

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

Quarterly Unaudited Financial Report

For the nine-month period ended September 30, 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”), allowing 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 Securitization Law permits the Authority’s Board of Trustees (Board) to adopt financing orders pursuant to which the UDSA may issue Restructuring Bonds in an amount not to exceed a \$4.5 billion statutorily authorized amount (inclusive of any previously issued Restructuring Bonds).

The Authority’s Board adopted Financing Order No. 1 on October 3, 2013, Financing Orders No. 2, No. 3 and No. 4 on June 26, 2015 and Financing Order No. 5 on September 29, 2017, each authorizing the UDSA to issue Restructuring Bonds. All such financing orders are substantively the same. Each financing order authorized Restructuring Bonds secured by a separate restructuring charge created pursuant to that financing order. 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 approximately \$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 nine-month period ended September 30, 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
(A Component Unit of the Long Island Power Authority)

Statements of Net Position

September 30, 2018 and December 31, 2017

(Amounts in thousands)

	2018	2017
	(unaudited)	(audited)
Assets		
Current assets:		
Restricted cash and cash equivalents	\$ 197,114	109,167
Accounts receivable (net of uncollectible accounts of \$212 and \$134, respectively)	66,806	52,971
Prepaid assets	22	222
Total current assets	263,942	162,360
Noncurrent assets:		
Restructuring property (net of accumulated amortization)	4,540,630	4,675,324
Regulatory asset - unamortized debt issuance costs	22,800	24,699
Total noncurrent assets	4,563,430	4,700,023
Total assets	\$ 4,827,372	4,862,383
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 127,008	122,803
Accrued interest	58,192	9,643
Accrued expenses	848	3,995
Total current liabilities	186,048	136,441
Noncurrent liabilities:		
Long-term debt	4,074,576	4,139,593
Unamortized premium of long-term debt	460,176	494,915
	4,534,752	4,634,508
Net position - restricted	106,572	91,434
Total liabilities and net position	\$ 4,827,372	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

Nine-month period ended September 30, 2018 and 2017

(unaudited)

(Amounts in thousands)

	<u>2018</u>	<u>2017</u>
Operating revenue	\$ 266,190	221,600
Operating expenses:		
Amortization of restructuring property	130,826	82,159
Provision for uncollectible accounts	1,613	904
Servicing, administrative and other fees	2,415	2,221
Total operating expenses	<u>134,854</u>	<u>85,284</u>
Operating income	<u>131,336</u>	<u>136,316</u>
Other income	1,867	594
	<u>133,203</u>	<u>136,910</u>
Interest charges:		
Interest expense	150,717	138,938
Other interest expense	187	218
Amortization of restructuring bond premium and issuance costs	<u>(32,839)</u>	<u>(30,606)</u>
Total interest charges	<u>118,065</u>	<u>108,550</u>
Change in net position	<u>15,138</u>	<u>28,360</u>
Net position, beginning of year	<u>91,434</u>	<u>61,175</u>
Net position, end of period	<u>\$ 106,572</u>	<u>89,535</u>

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Cash Flows

Nine-month period ended September 30, 2018 and 2017

(unaudited)

(Amounts in thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Operating revenues received	\$ 250,741	199,705
General and administrative expenditures	(1,681)	(4,292)
Net cash provided by operating activities	<u>249,060</u>	<u>195,413</u>
Cash flows from investing activities:		
Earnings received	1,867	594
Net cash provided by investing activities	<u>1,867</u>	<u>594</u>
Cash flows from noncapital financing activities:		
Interest paid	(102,168)	(99,616)
Redemption of long-term debt	(60,812)	(32,790)
	<u>(162,980)</u>	<u>(132,406)</u>
Net increase in restricted cash and cash equivalents	87,947	63,601
Restricted cash and cash equivalents, beginning of year	<u>109,167</u>	<u>88,572</u>
Restricted cash and cash equivalents, end of period	<u>\$ 197,114</u>	<u>152,173</u>
Reconciliation of operating income to net restricted cash provided by operating activities:		
Operating income	\$ 131,336	136,316
Adjustments to reconcile operating income to net restricted cash provided by operating activities:		
Amortization of restructuring property	130,826	82,159
Changes in operating assets and liabilities:		
Prepaid assets and accrued expenses	733	(2,017)
Accounts receivable	(13,835)	(21,045)
Net restricted cash provided by operating activities	<u>\$ 249,060</u>	<u>195,413</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Nine-Month Period ended September 30, 2018 Compared to 2017

The UDSA results for the nine-months ended September 30, 2018 showed a decrease of \$13 million in the change in net position compared to 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 differs from the accrued revenue and expenses recognized.

Operating Revenues

Operating revenue increased \$45 million compared to 2017 due to an increase in the securitization charge to generate sufficient revenue to recover the higher debt service costs in 2018. The higher debt service costs are primarily the result of the issuance of \$369.5 million of Series 2017 Restructuring Bonds and increased principal payments due on Series 2016 Restructuring Bonds.

Operating Expenses

Operating expenses increased \$50 million compared to 2017 due primarily to amortization on the Restructuring Property resulting from higher debt maturities in 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 expense increased \$10 million compared to 2017 due to the additional Restructuring Bonds issued in 2017.