

UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)

Quarterly Unaudited Financial Report

For the three-month period ended March 31, 2018

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Introduction

The Utility Debt Securitization Authority (UDSA) was created by Part B of Chapter 173, Laws of New York, 2013 (as amended by Chapter 58 of the Laws of New York, 2015, the “Securitization Law”). The Securitization Law allowed for the retirement of certain outstanding indebtedness of the Long Island Power Authority (Authority) through the issuance of securitized restructuring bonds (Restructuring Bonds) by the UDSA. The Restructuring Bonds are to be repaid by an irrevocable, nonbypassable restructuring charge on all Authority customer bills. The Authority’s Board adopted Financing Orders to issue additional Restructuring Bonds. All such financing orders are substantively the same and each permits the UDSA to issue Restructuring Bonds in an aggregate amount not to exceed the amount authorized by the Securitization Law. Each financing order authorized Restructuring Bonds secured by a separate restructuring charge created pursuant to that financing order. Through the end of 2017, a total of \$4.5 billion of UDSA Restructuring Bonds have been issued, with no statutory capacity remaining. The proceeds of the UDSA restructuring bonds refunded certain Authority bonds and generated total net present value debt service savings of \$492 million for the Authority’s customers.

Overview of the Financial Statements

The UDSA’s financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

Management’s Discussion and Analysis provides an overview of the UDSA for the three-month period ended March 31, 2018 compared to 2017. The unaudited quarterly financial statements should be read in conjunction with the annual audited financial statements, which may be found on the UDSA’s website at www.lipower.org/UDSA.

Contacting the Utility Debt Securitization Authority

This financial report is designed to provide the UDSA’s bondholders, and other interested parties, with a general overview of the UDSA’s finances and to demonstrate its accountability for the funds it receives. If you have any questions about this report or need additional information, contact the Utility Debt Securitization Authority, in care of the Long Island Power Authority, at 333 Earle Ovington Blvd., Suite 403, Uniondale, New York 11553, or visit the UDSA’s website at www.lipower.org/UDSA.

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Net Position

March 31, 2018 and December 31, 2017

(Amounts in thousands)

	2018	2017
	(unaudited)	(audited)
Assets		
Current assets:		
Restricted cash and cash equivalents	\$ 195,694	109,167
Accounts receivable (net of uncollectible accounts of \$213 and \$134, respectively)	56,663	52,971
Prepaid assets	156	222
Total current assets	252,513	162,360
Noncurrent assets:		
Restructuring property (net of accumulated amortization)	4,628,663	4,675,324
Regulatory asset - unamortized debt issuance costs	24,059	24,699
Total noncurrent assets	4,652,722	4,700,023
Total assets	\$ 4,905,235	4,862,383
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 122,803	122,803
Accrued interest	60,111	9,643
Accrued expenses	4,853	3,995
Total current liabilities	187,767	136,441
Noncurrent liabilities:		
Long-term debt	4,139,593	4,139,593
Unamortized premium of long-term debt	483,244	494,915
	4,622,837	4,634,508
Net position - restricted	94,631	91,434
Total liabilities and net position	\$ 4,905,235	4,862,383

UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)
Statements of Revenues, Expenses, and Changes in Net Position
Three-month period ended March 31, 2018 and 2017
(unaudited)
(Amounts in thousands)

	<u>2018</u>	<u>2017</u>
Operating revenue	\$ 90,350	61,643
Operating expenses:		
Amortization of restructuring property	46,661	19,894
Provision for uncollectible accounts	529	137
Servicing, administrative and other fees	904	695
Total operating expenses	<u>48,094</u>	<u>20,726</u>
Operating income	<u>42,256</u>	<u>40,917</u>
Other income	393	122
	<u>42,649</u>	<u>41,039</u>
Interest charges:		
Interest expense	50,468	46,660
Other interest expense	14	12
Amortization of restructuring bond premium and issuance costs	(11,030)	(10,252)
Total interest charges	<u>39,452</u>	<u>36,420</u>
Change in net position	<u>3,197</u>	<u>4,619</u>
Net position, beginning of year	<u>91,434</u>	<u>61,175</u>
Net position, end of period	<u>\$ 94,631</u>	<u>65,794</u>

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Cash Flows

Three-month period ended March 31, 2018 and 2017

(unaudited)

(Amounts in thousands)

	2018	2017
Cash flows from operating activities:		
Operating revenues received	\$ 86,134	62,698
General and administrative expenditures	—	(2,794)
Net cash provided by operating activities	86,134	59,904
Cash flows from investing activities:		
Earnings received	393	122
Net cash provided by investing activities	393	122
Net increase in restricted cash and cash equivalents	86,527	60,026
Restricted cash and cash equivalents, beginning of year	109,167	88,572
Restricted cash and cash equivalents, end of period	\$ 195,694	148,598

Reconciliation of operating income to net restricted cash provided by operating activities:

Operating income	\$ 42,256	40,917
Adjustments to reconcile operating income to net restricted cash provided by operating activities:		
Amortization of restructuring property	46,661	19,894
Changes in operating assets and liabilities:		
Prepaid assets and accrued expenses	909	(1,878)
Accounts receivable	(3,692)	971
Net restricted cash provided by operating activities	\$ 86,134	59,904

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Three-Month Period ended March 31, 2018 Compared to 2017

The UDSA change in net position for the first three months of 2018 decreased \$1 million compared to the first three months of 2017. The net position and changes in net position reflect the timing differences between the accrual-based accounting required under generally accepted accounting principles and the ratemaking treatment followed by the UDSA. The UDSA's Restructuring Charge is set at an amount sufficient to recover the debt service payments and other cash operating expenses that the UDSA incurs in any given year, which may differ from the accrued revenue and expenses recognized.

Operating Revenues

Operating revenue increased \$29 million compared to 2017 due primarily to additional revenue generated to recover debt service costs associated with the issuance of the 2016 and 2017 Restructuring Bonds.

Operating Expenses

Operating expenses increased \$27 million compared to 2017 due primarily to amortization on the Restructuring Property resulting from higher scheduled debt maturities in June 2018 compared to 2017. The UDSA recognizes the amortization of the Restructuring Property on a proportionate basis annually based upon the total principal payments due and premiums outstanding on its restructuring bonds.

Nonoperating Expenses

Interest charges increased \$3 million compared to 2017 due to the additional Restructuring Bonds issued in 2017. During 2017, the UDSA issued \$369.5 million of 2017 Restructuring Bonds.