

## **FOR CONSIDERATION**

March 30, 2022

**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 LIPA Board of Trustees (the “Board”) 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 March 29, 2021.

### **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 2021, LIPA’s three ratings were reaffirmed at A2, A, A, from Moody’s, S&P Global, and Fitch Ratings, respectively. Fitch indicated a “positive” outlook to its rating.

“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.”<sup>1</sup>

- For the period ended December 31, 2021, LIPA achieved coverage ratios of 1.40x for

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<sup>1</sup> Lease payments are defined in Governmental Accounting Standard Board Statement No. 87

LIPA-issued debt and lease payments and 1.26x for LIPA and UDSA-issued debt and lease payments.

- The 2022 Budget is set to meet a 1.40x fixed-obligation coverage ratio, as required by the Policy for 2022.

“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 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, 2021 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, 2021, the Operating and the Rate Stabilization funds totaled \$129 million and \$162 million, respectively.
- During 2021, cash on hand and available credit exceeded the target of at least 120 days available for operating expenses.
- As of December 31, 2021, 300 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.”<sup>2</sup>

- As measured by an actuarial services firm, LIPA funded \$37.4 million to the PSEG Long Island pension plan trust account.
- As of December 31, 2021, the PSEG Long Island pension plan trust account had assets valued at \$422 million compared to a benefit obligation of \$596 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 \$51.5 million to the LIPA OPEB account in 2021.
- LIPA’s OPEB account to prefund the OPEB benefits of PSEG Long Island employees had assets valued at \$581 million compared to a benefit obligation of \$640 million.

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<sup>2</sup> 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.

“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 \$30 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 \$0.3 million to the NDTF in 2021.
- The NMP2 Nuclear Decommissioning Trust Funds had assets valued at \$184 million compared to a liability of \$87 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 USDA 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 September 2021, all three rating agencies reaffirmed LIPA’s credit ratings, with one credit agency revising LIPA’s outlook from Stable to Positive, helping to reduce this risk by providing confidence in LIPA’s ability to access capital markets.

Based on LIPA’s credit ratings and ability to access capital markets, we believe this risk is being adequately managed. 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

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

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**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;

**WHEREAS**, the last annual report to the Board was presented on March 29, 2021; 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 30, 2022