

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, 2020

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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 (LIPA) 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 LIPA customer bills.

The Securitization Law permits LIPA’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).

LIPA’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 LIPA bonds and generated total net present value debt service savings of approximately \$492 million for LIPA’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, 2020 compared to 2019. 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

September 30, 2020 and December 31, 2019

(Amounts in thousands)

		2020	2019
Assets		(unaudited)	(audited)
Current assets:			
Restricted cash and cash equivalents	\$	189,849	109,049
Accounts receivable (net of uncollectible accounts of \$417 and \$130, respectively)		66,908	44,863
Prepaid assets		45	250
Total current assets		256,802	154,162
Noncurrent assets:			
Restructuring property (net of accumulated amortization)		4,204,294	4,331,947
Regulatory asset - unamortized debt issuance costs		18,273	19,913
Total noncurrent assets		4,222,567	4,351,860
Total assets	\$	4,479,369	4,506,022
 Liabilities and Net Position			
Current liabilities:			
Current maturities of long-term debt	\$	152,269	126,057
Accrued interest		55,992	8,082
Accrued expenses		1,207	287
Total current liabilities		209,468	134,426
Noncurrent liabilities:			
Long-term debt		3,794,032	3,882,775
Unamortized premium of long-term debt		369,742	403,999
		4,163,774	4,286,774
Net position - restricted		106,127	84,822
Total liabilities and net position	\$	4,479,369	4,506,022

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, 2020 and 2019
(unaudited)
(Amounts in thousands)

	2020	2019
Operating revenues (net of uncollectible expense)	\$ 263,100	236,871
Operating expenses:		
Amortization of restructuring property	127,653	129,732
Servicing, administrative and other fees	2,345	2,353
Total operating expenses	129,998	132,085
Operating income	133,102	104,786
Other income	763	2,913
	133,865	107,699
Interest charges:		
Interest expense	144,896	147,405
Other interest expense	280	317
Amortization of restructuring bond premium and issuance costs	(32,616)	(31,818)
Total interest charges	112,560	115,904
Change in net position	21,305	(8,205)
Net position, beginning of year	84,822	100,196
Net position, end of period	\$ 106,127	91,991

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Cash Flows

Nine-month period ended September 30, 2020 and 2019

(unaudited)

(Amounts in thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Operating revenues received	\$ 241,057	226,028
General and administrative expenditures	<u>(1,305)</u>	<u>(1,449)</u>
Net cash provided by operating activities	<u>239,752</u>	<u>224,579</u>
Cash flows from investing activities:		
Earnings received	<u>763</u>	<u>2,913</u>
Net cash provided by investing activities	<u>763</u>	<u>2,913</u>
Cash flows from financing activities:		
Interest paid	(96,987)	(98,553)
Redemption of long-term debt	(62,531)	(65,017)
Bond administrative costs	<u>(197)</u>	<u>(317)</u>
Net cash used in financing activities	<u>(159,715)</u>	<u>(163,887)</u>
Net increase in restricted cash and cash equivalents	80,800	63,605
Restricted cash and cash equivalents, beginning of year	<u>109,049</u>	<u>124,597</u>
Restricted cash and cash equivalents, end of period	<u>\$ 189,849</u>	<u>188,202</u>
Reconciliation of operating income to net restricted cash provided by operating activities:		
Operating income	\$ 133,102	104,786
Adjustments to reconcile operating income to net restricted cash provided by operating activities:		
Amortization of restructuring property	127,653	129,732
Changes in operating assets and liabilities:		
Prepaid assets and accrued expenses	1,042	418
Accounts receivable	<u>(22,045)</u>	<u>(10,357)</u>
Net restricted cash provided by operating activities	<u>\$ 239,752</u>	<u>224,579</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Nine-Month Period ended September 30, 2020 Compared to 2019

The UDSA's net position increased \$21 million for the nine-month period ended September 30, 2020, which is a \$29 million change as compared to the decrease for the nine-month period ended September 30, 2019. 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 which may differ from the accrued revenue and expenses recognized.

Operating revenues

Operating revenue increased \$26 million compared to 2019 due to an increase in the securitization charge related to higher debt service payments which will occur in June 2021.

Operating expenses

Operating expenses decreased \$2 million compared to 2019 primarily due to decreases in 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.

Other income

Other income decreased \$2 million compared to 2019 due to investment income related to changes in market conditions.

Interest charges

Interest expense decreased \$3 million compared to 2019 due primarily to lower outstanding debt balances related to principal pay downs in June 2020 and December 2019.