

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

Quarterly Unaudited Financial Report

For the six-month period ended June 30, 2019

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

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UTILITY DEBT SECURITIZATION
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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 six-month period ended June 30, 2019 compared to 2018. 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

June 30, 2019 and December 31, 2018

(Amounts in thousands)

	2019 (unaudited)	2018 (audited)
Assets		
Current assets:		
Restricted cash and cash equivalents	\$ 101,023	124,597
Accounts receivable (net of uncollectible accounts of \$129 and \$168, respectively)	48,337	49,018
Prepaid assets	90	222
Total current assets	149,450	173,837
Noncurrent assets:		
Restructuring property (net of accumulated amortization)	4,414,395	4,501,288
Regulatory asset - unamortized debt issuance costs	21,059	22,181
Total noncurrent assets	4,435,454	4,523,469
Total assets	\$ 4,584,904	4,697,306
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 128,275	130,761
Accrued interest	8,152	8,213
Accrued expenses	—	526
Total current liabilities	136,427	139,500
Noncurrent liabilities:		
Long-term debt	3,946,301	4,008,832
Unamortized premium of long-term debt	426,527	448,778
	4,372,828	4,457,610
Net position - restricted	75,649	100,196
Total liabilities and net position	\$ 4,584,904	4,697,306

UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)
Statements of Revenues, Expenses, and Changes in Net Position
Six-month period ended June 30, 2019 and 2018
(unaudited)
(Amounts in thousands)

	<u>2019</u>	<u>2018</u>
Operating revenue	\$ 139,936	165,445
Operating expenses:		
Amortization of restructuring property	86,893	88,865
Provision for uncollectible accounts	499	1,029
Servicing, administrative and other fees	1,621	1,660
Total operating expenses	<u>89,013</u>	<u>91,554</u>
Operating income	<u>50,923</u>	<u>73,891</u>
Other income	2,129	1,205
	<u>53,052</u>	<u>75,096</u>
Interest charges:		
Interest expense	98,492	100,838
Other interest expense	236	26
Amortization of restructuring bond premium and issuance costs	<u>(21,129)</u>	<u>(22,063)</u>
Total interest charges	<u>77,599</u>	<u>78,801</u>
Change in net position	<u>(24,547)</u>	<u>(3,705)</u>
Net position, beginning of year	<u>100,196</u>	<u>91,434</u>
Net position, end of period	<u>\$ 75,649</u>	<u>87,729</u>

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Cash Flows

Six-month period ended June 30, 2019 and 2018

(unaudited)

(Amounts in thousands)

	2019	2018
Cash flows from operating activities:		
Operating revenues received	\$ 139,633	166,780
General and administrative expenditures	(1,530)	(1,661)
Net cash provided by operating activities	138,103	165,119
Cash flows from investing activities:		
Earnings received	2,129	1,205
Net cash provided by investing activities	2,129	1,205
Cash flows from financing activities:		
Bond Issuance costs	(236)	(26)
Interest paid	(98,553)	(102,168)
Redemption of long-term debt	(65,017)	(60,812)
Net cash used in financing activities	(163,806)	(163,006)
Net (decrease) increase in restricted cash and cash equivalents	(23,574)	3,318
Restricted cash and cash equivalents, beginning of year	124,597	109,167
Restricted cash and cash equivalents, end of period	\$ 101,023	112,485
Reconciliation of operating income to net restricted cash provided by operating activities:		
Operating income	\$ 50,923	73,891
Adjustments to reconcile operating income to net restricted cash provided by operating activities:		
Amortization of restructuring property	86,893	88,865
Changes in operating assets and liabilities:		
Prepaid assets and accrued expenses	(393)	—
Accounts receivable	681	2,363
Net restricted cash provided by operating activities	\$ 138,103	165,119

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Six-Month Period ended June 30, 2019 Compared to 2018

The UDSA results for the six months ended June 30, 2019 showed a decrease of \$21 million in the change in net position compared to the first six months of 2018. 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 decreased \$26 million compared to 2018 due to a decrease in the securitization charge as accumulated cash balances were applied against current period obligations to reflect the collection of revenue in the prior year.

Operating expenses

Operating expenses decreased \$3 million compared to 2018 primarily due to decreases in: (i) the amortization of the restructuring property which the UDSA recognizes on a proportionate basis annually based upon the total principal payments due and premiums outstanding on its restructuring bonds and (ii) the provision for uncollectible accounts due to the decrease in customer uncollectible rates compared to the prior year.

Nonoperating revenues and expenses

Interest expense decreased \$2 million compared to 2018 due primarily to principal pay downs in June and December of 2018 coupled with no additional issuance of Restructuring Bonds.