sheet debt by about one third and the 2016 securitizations will bring the reductions beyond 50%. These reductions could improve the financial cushion available to unsecuritized bondholders."
- "We could raise the rating if fixed charge coverage materially strengthens..."

Fitch

- "Evidence of improved operating stability and financial performance... could result in consideration of a positive rating action."

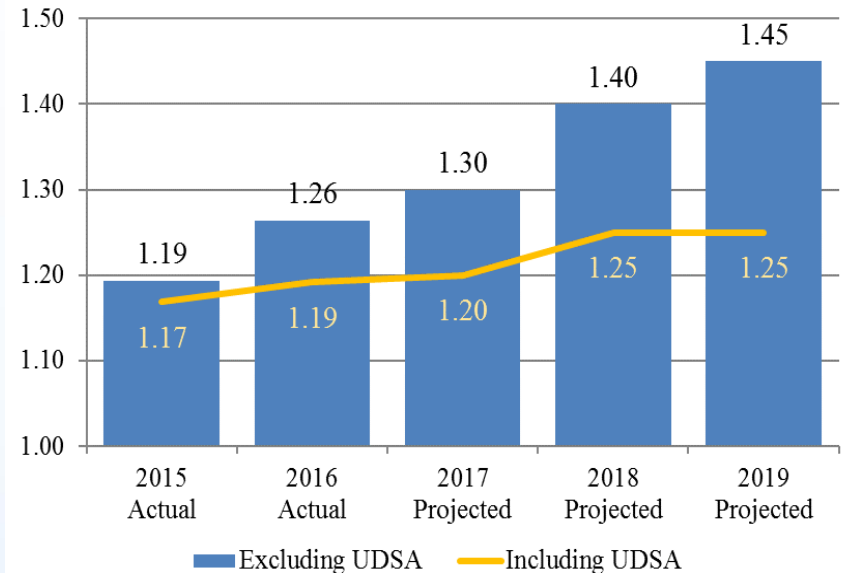
LIPA's Debt Service Coverage Is Improving

The Board approved financial policies for the Authority to achieve certain levels of Fixed Obligation Coverage in 2015. LIPA exceeded the coverage requirement in 2016 and has budgeted to achieve the required level in 2017 and beyond

Board Approved Coverage

| Target Coverage Ratio | 2016 | 2017 | 2018 | 2019 |
|-----------------------|-------|-------|-------|-------|
| LIPA only | 1.20x | 1.30x | 1.40x | 1.45x |
| LIPA + UDSA | 1.15x | 1.20x | 1.25x | 1.25x |

Debt Service Coverage



LIPA Capital Expenditure Funding

LIPA's Board policy reduce the percentage of capital expenditures funded by debt to 64% or less over time

| (\$ in Thousands) | 2016 | | 2015 | |
|------------------------------|------------------|------------|------------------|------------|
| Capital Expenditures: | \$531,774 | | \$396,286 | |
| Sources of Funds: | | | | |
| <i>Debt Financing</i> | 282,317 | 53% | 238,795 | 60% |
| FEMA Grants* | 139,789 | 26% | 33,124 | 8% |
| PAYGO | 109,668 | 21% | 124,367 | 32% |
| Total Sources | \$531,774 | | \$396,286 | |

- ❖ 53% of capital plan funded by debt in 2016
- ❖ The goal is to improve LIPA's debt-to-asset ratio gradually toward 64% , consistent with other major public power utilities
- ❖ The 2016 capital program saw a significant increase in size with the addition of the FEMA funded storm hardening program

* LIPA advances funding for FEMA projects, which are reimbursed after completed documentation is received from PSEG



LIPA Liquidity Position

December 31, 2016 and 2015 (Unaudited)

Liquidity Position

| <i>(\$ in Thousands)</i> | December 31, 2016 | Days Cash | December 31, 2015 | Days Cash |
|---|--------------------|------------|--------------------|------------|
| Operating Liquidity | | | | |
| Unrestricted cash and cash equivalents | \$652,370 | | \$578,619 | |
| OPEB account cash, cash equivalents & investments | 128,998 | | 51,579 | |
| Restricted cash - Working Capital Requirements | 207,045 | | 208,099 | |
| Total operating liquidity | 988,413 | 126 | 838,297 | 107 |
| Available credit | | | | |
| General Revenue Notes - Revolving Credit Facility | 337,500 | | 337,500 | |
| General Revenue Commercial Paper | 169,375 | | 275,000 | |
| Subordinated Revenue Commercial Paper | 50,000 | | 0 | |
| Total available credit | 556,875 | | 612,500 | |
| Total cash, cash equivalents, investments & available credit | \$1,545,288 | 197 | \$1,225,000 | 156 |
| Restricted cash | | | | |
| FEMA - restricted | 470,972 | | 501,990 | |
| UDSA | 88,572 | | 33,518 | |
| Total restricted cash | \$559,544 | | \$535,508 | |

LIPA has exceeded its required 120 days cash on hand for 2016 and is well positioned, with available credit facilities, to meet our cash flow needs

LIPA and UDSA Debt Outstanding

The Authority's consolidated debt at December 31, 2016 (unaudited), 2015 and 2014, including current maturities, is comprised of the following:

| (\$ in Thousands) | 2016 | 2015 | 2014 |
|--|--------------------|--------------------|--------------------|
| Long-term debt: | | | |
| General Revenue Bonds | \$3,356,972 | \$4,380,595 | \$5,246,726 |
| Subordinate Revenue Bonds | | | 350,000 |
| UDSA Restructuring Bonds | 3,965,529 | 2,919,439 | 1,932,324 |
| Total long-term debt | 7,322,501 | 7,300,034 | 7,529,050 |
| Short-term debt: | | | |
| General Revenue Notes | | | 65,000 |
| General Revenue Commercial Paper Notes | 155,625 | 50,000 | |
| Subordinated Commercial Paper Notes | 250,000 | 300,000 | 215,000 |
| Total short-term debt | 405,625 | 350,000 | 280,000 |
| Total debt | \$7,728,126 | \$7,650,034 | \$7,809,050 |

- ❑ LIPA's debt outstanding has remained relatively stable for the past three years
- ❑ The four UDSA restructuring bond offerings allowed LIPA to achieve a lower cost of funds through "AAA" credit ratings and record low absolute interest rates, generating net present value savings of over \$400 million
- ❑ The September 2016 UDSA financing had an all in rate of 2.01% with a final maturity in 2033 and the October 2016 LIPA financing had an all in rate of 3.55% and a final maturity of 2046, both transactions occurred near the all time lows of interest rates

Short Term Debt and Liquidity

December 31, 2016 (Unaudited)

LIPA has several components of its short term debt and revolving credit facilities. LIPA uses these to augment seasonal operations and capital needs, as well as to meet rating agency requirements for available liquidity

| Name | Type | Amount Outstanding | Amount Available | Broker-Dealer | Revolving Credit or L/C Provider | Credit Expiration Date |
|-----------------------------------|----------|----------------------|------------------------|---------------|-------------------------------------|------------------------|
| Revolving Credit Agreement | | | | | | |
| Sr. Series 2013A (RCA) | Revolver | \$0 | \$350,000,000 | TD Securities | TD Bank - Lead BofA, JPM and Key | 3/22/2019 |
| Senior Lien | | | | | | |
| Sr. Series 2015 GR-1 | CP Notes | \$85,000,000 | \$200,000,000 | Goldman | TD Letter of Credit | 6/29/2021 |
| Sr. Series 2015 GR-2 | CP Notes | \$70,625,000 | \$75,000,000 | Wells Fargo | BMO Letter of Credit | 3/29/2018 |
| Sr. Series 2015 GR-3 | CP Notes | \$0 | \$100,000,000 | Wells Fargo | US Bank Letter of Credit | 3/23/2020 |
| Subordinate Lien | | | | | | |
| Sub CP 2014 CP-1 | CP Notes | \$150,000,000 | \$200,000,000 | RBC | RBC Letter of Credit | 12/21/2017 |
| Sub CP 2014 CP-2 | CP Notes | \$100,000,000 | \$100,000,000 | Citi | State Street Letter of Credit | 12/15/2017 |
| Total | | \$405,625,000 | \$1,025,000,000 | | | |

- LIPA solidified its access to short term capital by securing an increase of its revolving credit agreement capacity to \$350 million through 2019
- LIPA extended \$300 million in Senior Lien CP Notes to 2020 and 2021

LIPA Meeting Financial Metrics

LIPA has met all of the financial metrics established by the Board of Trustees in December, 2015 for the first full year of operations under the “Public Power Model”

LIPA advanced its first metric by receiving its first credit rating upgrade in 11 years from Moody’s from Baa1 to A3

LIPA met its second metric by achieving actual 1.26x fixed obligation coverage, exceeding the 1.20x required for 2016

LIPA met its third metric by financing 53% of the 2016 capital program with debt, well below the 64% target

LIPA met its fourth metric by maintaining 197 days of operating cash and available credit on hand