

**FOR CONSIDERATION**

September 28, 2022

**TO:** The Board of Trustees

**FROM:** Thomas Falcone

**SUBJECT:** Consideration to Approve Amendments to 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 (“LIPA”) is requested to adopt a resolution approving amendments to the Board Policy on Debt and Access to the Credit Markets (the “Policy”), which resolution is attached hereto as **Exhibit “A.”**

**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 customer-owners by adopting sound financial plans each year. The Policy was last amended by the Board on December 16, 2020 based upon recommendations made by LIPA’s Financial Advisors, PFM.

The Board hired Leading Resources, Inc. to review the Board’s policies and to facilitate discussion amongst the Trustees on certain policies, including the Debt and Access to Credit Markets policy. A working group of Trustees participated in various meetings to develop and draft amendments to the Policy. The draft amendments to the Policy were shared with the entire Board at its meeting on July 27, 2022.

The final version of the amended Policy, as drafted by the Trustees, is attached hereto as **Exhibit “B.”** The Policy has been renamed to the Board Policy on Fiscal Sustainability to better align with the Board’s vision for the utility moving forward.

**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”** Fiscal Sustainability Policy

**RESOLUTION RECOMMENDING APPROVAL OF AMENDMENTS TO 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 (the “Board”) by Resolution No. 1319, dated September 21, 2016; and last amended by the Board on December 16, 2020.

**WHEREAS**, the Board has reviewed the amended policy and affirms that the changes to the Policy described herein are due and proper.

**NOW, THEREFORE, BE IT RESOLVED**, that consistent with the accompanying memorandum, the Board hereby approves the amendments to the Policy as set forth in **Exhibit “B.”**

Dated: September 28, 2022

Board Policy: **Fiscal Sustainability**

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**  
**#xxxx, amended September 28, 2022**



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LIPA's vision for **fiscal sustainability** is to meet the Board's policy goals to provide clean, reliable, and affordable energy through strategies that prudently manage and safeguard LIPA's assets and result in the lowest long-term cost to customers.

To achieve our vision for fiscal sustainability, LIPA will:

- Decrease LIPA's leverage and cost of capital by:
  - Achieving AA-category credit ratings via reducing LIPA's debt-to-assets ratio from 92 percent to 70 percent or less by 2030.
  - Maximizing grants and low-cost funding sources.
  - Minimizing costs through securitization of debt and tax-exempt financing.
  - Pre-funding long-term liabilities on an actuarially sound basis including (1) pension costs, (2) Other Post-Employment Benefits ("OPEBs")<sup>1</sup>; and (3) the Nuclear Decommissioning Trust Fund.
  - Maintaining fixed-obligation coverage ratios of no less than 1.40x on LIPA-issued debt and lease payments; and 1.20x on the combination of LIPA-issued debt, UDSA-issued debt, and lease payments.
  - Minimizing LIPA's need for coverage while maintaining fiscal sustainability by budgeting reasonable amounts and using reconciliation mechanisms for hard-to-predict cost categories (e.g. storms).
  
- Maintain cash-on-hand and available credit sufficient to fund business operations in emergencies, as measured by month-end balances of at least:
  - \$100 million in the Operating Fund and \$150 million in the Rate Stabilization Fund.
  - 150 days of operating expenses.

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<sup>1</sup> Service Provider OPEBs will be funded to a dedicated OPEB Account. 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 withdrawals for such purposes will be repaid within twelve months.

- Develop budgets and financial plans that maximize customer value and aggressively manage costs.
- Provide operating managers with financial reporting that drives sound business decisions and the best use of limited resources.
- Provide LIPA's customers and investors with timely, transparent, accurate, and useful information to evaluate LIPA's financial performance and plans.

The Chief Executive Officer shall report annually to the Board on compliance with the key provisions of this Policy.