

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, 2019

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(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 nine-month period ended September 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

September 30, 2019 and December 31, 2018

(Amounts in thousands)

	2019 (unaudited)	2018 (audited)
Assets		
Current assets:		
Restricted cash and cash equivalents	\$ 188,202	124,597
Accounts receivable (net of uncollectible accounts of \$182 and \$168, respectively)	59,375	49,018
Prepaid assets	47	222
Total current assets	247,624	173,837
Noncurrent assets:		
Restructuring property (net of accumulated amortization)	4,371,556	4,501,288
Regulatory asset - unamortized debt issuance costs	20,484	22,181
Total noncurrent assets	4,392,040	4,523,469
Total assets	\$ 4,639,664	4,697,306
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 128,275	130,761
Accrued interest	57,065	8,213
Accrued expenses	769	526
Total current liabilities	186,109	139,500
Noncurrent liabilities:		
Long-term debt	3,946,301	4,008,832
Unamortized premium of long-term debt	415,263	448,778
	4,361,564	4,457,610
Net position - restricted	91,991	100,196
Total liabilities and net position	\$ 4,639,664	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
Nine-month period ended September 30, 2019 and 2018
(unaudited)
(Amounts in thousands)

	<u>2019</u>	<u>2018</u>
Operating revenue	\$ 237,827	266,190
Operating expenses:		
Amortization of restructuring property	129,732	130,826
Provision for uncollectible accounts	956	1,613
Servicing, administrative and other fees	<u>2,353</u>	<u>2,415</u>
Total operating expenses	133,041	134,854
Operating income	<u>104,786</u>	<u>131,336</u>
Other income	<u>2,913</u>	<u>1,867</u>
	107,699	133,203
Interest charges:		
Interest expense	147,405	150,717
Other interest expense	317	187
Amortization of restructuring bond premium and issuance costs	<u>(31,818)</u>	<u>(32,839)</u>
Total interest charges	115,904	118,065
Change in net position	<u>(8,205)</u>	<u>15,138</u>
Net position, beginning of year	<u>100,196</u>	<u>91,434</u>
Net position, end of period	<u>\$ 91,991</u>	<u>106,572</u>

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Cash Flows

Nine-month period ended September 30, 2019 and 2018

(unaudited)

(Amounts in thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Operating revenues received	\$ 226,028	250,741
General and administrative expenditures	(1,449)	(1,494)
Net cash provided by operating activities	<u>224,579</u>	<u>249,247</u>
Cash flows from investing activities:		
Earnings received	2,913	1,867
Net cash provided by investing activities	<u>2,913</u>	<u>1,867</u>
Cash flows from financing activities:		
Bond administrative costs	(317)	(187)
Interest paid	(98,553)	(102,168)
Redemption of long-term debt	(65,017)	(60,812)
Net cash used in financing activities	<u>(163,886)</u>	<u>(163,167)</u>
Net increase in restricted cash and cash equivalents	63,605	87,947
Restricted cash and cash equivalents, beginning of year	<u>124,597</u>	<u>109,167</u>
Restricted cash and cash equivalents, end of period	<u>\$ 188,202</u>	<u>197,114</u>
Reconciliation of operating income to net restricted cash provided by operating activities:		
Operating income	\$ 104,786	131,336
Adjustments to reconcile operating income to net restricted cash provided by operating activities:		
Amortization of restructuring property	129,732	130,826
Changes in operating assets and liabilities:		
Prepaid assets and accrued expenses	418	920
Accounts receivable	(10,357)	(13,835)
Net restricted cash provided by operating activities	<u>\$ 224,579</u>	<u>249,247</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Nine-Month Period ended September 30, 2019 Compared to 2018

The UDSA results for the nine months ended September 30, 2019 showed a decrease of \$23 million in the change in net position compared to the first nine months of 2018 due to lower operating revenue in 2019 compared to 2018.

Operating revenues

Operating revenue decreased \$28 million compared to 2018 due to a decrease in the securitization charge resulting from prior year accumulated cash balances.

Operating expenses

Operating expenses decreased \$2 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) lower write-offs related to past due accounts.

Nonoperating revenues and expenses

Other income increased \$1 million compared to 2018 due to higher interest rates on cash balances.

Interest expense decreased \$2 million compared to 2018 due primarily to lower outstanding debt balances due to principal repayments of \$65 million and \$62 million in June 2019 and December 2018, respectively.