



DEBT AND ACCESS TO CREDIT MARKETS

May 20, 2020

2019 IN REVIEW

- ✓ Achieved Debt and Access to the Credit Markets Policy Metrics
- ✓ LIPA received upgrades from all three rating agencies: A2 by Moody's Investors Service (Moody's), A by Standard and Poor Global Ratings (S&P), and A by Fitch Ratings (Fitch).
- ✓ Issued \$502 million New Money Series 2019 Bonds; ~\$218 million fixed-rate bonds at lowest spreads to MMD in LIPA history, and ~\$284 million mandatory tender bonds
- ✓ Executed two forward starting swaps with September 1, 2022 effective dates expected to generate \$102 million of NPV savings

	FitchRatings	MOODY'S	STANDARD & POOR'S
Rating	A	A2	A
Outlook	Stable	Stable	Stable

The rating affirmation considers LIPA's strong suite of cost recovery mechanisms that support a more resilient and predictable cash flow stream, improved financial, operating and customer satisfaction measures, LIPA's continued investment in operational and systems improvements and the strong economic profile of LIPA's service territory.

BOARD POLICY ESTABLISHES CLEAR FINANCIAL GOALS

The Board Policy on Debt and Access to Capital provides guidance for LIPA's path to a stronger financial position, with the goal of reducing long-term cost for customers.

LIPA met or exceeded all the Board Policy goals in 2019.

Five key financial planning metrics include:

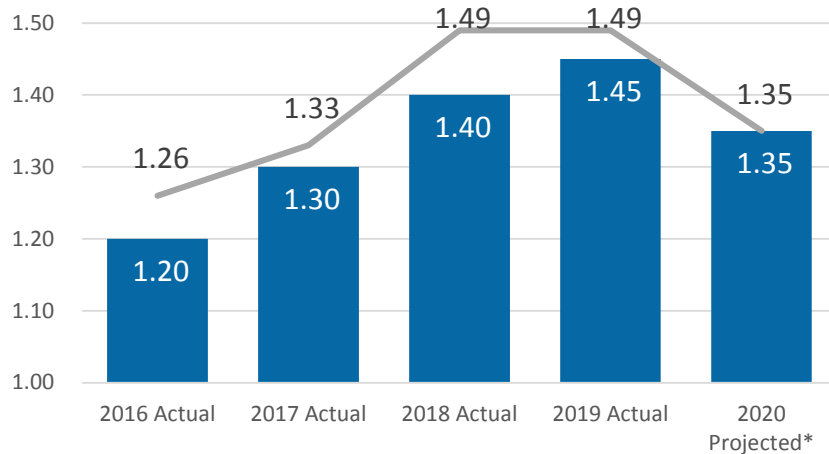
- Implementing financial plans that lead to bond ratings of at least A2/A/A from Moody's, S&P, and Fitch over five years;
- Achieving Debt-Service Coverage Ratio (measure of cash flow available to pay current debt obligations) of 1.45x in 2019 and 1.35x in 2020 and beyond (lower due to new lease accounting rules, which generate the same cash flow with a lower coverage ratio);
- Generating sufficient cash flow to fund no more than 64% of capital expenditures with debt;
- Maintaining cash on hand of at least \$100 million in the Operating Fund, \$150 million in the Rate Stabilization Fund, and available cash and available credit of at least 120 days of operating expenses; and
- Pre-funding of Pension Fund Obligations, Other Post Employment Benefits and Nuclear Decommissioning Trust Fund obligations in a fiscally sound manner, as measured by an actuary.

LIPA'S FIXED OBLIGATION COVERAGE HAS STEADILY IMPROVED

Board financial policies require LIPA to budget for certain levels of Fixed Obligation Coverage.

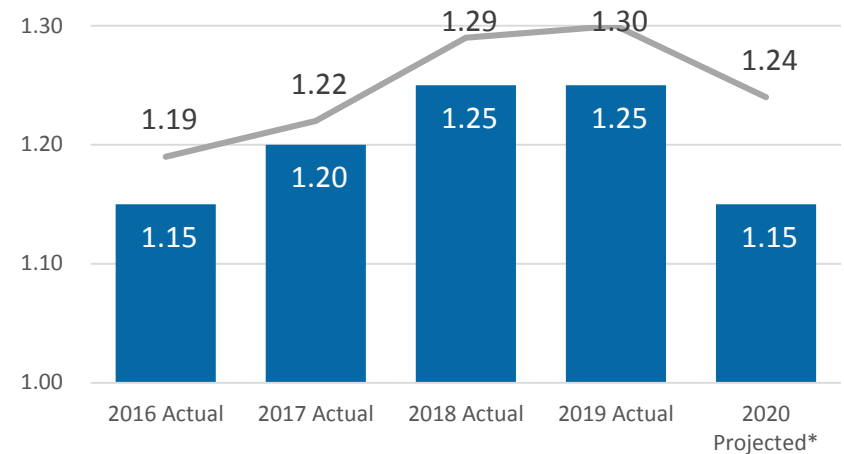
LIPA has exceeded the coverage requirement in 2016, 2017, 2018 and 2019 and has budgeted to achieve the required level in 2020.

LIPA Only Coverage



■ Board Approved — Actual & Projected

LIPA and UDSA Coverage



■ Board Approved — Actual & Projected

* Ratio modified for 2020 due to impact of new lease accounting rules. Cash flows remains unchanged.

LIPA CAPITAL EXPENDITURE FUNDING

LIPA's Board policy reduced the percentage of capital expenditures funded by debt to 64% or less on a three-year rolling average

(\$ in Thousands)	2019		2018		2017		2016	
Capital Expenditures:	746,277		636,571		706,862		531,774	
Sources of Funds:								
Debt Financing	462,044	62%	394,396	62%	389,080	55%	282,317	53%
FEMA Grants*	104,727	14%	136,246	21%	177,898	25%	139,789	26%
PAYGO	179,506	24%	105,929	17%	139,885	20%	109,668	21%
Total Sources	746,277		636,571		706,863		531,774	

* LIPA advances funding for FEMA projects, which are reimbursed at 90%.

- 3-year rolling average for the period ending 2019 was 62%
- Gradually improve LIPA's debt-to-asset ratio, consistent with other "A" rated major public power utilities
- Continued FEMA funding for storm hardening

PENSION, OPEB AND NDTF FUNDING

LIPA annually funds the PSEG and LIPA Pension and OPEB obligations and maintains required funding levels of the Nuclear Decommissioning Trust Fund in a fiscally sound manner, as measured, no less than every three years by an actuarial services firm

- PSEG Long Island pension plan trust:**
Assets - **\$282 million**
Obligation - **\$453 million**

- PSEG Long Island OPEB account:**
Assets - **\$386 million**
Obligations - **\$626 million**

- Funded **\$570,000** for LIPA to the NYS Employee Retirement System*

- OPEB Trust for LIPA employees:*
Assets - **\$ 23 million**
Obligations - **\$ 22 million**

- NMP2 Nuclear Decommissioning Trust Funds:* Assets - **\$144 million**
Obligation - **\$ 64 million**

LIPA LIQUIDITY POSITION

DECEMBER 31, 2019 AND 2018

LIPA exceeded its minimum required 120 days cash and available credit for 2019 and strengthened and extended its access to short term liquidity.

Liquidity Position

<i>(\$ in thousands)</i>	December 31, 2019	Days Cash	December 31, 2018	Days Cash
Operating liquidity				
Unrestricted cash and cash equivalents	\$742,945		\$679,953	
OPEB account cash, cash equivalents & investments	386,262		271,879	
PSEG Long Island Working Capital requirements	248,499		198,611	
Total operating liquidity	\$1,377,706	173	\$1,150,443	143
Available credit				
General Revenue Notes - Revolving Credit Facility	198,000		345,000	
General Revenue Commercial Paper	510,000		570,500	
Total available credit	708,000		915,500	
Total cash, cash equivalents, investments & available credit	\$2,085,706	262	\$2,065,943	258
Restricted cash				
FEMA - restricted	1,732		103,820	
UDSA	109,049		124,597	
Total restricted cash	\$110,781		\$228,417	

LIPA/UDSA DEBT OUTSTANDING

DECEMBER 31, 2019, 2018, 2017 AND 2016

LIPA's consolidated debt at December 31, 2019 (unaudited), 2018, 2017 and 2016, including current maturities, is comprised of the following:

	2019	2018	2017	2016
Long-term debt:				
General Revenue Bonds	\$ 4,046,296	3,597,465	3,214,214	3,356,972
Subordinated Revenue Bonds		—	—	—
UDSA Restructuring Bonds	4,008,832	4,139,593	4,262,396	3,965,529
Total Long-term debt	\$ 8,055,128	7,737,058	7,476,610	7,322,501
Short-term debt:				
Revolving Credit Agreement	2,000	5,000	12,820	—
General Revenue Commercial Paper Notes	290,000	229,500	97,500	155,625
Subordinated Commercial Paper Notes	—	—	250,000	250,000
Total short-term debt	\$ 292,000	234,500	360,320	405,625
Total debt	\$ 8,347,128	7,971,558	7,836,930	7,728,126

- LIPA's debt has increased approximately \$600 million over the past four years, while LIPA has funded over \$2.6 billion of capital investment to improve the reliability and resiliency of the electric grid.
- LIPA has taken advantage of market opportunities by achieving a lower cost of funds through UDSA's "AAA" credit ratings, which generated present value savings for customers of \$492 million.

LONG-TERM DEBT TO UTILITY PLANT RATIO

LIPA's Total Debt-to-Asset ratio is steadily improving

	Projected			Actual			
	2022	2021	2020	2019	2018	2017	2016
Long-term debt (including Capital Leases):							
Gross Debt	9,108,068	8,968,347	8,732,262	8,055,128	7,737,058	7,476,610	7,322,501
Generation and Transmission assets under lease	2,138,356	2,480,397	2,815,001	1,752,231	1,871,231	2,020,876	2,217,243
Restricted Cash	(109,049)	(109,049)	(109,049)	(109,049)	(124,597)	(109,167)	(88,572)
Total Long-term debt	\$ 11,137,375	11,339,695	11,438,214	9,698,310	9,483,692	9,388,319	9,451,172
Assets plus Working Capital:							
Net Plant	\$ 10,669,082	10,618,395	10,559,923	8,773,962	8,383,338	8,088,014	7,768,551
Net Working Capital	1,579,595	1,579,595	1,579,595	1,579,595	1,414,557	1,219,366	1,226,799
Net Assets	\$ 12,248,677	12,197,990	12,139,518	10,353,557	9,797,895	9,307,380	8,995,350
Total Debt to Asset Ratio (%)	90.9%	93.0%	94.2%	93.7%	96.8%	100.9%	105.1%

BOARD AGENDA SUMMARY SHEET

Committee or Board: Board	Date: May 8, 2020	Board Meeting Date: May 20, 2020
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For All Board Voting Items:

Title of Agenda Item: Approval of the Annual Report on the Board’s Policy on Debt and Access to the Credit Markets

Consent Agenda: Yes No

Accompanying Presentation: Yes No

Recommendation from Committee: N/A F&A; GP&P; Oversight & REV

LIPA Presenter: Kenneth Kane

PSEG Long Island Presenter: N/A

Enterprise Risk Management Discussion: Yes No

For Policy Reports Only:

Type of Policy / Report: Operating; Governance; Compliance; Mission

Date of Last Report: March 20, 2019

Compliance Since Last Report: Yes No

Proposed Changes to Policy: Yes No

Requested Action:	The Board is requested to adopt a resolution: (i) finding that LIPA has complied with the Policy for the period since the last annual review of the Policy; (ii) approving the annual report for the Policy; and (iii) approving certain amendments to the Policy.
Summary: (include proposed amendments to Board Policies, if applicable)	By Resolution No. 1319, dated September 21, 2016, the Board adopted the Policy with the purpose of serving the long-term interests of LIPA’s customers by adopting sound financial plans in each year. Sound financial plans ensure the ready access to borrowing on reasonable terms necessary to fund the infrastructure investments that maintain the reliability and resiliency of the Long Island electric system. Such financial plans contemplate prudent levels of borrowing that will accommodate efficient access to the capital markets and thereby minimize the long-term cost of providing electric service to our customer-owners. The Policy was last amended by the Board by Resolution No. 1498, dated December 18, 2019

FOR CONSIDERATION

May 20, 2020

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Approval of the Annual Report on the Board on the Board Policy on Debt and Access to the Credit Markets

Requested Action

The Board of Trustees (the “Board”) of the Long Island Power Authority is requested to adopt a resolution: (i) finding that LIPA has complied with the Board Policy on Debt and Access to Credit Markets (the “Policy”); and (ii) approving the annual report for the Policy.

Background

By Resolution No. 1319, dated September 21, 2016, the Board adopted the Policy with the purpose of serving the long-term interests of LIPA’s customers by adopting sound financial plans in each year. Sound financial plans ensure the ready access to borrowing on reasonable terms necessary to fund the infrastructure investments that maintain the reliability and resiliency of the Long Island electric system. Such financial plans contemplate prudent levels of borrowing that will accommodate efficient access to the capital markets and thereby minimize the long-term cost of providing electric service to our customer-owners. The Policy was last amended by the Board by Resolution No. 1498, dated December 18, 2019.

Compliance with the Policy

Staff recommends that, for the reasons set forth below, the Board find that LIPA has complied with the Policy for the period since the last annual review. The Policy requires that LIPA achieve the lowest long-term cost to our customer-owners by adopting budgets and financial plans that meet the following objective:

“Support credit ratings of at least A2/A”

- LIPA met this goal in 2019 as all three rating agencies upgraded the Authority to A2, A, A, from Moody’s, S&P Global, and Fitch Ratings.

“Achieve fixed-obligation coverage ratios of no less than (i) 1.45x on the combination of LIPA-issued debt and lease payments; and (ii) 1.25x on the combination of LIPA-issued debt, Utility Debt Securitization Authority-issued debt, and lease payments¹”

¹ The coverage ratio in effect for 2019 was 1.45x coverage on LIPA-issued debt and lease payments and 1.25x coverage on LIPA and UDSA-issued debt and lease payments. In December 2019, the Board amendment the ratios to

- LIPA achieved coverage ratios of 1.49x for LIPA-issued debt and lease payments and 1.30x for LIPA and UDSA-issued debt and lease payments.

“Generate sufficient cash flow from revenues to maintain the issuance of new debt as a percentage of capital spending at 64 percent or less as measured on a three-year rolling average.”

- New debt as a percentage of capital spending for the three-year rolling average for the period ended December 31, 2019 was approximately 62% and is projected to remain at or below 64% for the three-year period ending 2020.

“Maintain (i) cash on hand at each month end of at least \$100 million in the Operating Fund and \$150 million in the Rate Stabilization Fund and (ii) cash on hand and available credit of at least 120 days of operating expenses.”

- Cash on hand at the end of each month exceeded the target. As of December 31, 2019 cash balances for the Operating Fund and the Rate Stabilization fund were \$169 million and \$157 million, respectively.
- Overall cash on hand and available credit exceeded the target at the end of each month and was 262 days of operating expenses as of December 31, 2019.

“Pre-fund obligations to LIPA’s Service Provider for pension costs each year in a fiscally sound manner, as measured by an actuarial services firm no less than every other year.” As of December 31, 2019:

- The PSEG Long Island pension plan trust account had assets valued at \$282 million and benefit obligations of \$453 million resulting in an unfunded contractual liability for LIPA of \$171 million. LIPA funded a \$28 million contribution to this plan during 2019².
- The funding level has been reviewed by an actuarial services firm within the last two years and LIPA made an actuarially sound contribution for 2019 to fully fund the obligations over time.

“Pre-fund obligations to LIPA’s Service Provider for Other Post-Employment Benefits (OPEBs) to a dedicated OPEB Account in a fiscally sound manner, as measured by an actuarial services firm no less than every other year”

- LIPA’s OPEB Account to prefund the OPEB benefits of PSEG Long Island employees had assets valued at \$386 million compared to a benefit obligation of \$626 million resulting in an unfunded contractual liability of \$240 million. LIPA funded \$56 million to this Account

1.35x and 1.15x, effective for the 2020 budget year as a result of changes to Lease Accounting standards. Cash flow from coverage remains unchanged.

² The PSEG Long Island employee pension and OPEB obligations are legal obligations of PSEG Long Island, and the employees covered by these plans are PSEG Long Island employees. The cost to employ the workforce of PSEG Long Island is a pass-through expenditure and a contractual liability of LIPA.

in 2019.

- The OPEB Trust for LIPA employees had assets valued at \$23 million and benefit obligations of \$22 million resulting in a net asset of \$1 million. LIPA funded approximately \$0.4 million to this Trust in 2019.
- The funding levels have been reviewed by an actuarial services firm within the last two years and LIPA made actuarially sound contributions in 2019 to fully fund the obligations over time.

“Pre-fund LIPA’s Nuclear Decommissioning Trust Fund in a fiscally sound manner, as measured by an actuarial services firm no less than every other year”

- The NMP2 Nuclear Decommissioning Trust Funds had assets of \$144 million. The Trust is sufficiently funded to meet the decommissioning obligations and requirements as they come due, with modest additional contributions averaging approximately \$1 million per year. LIPA funded \$2 million to this Trust in 2019.
- The funding levels have been reviewed by an actuarial services firm within the last two years and LIPA made an actuarially sound contribution to fully fund the obligation over time.

Enterprise Risk Management Discussion

The Board has adopted a Policy on Enterprise Risk Management (“ERM”). Enterprise Risks are brought to the Board’s attention throughout the year. One such Enterprise Risk is related to liquidity. Specifically, the risk identified is, “Insufficient liquidity to cover obligations greater than 60 days (i.e., loss of revenue stream) results in the inability to make debt service payments, pay UDSA Bondholders, and cover operating expenses.”

Historically, this risk was rated as a medium level risk and was mitigated by LIPA’s ability to access capital markets, borrow from rate stabilization funds, and borrow from a revolving line of credit or in the commercial paper market. The upgrades to LIPA’s credit ratings during 2019 further reduced this risk by providing marginally higher confidence in LIPA’s ability to access capital during challenging market conditions.

Due to the pandemic related to COVID-19, there was a disruption in the commercial paper market. To mitigate this disruption, LIPA drew on an existing revolving credit line to ensure readily available cash to meet business needs. LIPA’s liquidity remains strong, above the 120-day minimum required by the Policy.

Annual Review of the Policy

Staff has reviewed the Policy and suggests no amendments at this time.

Recommendation

Based upon the foregoing, I recommend approval of the above requested action by adoption of a resolution in the form attached hereto.

Attachments

Exhibit "A" Resolution

RESOLUTION APPROVING THE REPORT TO THE BOARD OF TRUSTEES ON THE BOARD POLICY ON DEBT AND ACCESS TO THE CREDIT MARKETS

WHEREAS, the Board Policy on Debt and Access to the Credit Markets (the “Policy”) was originally approved by the Board of Trustees by Resolution No. 1319, dated September 21, 2016; and

WHEREAS, the Policy was last amended by the Board pursuant to Resolution No. 1498, dated December 18, 2019; and

WHEREAS, the Board has conducted an annual review of the Policy and affirms that the Policy has been complied with and the changes to the Policy recommended herein are due and proper.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Board hereby finds that LIPA has complied with Policy for the period since the last annual review and approves the annual report to the Board.

Dated: May 20, 2020