

UTILITY DEBT SECURITIZATION AUTHORITY
Debt Management Policy
(as amended on September 2017)

I. Purpose of Debt Management Policy

On June 21, 2013, the LIPA Reform Act was passed which, among other things, created the Utility Debt Securitization Authority (“UDSA”), allowing for the retirement of certain outstanding indebtedness of the Long Island Power Authority (“LIPA” or the “Authority”) through the purchase of Restructuring Property (defined in the LIPA Reform Act) by UDSA from LIPA and the issuance of restructuring bonds by UDSA to finance such purchase. The net proceeds from UDSA bond sales shall be used to purchase the Restructuring Property from LIPA, which is an obligation of LIPA to remit certain revenues to UDSA in amounts sufficient to meet the debt service and other obligations of the UDSA restructuring bonds.

This debt management policy sets forth the parameters for issuing and managing debt of the UDSA and provides guidance regarding the purpose for which the UDSA restructuring bonds may be issued, including types, amounts and structure of permissible restructuring bonds, as well as timing and method of sale for such restructuring bonds.

LIPA acts as “Administrator” for UDSA in connection with many debt management functions pursuant to Administration Agreements entered into with UDSA in connection with each series of restructuring bonds. Accordingly, LIPA is responsible for implementation of many aspects of this Debt Management Policy.

II. Issuance of Debt

Prior to being amended in 2015, the Securitization Law permitted only one issuance of restructuring bonds by the UDSA. The 2015 amendment permits UDSA to issue additional restructuring bonds in an aggregate amount not to exceed \$4.5 billion (inclusive of restructuring bonds previously issued).

- a. The Authority, its financial advisor(s), and its underwriting team monitor the debt markets and the Authority’s outstanding debt on an ongoing basis to identify potential opportunities and to manage refinancing risks. The primary objective of these refinancings is to achieve debt service savings (i.e. replacing current LIPA debt with UDSA restructuring bonds that have lower principal and interest payments through maturity, as measured on a present value basis). As a general policy, the Authority will not extend the average weighted life (i.e., average maturity) of LIPA bonds as a result of refinancings (other than as may incidentally occur because of different payment dates, etc).
- b. Generally, for a refinancing of fixed rate bonds with fixed rate bonds, the Authority uses three percent (3%) net present value (“NPV”) savings as a minimum requirement for an advanced refunding (i.e. a refinancing that occurs more than 90 days in advance of the call date on the refunded bond). This will be measured for the transaction as a whole. However, in certain circumstances, lower savings thresholds may be justified.

The LIPA Reform Act does not currently permit UDSA to issue bonds to refund its previously issued restructuring bonds.

III. Required Authorizations for the Issuance of Debt

a. *Board of Trustees*

The Authority shall schedule and hold one or more public statement hearings on any new proposed restructuring cost financing order ("Financing Order"). After the conclusion of such hearings and its review of any comments received, the Authority shall finalize the Financing Order for submission to and approval by the Authority's Trustees.

b. *Public Authorities Control Board (PACB)*

The Financing Order shall be submitted to the public authorities control board ("PACB"). The PACB typically meets monthly, usually the 3rd Wednesday of the month. Under current practices, in order to be placed on the agenda for that month's meeting, the PACB's staff requests that all items be submitted no later than the first business day of each month. The PACB submission should include a memo to the PACB summarizing the requested authorization including the use of the proceeds, the anticipated structure of the transaction, and other relevant details. In addition, a draft PACB resolution must be submitted, along with the resolution adopted by the Authority's Trustees authorizing the Financing Order. If the PACB fails to take action (approve or disapprove such Financing Order) within 30 days of the PACB's receipt of the request to approve the Financing Order, the PACB shall be deemed to have approved the Financing Order.

c. *Appeals*

The Financing Order becomes a final rate order once it has been approved by the LIPA Board and approved (or deemed approved) by the PACB. Upon becoming a final rate order, there is a 30 day appeals period during which time the public may file a lawsuit to challenge the validity of the final rate order. After receiving notice from the Authority that the 30 day period for any challenges has expired, UDSA may enter into an agreement (a "Bond Purchase Agreement") with one or more underwriters to sell the restructuring bonds.

IV. Selling Restructuring Bonds

- a. No later than the 3rd business day after the pricing of the restructuring bonds in accordance with the Bond Purchase Agreement, the initial servicer (LIPA) shall determine the initial transition charges and the expected savings to consumers and file an Issuance Advice Letter with the Authority and the UDSA stating the principal amount of restructuring bonds to be issued, the pricing, the net proceeds, the initial transition charges, the expected savings to consumers and any other information required by the Financing Order. No later than the end of the 3rd business day after the filing of such Issuance Advice Letter, the Authority shall confirm in a notice to UDSA that such pricing complies with the Financing Order.
- b. Within 90 days after receiving notice of confirmation from the Authority, UDSA shall issue the restructuring bonds, in one or more series or tranches and at one or more times, pursuant to the Bond Purchase Agreement. UDSA shall purchase the restructuring property from the Authority for a purchase price equal to the net proceeds from the sale of the restructuring bonds, less any amounts of such proceeds required to fund or pay upfront financing costs.

V. Financial Advisors

- a. In order to obtain access to market information, the Authority may retain the services of outside financial advisors. The Authority shall, on a periodic basis, select a financial advisor(s) using a competitive process. A competitive process allows the Authority to compare the qualifications of proposers and to select the most qualified firm(s) based on the scope of services and evaluation criteria outlined in a Request for Proposals (“RFP”).
- b. A financial advisor shall assist the Authority on all financings, including the sale of bonds (as well as pricing in a negotiated sale), debt management, credit ratings management, and other general financial matters.
- c. The financial advisor(s) may be any firm with the necessary experience and qualifications, including an independent firm or investment bank. However, if the Authority should select an investment bank to serve as a financial advisor, the investment bank is prohibited from participating in any financing transactions (i.e. bond sale) while serving in its role as financial advisor.

VI. Method of Sale

UDSA issues debt through a public negotiated sale. The use of a public negotiated sale allows for pre-marketing efforts and outreach to specific investor segments (i.e. retail investors) prior to the sale. In addition, during periods of volatility, instability or uncertainty in the financial markets, a public negotiated sale ensures a successful and cost-effective bond pricing.

VII. Selection of Underwriters

- a. In order to ensure that UDSA obtains the lowest possible interest cost for its bonds, the Authority maintains a pool of underwriters (senior managers, co-managers and remarketing agents/dealers) that have demonstrated strong banking, underwriting, and marketing/distribution capabilities, including a willingness and ability to commit capital to ensure a successful financing.
- b. The pool of underwriters is selected by the Authority on a periodic basis through a competitive RFP process to promote fairness, objectivity and transparency. The RFP process allows management to compare respondents and select the most qualified firms for the pool based on the evaluation criteria established in the RFP.
- c. The Authority shall seek input from its financial advisor(s) in developing the RFP, as well as evaluating the responses to the RFP.
- d. The senior manager(s) for each individual transaction will be selected on a transaction- by-transaction basis from the approved pool of senior managers based on a number of factors including, but not limited to: unique financing ideas presented by each underwriter; ongoing coverage and assistance provided to the Authority; and expertise and/or qualifications based on the specifics of the transaction.

VIII. Disclosure Counsel and Bond Counsel

External counsel with securities experience is required for each financing.

- a. Disclosure Counsel ensures the offering documents are accurate, complete and meet relevant legal and regulatory requirements. Disclosure Counsel's opinion provides assurance to UDSA and the underwriters that the disclosures being made are fair and accurate. In addition, Disclosure Counsel assists UDSA with its ongoing commitment to continuing disclosure and material events reporting (see further discussion below).
- b. Bond Counsel renders an opinion on the validity of the bond offering, the security for the offering, and whether and to what extent interest on the bonds is exempt from income and other taxation. The approving opinion of Bond Counsel to UDSA, and supplemental opinion of Bond Counsel to underwriters who purchase the bonds, provides assurance, respectively, that all legal and tax requirements relevant to the matters covered by the opinion are met. Bond Counsel also prepares the documents required to complete the bond sale.
- c. Both Bond Counsel and Disclosure Counsel provide ongoing advice and guidance on financing matters. Bond Counsel and Disclosure Counsel selection is based on the necessary expertise to provide advice and the required legal opinions for completing financings. Bond Counsel and Disclosure Counsel may be separate firms or these services may be offered by the same firm.

IX. Rating Agencies and Credit Ratings Management

- a. UDSA makes every reasonable effort to obtain and maintain the highest possible credit ratings consistent with providing its customers the lowest long-term electric rates. At a minimum, UDSA shall maintain credit ratings from at least two of the nationally recognized credit rating agencies.
- b. In order to ensure the rating agencies perform the best credit review and reach the most informed ratings decision about UDSA, management makes an effort to provide the rating agencies with accurate and timely financial and operational information. The Chief Financial Officer is responsible for continuous communication with the rating agencies throughout the year, and particularly upon the occurrence of any material events. The types of information conveyed include changes in staffing, quarterly and annual financial statements, material reports or audits concerning UDSA or the Authority, and budget and rate filing information and developments.
- c. Normally, management will meet with each rating agency at least once per calendar year. Rating agencies are also contacted in advance of each debt offering, notifying them of the planned sale and schedule a meeting to provide all relevant materials, including a draft of the official statement.

X. Primary Market Disclosures - Official Statements

- a. It is UDSA's policy to provide primary market disclosure to all its bond investors in compliance with applicable securities laws and the rules of the Municipal Securities Rulemaking Board ("MSRB"). MSRB rules require the filing by the broker dealer of an official statement within 10 days of the execution of a Bond Purchase Agreement.
- b. The official statement will be prepared by the Authority, with the assistance of the Authority's Disclosure Counsel, Bond Counsel, financial advisor(s), and the senior underwriter(s) in connection with any new financing and in accordance with the Policies and Procedures Related to Disclosure Matters of the Authority and UDSA. The official statement will describe the essential terms of the bonds, including whether, and on what terms, the bonds can be redeemed prior to maturity, the sources pledged to repay the bonds, and UDSA's covenants for the benefit of investors, among other required disclosures.
- c. The official statement will also contain certain financial and operating data about the Authority and UDSA. The Authority, based on counsel from its advisors, will consider what other material matters should be included in any such official statement, including any legal, regulatory or statutory matters. The Authority, on behalf of UDSA, will use its best efforts to ensure that the disclosures made in any such official statement are accurate.
- d. The official statements are filed with the MSRB's Electronic Municipal Market Access System ("EMMA").

XI. Continuing Disclosures and Material Events Reporting

- a. The UDSA bonds are subject to the continuing secondary market disclosure requirements of Rule 15c2-12 of the Securities and Exchange Commission ("SEC"). A determination will be made as part of each bond issuance as to the undertakings that UDSA will have with respect to continuing disclosures.
- b. Generally, each continuing disclosure undertaking requires that LIPA, as the Servicer, file:
 - (1) Not later than 180 days following the end of each fiscal year, the Annual Disclosure Report including to the extent available, the Auditors Report and the Compliance Certificate, and the Annual Servicer Information;
 - (2) not later than 30 days after the applicable Debt Service Payment Date, the Semiannual Servicer Certificate;
 - (3) In addition, LIPA shall provide notices of the occurrences of certain specific events enumerated in such Certificates, if material ("Material Events Notices") within 10 business days after the occurrence of the Notice Event.
 - (4) These Annual Reports and Material Events Notices shall be filed by or on behalf of UDSA with EMMA.