DEBT AND ACCESS TO CREDIT MARKETS

March 29, 2021

LIPA
Long Island Power Authority

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 2020.

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 1.40x in 2020, adjusted for new accounting lease rules. See slide 4;
- 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.

2020 IN REVIEW

- ✓ Achieved Debt and Access to the Credit Markets Policy Metrics
- ✓ LIPA received ratings affirmations 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 ~$602 million of Series 2020 Bonds; ~$238 million fixed-rate bonds, ~$250 million mandatory tender bonds and ~$114 million Federally Taxable, that will generate $28 million of NPV savings.

	Fitch Ratings	Moody's	Standard & Poor's
Rating	A	A2	A
Outlook	Stable	Stable	Stable

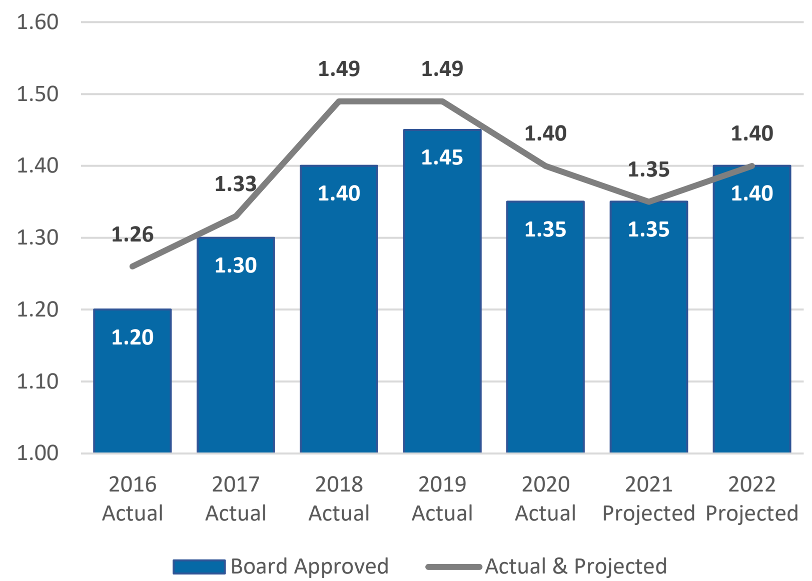
The rating affirmation considers LIPA's strong suite of cost recovery mechanisms that support a more resilient and predictable cash flow stream, improved financial, operating and customer satisfaction measures, LIPA's continued investment in operational and systems improvements and the strong economic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

LIPA'S FIXED OBLIGATION COVERAGE HAS STEADILY IMPROVED

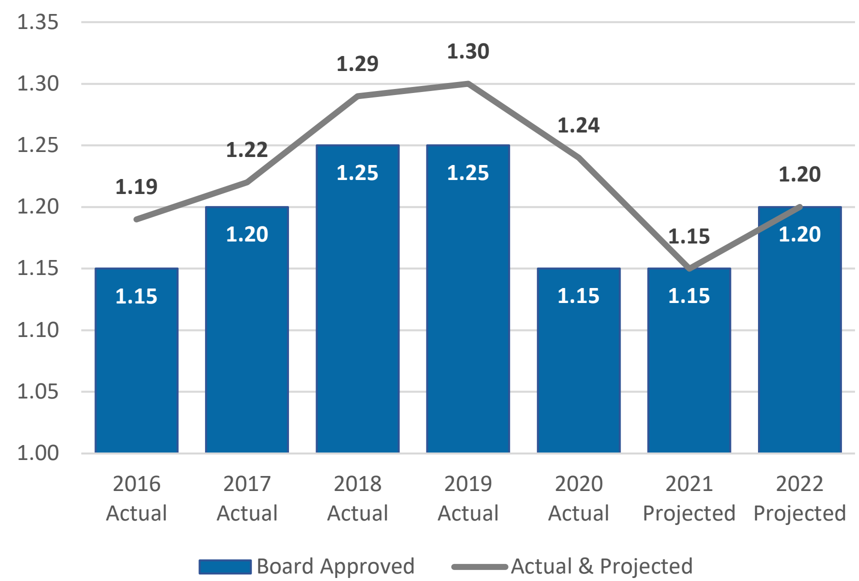
Board financial policies require LIPA to budget for certain levels of Fixed Obligation Coverage.

LIPA has exceeded the coverage requirement in 2016 - 2020 and has budgeted to achieve the required levels in 2021 and 2022.

LIPA Only Coverage*



LIPA and UDSA Coverage*



*** Adjusted for new accounting lease rules**

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)	2020		2019		2018		2017		2016	
Capital Expenditures:	784,280		746,277		636,571		706,862		531,774	
Sources of Funds:										
Debt Financing	**499,524**	**64%**	**462,044**	**62%**	**394,396**	**62%**	**389,080**	**55%**	**282,317**	**53%**
FEMA Grants*	40,357	5%	104,727	14%	136,246	21%	177,898	25%	139,789	26%
PAYGO	244,399	31%	179,506	24%	105,929	17%	139,885	20%	109,668	21%
Total Sources	784,280		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 2020 was 63%
- Gradually improve LIPA's debt-to-asset ratio, consistent with other "A" rated major public power utilities

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, by an actuarial services firm no less than every other year

- *PSEG Long Island pension plan trust:* *Assets -* ***$343 million***
  Obligation - ***$570 million***
- *PSEG Long Island OPEB account:* *Assets -* ***$475 million***
  Obligations ***- $699 million***
- *Funded* ***$610,000*** *for LIPA to the NYS Employee Retirement System*
- *OPEB Trust for LIPA employees:* *Assets -* ***$26 million***
  Obligations - ***$23 million***
- *NMP2 Nuclear Decommissioning Trust Funds:* *Assets -* ***$164 million***
  Obligation - ***$ 67 million***

LIPA LIQUIDITY POSITION

LIPA exceeded its minimum required 120 days cash and available credit for 2020 and strengthened and extended its access to short term liquidity.

Liquidity Position

($ in thousands)	**December 31, 2020**	Days Cash	**December 31, 2019**	Days Cash
Operating liquidity				
Unrestricted cash and cash equivalents	727,396		743,307	
OPEB account cash, cash equivalents & investments	475,365		386,262	
PSEG Long Island Working Capital requirements	207,277		248,499	
Total operating liquidity	1,410,038	173 days	1,378,068	173 days
Available credit				
General Revenue Notes - Revolving Credit Facility	198,000		198,000	
General Revenue Commercial Paper	585,000		510,000	
Total available credit	783,000		708,000	
Total cash, cash equivalents, investments & available credit	**$2,193,038**	268 days	**$2,086,068**	262 days

LIPA/UDSA DEBT OUTSTANDING

LIPA's consolidated debt as of December 31, 2020 (unaudited), 2019, 2018, 2017 and 2016, including current maturities, is comprised of the following:

		2020	2019	2018	2017	2016
Long-term debt:						
General Revenue Bonds	$	4,462,713	4,046,296	3,597,465	3,214,214	3,356,972
UDSA Restructuring Bonds		3,882,775	4,008,832	4,139,593	4,262,396	3,965,529
Total long-term debt	$	8,345,488	8,055,128	7,737,058	7,476,610	7,322,501
Short-term debt:						
Revolving Credit Agreement		2,000	2,000	5,000	12,820	—
General Revenue Commercial Paper Notes		415,000	290,000	229,500	97,500	155,625
Subordinated Commercial Paper Notes		—	—	—	250,000	250,000
Total short-term debt	$	417,000	292,000	234,500	360,320	405,625
Total debt	$	8,762,488	8,347,128	7,971,558	7,836,930	7,728,126

- LIPA's debt has increased approximately $1.1 billion over the past five years, while LIPA has funded over $3.4 billion of capital investment to improve the reliability and resiliency of the electric grid. By adding assets faster than debt, LIPA will continue to improve its debt-to-assets ratio.

- LIPA has taken advantage of market opportunities by:
    - Refunding LIPA bonds in 2020, generating net present value savings of $28 million
    - 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				
	2023	2022	2021	2020	2019	2018	2017	2016
Long-term debt (including Capital Leases):								
Gross Debt	9,109,158	9,054,400	8,953,924	8,345,488	8,055,128	7,737,058	7,476,610	7,322,501
Right-to-Use Lease Assets	1,939,943	2,287,035	2,628,426	2,791,544	3,137,520	1,871,231	2,020,876	2,217,243
Restricted Cash	(109,094)	(109,094)	(109,094)	(128,833)	(109,049)	(124,597)	(109,167)	(88,572)
Total Long-term debt	$ 10,940,007	11,232,341	11,473,256	11,008,199	11,083,599	9,483,692	9,388,319	9,451,172
Assets plus Working Capital:								
Net Plant	$ 10,755,757	10,676,248	10,620,677	10,313,576	10,159,251	8,383,338	8,088,014	7,768,551
Net Working Capital	1,468,584	1,468,584	1,468,584	1,370,410	1,579,595	1,414,557	1,219,366	1,226,799
Net Assets	$ 12,224,341	12,144,832	12,089,261	11,683,986	11,738,846	9,797,895	9,307,380	8,995,350
Total Debt to Asset Ratio (%)	89.5%	92.5%	94.9%	94.2%	94.4%	96.8%	100.9%	105.1%

FOR CONSIDERATION
March 29, 2021

TO: The Board of Trustees

FROM: Thomas Falcone

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

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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 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 last annual report to the Board was presented on May 20, 2020, and the Policy was last amended by Resolution No. 1579, dated December 16, 2020.

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"

- In 2020, LIPA's three ratings were reaffirmed at A2, A, A, from Moody's, S&P Global, and Fitch Ratings, respectively.

"For 2020 and 2021, achieve fixed-obligation coverage ratios of no less than (i) 1.35x on the combination of LIPA-issued debt and lease payments; and (ii) 1.15x on the combination of LIPA issued debt, Utility Debt Securitization Authority ("UDSA")-issued debt, and lease payments."[1]

[1] Lease payments are defined in Governmental Accounting Standard Board Statement No. 87

- For the period ended December 31, 2020, LIPA achieved coverage ratios of 1.40x for LIPA-issued debt and lease payments and 1.24x for LIPA and UDSA-issued debt and lease payments.
- The 2021 Budget is set to meet the 1.35x fixed-obligation coverage ratio.

"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; however, allow this percentage to exceed 64 percent target on a forward-looking three-year rolling average in 2021 and 2022 as LIPA responds to the effects of the COVID-19 pandemic and Tropical Storm Isaias."

- New debt as a percentage of capital spending for the three-year rolling average for the period ended December 31, 2020 was approximately 63%.

"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 of $100 million.
- As of December 31, 2020, the Operating and the Rate Stabilization funds totaled $179 million and $162 million, respectively.
- During 2020, cash on hand and available credit exceeded the target of at least 120 days available for operating expenses.
- As of December 31, 2020, 268 days of operating expenses were available in cash and credit.

"Annually, pre-fund obligations to LIPA's Service Provider for pension costs from operating expenses in a fiscally sound manner, as measured by an actuarial services firm no less than every other year."[2]

- As measured by an actuarial services firm, LIPA funded $30 million to the PSEG Long Island pension plan trust account.
- As of December 31, 2020, the PSEG Long Island pension plan trust account had assets valued at $343 million compared to a benefit obligation of $570 million.

"Annually 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."

- As measured by an actuarial services firm, LIPA funded $37 million to the LIPA OPEB account in 2020.

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[2] After notifying the Finance and Audit Committee, LIPA's Chief Executive Officer or Chief Financial Officer are authorized to withdraw funds from the OPEB Account if there are insufficient revenues to pay reasonable and necessary Operating Expenses or to make payments on bonds or parity obligations. The OPEB Account is therefore deemed available to make such payments, acting as a reserve fund. Any withdraws for such purposes will be repaid within twelve months.

- LIPA’s OPEB account to prefund the OPEB benefits of PSEG Long Island employees had assets valued at $475 million compared to a benefit obligation of $699 million.

“Pre-fund LIPA’s OPEB Trust in a fiscally sound manner, as measured by an actuarial service firm no less than every other year.”

- The funding levels have been reviewed by an actuarial services firm within the last two years.
- The LIPA OPEB Trust for LIPA employees had assets valued at $26 million compared to and benefit obligations of $23 million.

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

- As measured by an actuarial services firm, LIPA funded $0.03 million to the NDTF in 2020.
- The NMP2 Nuclear Decommissioning Trust Funds had assets valued at $164 million compared to a liability of $67 million.
- The funding levels have been reviewed by an actuarial services firm within the last two years.

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.”

This risk is rated as a medium-level risk and is 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. In early 2021, all three rating agencies reaffirmed LIPA’s credit ratings, helping to reduce this risk by providing confidence in LIPA’s ability to access capital markets.

Based on our credit ratings and our ability to access capital markets, we believe this risk is being adequately managed. In addition, many of the COVID-19 related challenges and disruptions in the commercial paper market have diminished and LIPA’s liquidity remains strong, well above the 120-day minimum required by the Policy as noted above.

Annual Review of the Policy

LIPA 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
Exhibit “B” Board Policy on Debt and Access to Credit Markets

Exhibit "A"

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 last annual report to the Board was presented on May 20, 2020, and the Policy was last amended by Resolution No. 1579, dated December 16, 2020; and

WHEREAS, the Board has conducted an annual review of the Policy and affirms that the Policy has been complied with.

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: March 29, 2021

Board Policy: **Debt and Access to the Credit Markets**

Policy Type: **Operating Policies**

Monitored by: **Finance and Audit Committee**

Board Resolution: **#1319, approved September 21, 2016**
#1354, amended March 29, 2017
#1473, amended March 20, 2019
#1498, amended December 18, 2019
#1579, amended December 16, 2020

Board Policy on Debt and Access to the Credit Markets

It is the policy of the Long Island Power Authority to serve the long-term interests of LIPA's customer-owners. The Long Island electric grid requires substantial investments each year to maintain its reliability and resiliency. By adopting sound fiscal metrics and sustainable financial plans, LIPA ensures prudent levels of borrowing, ready access to funds on reasonable terms for infrastructure investment, and the lowest long-term cost to our customer-owners.

LIPA will achieve the lowest long-term cost to our customer-owners by adopting budgets and financial plans that meet the following objectives:

- Support credit ratings of at least A2/A;
- For 2020 and 2021, achieve fixed-obligation coverage ratios of no less than (i) 1.35x on the combination of LIPA-issued debt and lease payments; and (ii) 1.15x on the combination of LIPA-issued debt, Utility Debt Securitization Authority ("UDSA")-issued debt, and lease payments[1];
- Beginning in 2022, LIPA shall increase the fixed-obligation coverage ratios to no less than (i) 1.40x on the combination of LIPA-issued debt and lease payments; and (ii) 1.20x on the combination of LIPA-issued debt, UDSA-issued debt, and lease payments;[1]
- 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; however, allow this percentage to exceed 64 percent target on a forward-looking three-year rolling average in 2021 and 2022 as LIPA responds to the effects of the COVID-19 pandemic and Tropical Storm Isaias;
- 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;
- Annually, pre-fund obligations to LIPA's Service Provider for pension costs from operating expenses in a fiscally sound manner, as measured by an actuarial services firm no less than every other year; and

[1] Lease payments are defined in Governmental Accounting Standard Board Statement No. 87

- Annually 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[2];
- Transition to a phase-in approach for annual pre-funding OPEB obligations from operating expenses beginning in 2023;
- Pre-fund LIPA's OPEB Trust in a fiscally sound manner, as measured by an actuarial services firm no less than every other year; and
- 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 Chief Executive Officer shall report annually to the Board on compliance with the key provisions of this Policy.

[2] After notifying the Finance and Audit Committee, LIPA's Chief Executive Officer or Chief Financial Officer are authorized to withdraw funds from the OPEB Account if there are insufficient revenues to pay reasonable and necessary Operating Expenses or to make payments on bonds or parity obligations. The OPEB Account is therefore deemed available to make such payments, acting as a reserve fund. Any withdraws for such purposes will be repaid within twelve months.