FOR CONSIDERATION
March 28, 2023

TO: Board of Trustees of the Utility Debt Securitization Authority

FROM: Thomas Falcone

REQUEST: Approval of the 2022 Financial Report of the Utility Debt Securitization Authority

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Requested Action

The Board of Trustees ("Board") is being requested to approve the proposed financial report section of the 2023 annual report of the Utility Debt Securitization Authority (the "UDSA"), prepared in accordance with Section 2800(1) of the Public Authorities Law ("PAL"), in the form attached hereto as **Exhibit "B"**.

Background

Section 2800(1) of the PAL requires that the UDSA submit an annual report to the Governor, the Chairman and ranking minority member of the Senate Finance committee, the Chairman and ranking minority member of the Assembly Ways and Means Committee, the State Comptroller, and the Authorities Budget Office, within ninety days after the end of the Authority's fiscal year. The annual report includes, among other things, the Authority's financial report for the fiscal year just ended. Under Section 2800(1)(a)(2) of PAL, the financial report shall include the following: audited financials; grant and subsidy programs; operating and financial risks; current bond ratings; and long-term liabilities (the "Financial Report"). Section 2800(3) of PAL requires the Financial Report to be approved by the Trustees.

Recommendation

Based upon the foregoing, it is recommended that the Board adopt a resolution in the form attached hereto as **Exhibit "A"**.

Attachments

Exhibit "A" Resolution
Exhibit "B" Financial Report of the Utility Debt Securitization Authority

Exhibit "A"

RESOLUTION APPROVING THE 2022 FINANCIAL REPORT OF THE UTILITY DEBT SECURITIZATION AUTHORITY

WHEREAS, Section 2800(1) of the Public Authorities Law ("PAL") requires public authorities such as the Utility Debt Securitization Authority (the "UDSA") to prepare an annual report; and

WHEREAS, the UDSA's annual report includes, among other things, a financial report, as defined under Section 2800(1)(a)(2) of PAL (the "Financial Report"); and

WHEREAS, the UDSA has prepared its Financial Report, which, pursuant to Section 2800(3) of PAL, is subject to the approval of the Trustees.

NOW, THEREFORE, BE IT RESOLVED, that the Board of Trustees hereby approves the 2023 Financial Report of the Utility Debt Securitization Authority, in the form presented at this meeting.

Dated: March 28, 2023

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UTILITY DEBT SECURITIZATION AUTHORITY

(A Component Unit of the Long Island Power Authority)

Financial Statements

And Required Supplementary Information

December 31, 2022 and 2021

(With Independent Auditors' Reports Thereon)

UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)

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Overview of the Financial Statements

The annual financial report for the Utility Debt Securitization Authority (UDSA) includes Management's Discussion and Analysis (MD&A) and the Basic Financial Statements. The Basic Financial Statements consist of the Statements of Net Position, the Statements of Revenue, Expenses, Changes in Net Position, and the Statements of Cash Flows.

The Statements of Net Position provide information about the nature and amount of resources and obligations at a specific point in time.

The Statements of Revenues, Expenses, and Changes in Net Position report UDSA's revenues and expenses for the periods shown.

The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources, such as investment income, and other cash uses, such as payments for debt service.

The MD&A of the financial performance of UDSA, which is required supplementary information, provides an overview for the years ended December 31, 2022, and 2021, with certain comparative information as of and for the year ended December 31, 2020. The MD&A should be read in conjunction with the Basic Financial Statements and the accompanying notes (Notes), which follow this section. The Notes are an integral part of UDSA's Basic Financial Statements and provide additional information on certain components of these statements.

The UDSA's financial statements are prepared on an accrual basis in accordance with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

(continued)

Nature of Operations

The 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, and then by Chapter 369 of the Laws of New York, 2021, 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, non-bypassable restructuring charge on all LIPA customer bills.

The Securitization Law permitted LIPA's Board of Trustees (Board) to adopt financing orders pursuant to which the UDSA issued Restructuring Bonds in an amount not to exceed $4.5 billion. 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.

On August 2, 2021, changes to the Securitization Law were authorized to permit the issuance of additional securitized bonds for refinancing LIPA and UDSA bonds, and to fund LIPA transmission and distribution system resiliency investments. Funding from UDSA bonds provides a lower cost to customers than issuing LIPA bonds for the same purpose. With these legislative changes the UDSA may issue an initial par amount of up to $8.0 billion of securitized bonds (inclusive of the bonds already issued).

On May 18, 2022, LIPA's Board adopted additional Financing Orders No. 6, No. 7, No. 8, and No. 9. On August 2, 2022, the UDSA's Board of Trustees approved the issuance of Series 2022 bonds in an amount not to exceed $1.3 billion pursuant to Financing Order No. 6. On September 29, 2022, UDSA issued $54 million Series 2022 Taxable Restructuring Bonds, $787 million Series 2022 Tax-Exempt Restructuring Bonds, and $95 million Series 2022 Tax-Exempt Green Bonds. The proceeds of these Restructuring Bonds, plus $91 million of premium received, refunded $852 million of LIPA and UDSA debt and funded $100 million of LIPA resiliency investments. The 2022 UDSA Restructuring Bonds generated total net present value debt service savings of $42 million for LIPA's customers. UDSA refinancings have saved LIPA customers $534 million of net present value debt savings since 2013.

A total of $5.4 billion of UDSA Restructuring Bonds have been issued resulting in $2.6 billion in remaining statutory capacity. The UDSA's Financing Orders are summarized below:

(Amounts in thousands)

		Order No. 1	Order No. 2	Order No. 3	Order No. 4	Order No. 5	Order No. 6
		2013	2015	2016A	2016B	2017	2022
Issuance Date		December 18, 2013	October 27, 2015	April 7, 2016	September 8, 2016	November 21, 2017	September 29, 2022
Amount Issued	$	2,022,324	1,002,115	636,770	469,320	369,465	935,655
Net Present Value Savings	$	131,609	127,978	115,238	71,647	45,387	42,080
Average Life (Years)		14.2	15.6	11.8	6.9	16.7	9.3
All-in Cost		4.22%	3.40%	2.70%	2.01%	3.45%	3.52%

(continued)

Financial Condition Overview

The UDSA's condensed Statements of Net Position as of December 31, 2022, 2021, and 2020 are summarized below:

		2022	2021	2020
Assets and Deferred Outflow of Resources				
Current assets	$	223,211	165,917	181,819
Noncurrent assets		4,032,258	3,946,865	4,183,706
Deferred outflow of resources		10,059	—	—
Total assets		4,265,528	4,112,782	4,365,525
Liabilities and Net Position				
Current liabilities		273,993	186,125	188,054
Noncurrent liabilities		3,872,915	3,839,019	4,061,650
Total liabilities		4,146,908	4,025,144	4,249,704
Net position-restricted		118,620	87,638	115,821
Total liabilities and net position	$	4,265,528	4,112,782	4,365,525

The following summarizes UDSA's statements of net position variances for the years 2022 and 2021:

2022 Compared to 2021

Current assets increased by $57 million compared to 2021 due to higher cash and cash equivalents primarily due to the issuance of Financing Order No. 6, which increased reserve funds and collections accounts by $20 million, combined with the increased collections on Financing Order No. 1 due to higher 2023 debt service requirements.

Non-current assets increased by $85 million compared to 2021 primarily due to the issuance of Financing Order No. 6, which increased the Restructuring Property by $989 million. This was offset by the reduction of $685 million related to the early retirement of Series 2013 Bonds and scheduled amortizations of $224 million. The remaining $3 million increase is due to increased bond issuance costs, which are recognized as a regulatory asset.

Current liabilities increased by $88 million compared to 2021 primarily due to higher scheduled current maturities of long-term debt resulting from the issuance of the 2022 Restructuring Bonds.

Non-current liabilities increased by $34 million compared to 2021, primarily due to the issuance of the 2022 Restructuring Bonds. This was offset by the early retirement of Series 2013 Bonds of $659 million, scheduled current maturities of long-term debt of $265 million, and scheduled amortization of debt premium of $44 million.

2021 Compared to 2020

Current assets decreased by $16 million compared to 2020 due to lower cash and cash equivalents.

Non-current assets decreased by $237 million compared to 2020 due to the scheduled amortization of the Restructuring Property.

Current liabilities decreased by $2 million compared to 2020 due to lower scheduled current maturities of long-term debt.

Non-current liabilities decreased by $223 million compared to 2020 due to scheduled current maturities of long-term debt of $178 million and amortization of debt premium of $45 million.

Results of Operations

The UDSA's condensed Statements of Revenues, Expenses, and Changes in Net Position for the years ended December 31, 2022, 2021 and 2020 are summarized as follows:

(Amounts in thousands)

		2022	2021	2020
Operating revenues, net	$	389,830	354,409	348,867
Operating expenses		219,003	237,942	169,091
Operating income		170,827	116,467	179,776
Interest charges and credits, net		(142,151)	(144,689)	(149,552)
Other income		2,306	39	775
Change in net position		30,982	(28,183)	30,999
Restricted net position – beginning of year		87,638	115,821	84,822
Restricted net position – end of year	$	118,620	87,638	115,821

The following summarizes UDSA's financial performance for the years 2022 and 2021:

2022 Compared to 2021

Operating revenues, net of uncollectible expense, increased by $35 million compared to 2021 due to an increase in restructuring charge rates. Financing Order No. 6 increased revenues by $20 million. Financing Order No. 3 increased its rates to begin recovery of May 2023 debt service principal payments. Any excess recoveries resulting from the 2022 charges are applied to the rate resets for 2023.

Operating expenses decreased by $19 million compared to 2021 due to lower amortization of the Restructuring Property, which is amortized annually based on total principal payments due, plus premium amortization on the Restructuring Bonds.

Interest charges and credits decreased by $3 million compared to 2021 due to lower debt service.

(continued)

2021 Compared to 2020

Operating revenues, net of uncollectible expense, increased by $6 million compared to 2020 due to an increase in restructuring charge rates. Any excess recoveries resulting from the 2021 charges are applied to the rate resets for 2022.

Operating expenses increased by $69 million compared to 2020 due to higher amortization of the Restructuring Property, which is amortized annually based on total principal payments due, plus premium amortization on the Restructuring Bonds.

Interest charges and credits decreased by $5 million compared to 2020 due to lower debt outstanding.

Cash and Liquidity

Included in current assets are the UDSA's restricted cash accounts totaling approximately $153 million, $112 million, and $129 million as of December 31, 2022, 2021, and 2020, respectively. The higher balance in 2022 compared to 2021 is due to the additional cash reserve balances required for the 2022 Restructuring Bonds combined with increased collections on Financing Order No. 1 due to higher 2023 debt service prior to the refinancing of Restructuring Bonds, Series 2013. The lower balance in 2021 compared to 2020 is due to the higher redemptions of bonds outstanding required in 2021.

Bond Ratings

UDSA's credit ratings by Moody's Investors Service (Moody's), Standard and Poor's Global Ratings (S&P), and Fitch Ratings (Fitch) are listed below.

Bond Series	Moody's	S&P	Fitch
Series 2013	Aaa (sf)	AAA (sf)	AAAsf
Series 2015	Aaa (sf)	AAA (sf)	AAAsf
Series 2016A	Aaa (sf)	AAA (sf)	AAAsf
Series 2016B	Aaa (sf)	AAA (sf)	AAAsf
Series 2017	Aaa (sf)	AAA (sf)	AAAsf
Series 2022	Aaa (sf)	AAA (sf)	Not applied for

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. For more 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

(A Component Unit of the Long Island Power Authority)

Statements of Net Position

December 31, 2022 and 2021

(Amounts in thousands)

		2022	2021
Assets and Deferred Outflow of Resources			
Current assets:			
Restricted cash and cash equivalents	$	153,150	111,694
Accounts receivable, net of allowance for uncollectible accounts of $101 and $75, respectively		69,743	53,946
Prepaid expenses		318	277
Total current assets		223,211	165,917
Noncurrent assets:			
Restructuring property, net of accumulated amortization		4,013,451	3,931,161
Regulatory asset – unamortized debt issuance costs		18,807	15,704
Total noncurrent assets		4,032,258	3,946,865
Total assets		4,255,469	4,112,782
Deferred outflow of resources:			
Deferred defeasance costs on debt refunding		10,059	—
Total assets and deferred outflows of resources	$	4,265,528	4,112,782
Liabilities and Net Position			
Current liabilities:			
Current maturities of long-term debt	$	264,660	177,511
Accrued interest		7,812	7,586
Accrued expenses		1,521	1,028
Total current liabilities		273,993	186,125
Noncurrent liabilities:			
Long-term debt, net		3,537,550	3,525,845
Unamortized premium of long-term debt		335,365	313,174
Total noncurrent liabilities		3,872,915	3,839,019
Total liabilities		4,146,908	4,025,144
Net position – restricted		118,620	87,638
Total liabilities and net position	$	4,265,528	4,112,782

See accompanying notes to financial statements.

UTILITY DEBT SECURITIZATION AUTHORITY

(A Component Unit of the Long Island Power Authority)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2022 and 2021

(Amounts in thousands)

		2022	2021
Operating revenue, net of uncollectible accounts expense	$	389,830	354,409
Operating expenses:			
Amortization of restructuring property		215,566	234,806
Servicing, administrative and other fees		3,437	3,136
Total operating expenses		219,003	237,942
Operating income		170,827	116,467
Non-operating revenue and expenses:			
Interest income		2,306	39
		173,133	116,506
Interest charges and (credits):			
Interest on debt		183,144	187,643
Other interest		331	130
Other interest amortizations		(41,324)	(43,084)
Total non-operating expenses, net		142,151	144,689
Change in net position		30,982	(28,183)
Net position, beginning of year		87,638	115,821
Net position, end of year	$	118,620	87,638

See accompanying notes to financial statements.

UTILITY DEBT SECURITIZATION AUTHORITY

(A Component Unit of the Long Island Power Authority)

Statements of Cash Flows

Years ended December 31, 2022 and 2021

(Amounts in thousands)

		2022	2021
Cash flows from operating activities:			
Operating revenues received	$	374,033	353,187
Servicing, administrative and other fees		(2,935)	(2,847)
Net cash provided by operating activities		371,098	350,340
Cash flows from investing activities:			
Interest income		2,306	39
Net cash provided by investing activities		2,306	39
Cash flows from financing activities:			
Interest paid		(173,395)	(187,969)
Redemption of long-term debt		(177,511)	(179,419)
Proceeds from the issuance of long-term debt		1,046,780	—
Early defeasance on UDSA long-term-debt		(702,279)	—
Payments to bond escrow agent to refinance LIPA bonds		(217,804)	—
Payments to LIPA System Resiliency Fund		(100,000)	—
Other interest costs		(331)	(130)
Debt issuance costs		(7,408)	—
Net cash used in financing activities		(331,948)	(367,518)
Net increase (decrease) in cash and cash equivalents		41,456	(17,139)
Restricted cash and cash equivalents, beginning of year		111,694	128,833
Restricted cash and cash equivalents, end of year	$	153,150	111,694
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	170,827	116,467
Adjustments to reconcile operating income to net cash provided by operating activities:			
Amortization of restructuring property		215,566	234,806
Changes in operating assets and liabilities:			
Prepaid expenses and accrued expenses		502	288
Accounts receivable		(15,797)	(1,221)
Net cash provided by operating activities	$	371,098	350,340

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) General

The Utility Debt Securitization Authority (UDSA) is a special purpose corporate municipal instrumentality, a body corporate and politic, and a political subdivision and public benefit corporation of the State of New York (State), created by Part B of Chapter 173, Laws of New York, 2013 (as amended by Chapter 58 of the Laws of New York, 2015, and then by Chapter 369 of the Laws of New York, 2021, the "Securitization Law").

The Securitization Law provided the statutory authority for the issuance of restructuring bonds (Restructuring Bonds) by the UDSA. The issuance of Restructuring Bonds allows the Long Island Power Authority (LIPA) to retire a portion of its outstanding indebtedness and provides savings to LIPA's utility customers on a net present value basis. LIPA is the owner of the electric transmission and distribution system located in the Counties of Nassau and Suffolk (with certain limited exceptions) and a portion of Queens County known as the Rockaways (Service Area).

On August 2, 2021, changes to the Securitization Law were authorized to permit the issuance of additional securitized bonds for refinancing LIPA and UDSA bonds and to fund LIPA transmission and distribution system resiliency investments. Funding from UDSA bonds provides a lower cost to customers than issuing LIPA bonds for the same purpose. With these statutory changes, the UDSA may issue up to $8.0 billion of securitized bonds (inclusive of the bonds already issued).

On May 18 2022, LIPA's Board adopted additional Financing Orders No. 6, No. 7, No. 8, and No. 9 and the UDSA's Board of Trustees approved the issuance of Series 2022 bonds in an amount not to exceed $1.3 billion pursuant to Financing Order No. 6 for the purpose of refinancing certain debt of LIPA and UDSA and financing resiliency investments.

UDSA issued $54 million Series 2022 Taxable Restructuring Bonds, $787 million Series 2022 Tax-Exempt Restructuring Bonds, and $95 million Series 2022 Tax-Exempt Green Bonds. The proceeds of these Restructuring Bonds, plus $91 million of premium received, refunded $852 million of LIPA and UDSA debt and funded $100 million of LIPA resiliency investments. The 2022 UDSA Restructuring Bonds generated total net present value debt service savings of $42 million for LIPA's customers.

UDSA refinancings have saved LIPA customers $534 million of net present value debt savings since 2013. A total of $5.4 billion of UDSA Restructuring Bonds have been issued resulting in $2.6 billion in remaining statutory capacity.

(b) Financial Reporting Entity

The Securitization Law prohibits the UDSA from engaging in any activity except as specifically authorized by a financing order and provides that the UDSA is not authorized to be a debtor under Chapter 9 or any other provision of the Bankruptcy Code.

The financial statements of the UDSA have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The operations of the UDSA are presented as a proprietary fund following the accrual basis of accounting in order to recognize the flow of economic resources. Revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

The UDSA is considered a blended component unit of LIPA. The assets, liabilities, and results of operations are consolidated with the operations of LIPA for financial reporting purposes in LIPA's Financial Statements.

(c) Use of Estimates

The accompanying financial statements were prepared in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(d) Accounting for the Effects of Rate Regulation

The UDSA is subject to the provisions of GASB Codification Section RE10, *Regulated Operations*, which addresses accounting rules for regulated operations. This statement recognizes the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. Accordingly, the UDSA records these future economic benefits and obligations as regulatory assets or regulatory liabilities, respectively.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, requires that debt issuance costs be expensed in the current financial period. As the UDSA charge provides recovery for debt issuance costs on a systematic basis over the life of the debt, the UDSA has classified these costs as a regulatory asset, in accordance with GASB Section RE10, *Regulated Operations*, to be collected over the life of the debt issuance to which they relate.

(e) Accounts Receivable

Accounts receivables are classified as current assets and are reported net of an allowance for uncollectible accounts. The UDSA records bad debts for its estimated uncollectible accounts as a reduction to the related operating revenues in the Statements of Revenues, Expenses, and Changes in Net Position.

The UDSA accounts receivable includes amounts due from the customers served by LIPA and the accrual of unbilled revenue to be received in the subsequent year. LIPA accrues unbilled revenue by estimating unbilled consumption at the utility customer meter. Unbilled revenue for the UDSA totaled $23 million and $18 million as of December 31, 2022 and 2021, respectively.

(f) Restructuring Property

The Financing Orders, as adopted by LIPA's Board, authorized the creation of Restructuring Property and the issuance of Restructuring Bonds by the UDSA to provide funds for the purchase of Restructuring Property from LIPA. LIPA was authorized to use the proceeds from the sale of Restructuring Property to purchase, redeem, repay, or defease certain of its outstanding debt or fund transmission and distribution resiliency investments. Restructuring Property is defined as the right, title, and interest: (a) in and to rates and charges to recover from utility customers the debt service requirements on the Restructuring Bonds (referred to as Restructuring Charges); (b) in and to all

(continued)

(Amounts in thousands, unless otherwise stated)

revenues, collections, claims, payments, money, or proceeds of, or arising from, the Restructuring Charges, regardless of whether such revenues, collections, claims, payments, money, or proceeds are imposed, billed, received, collected, or maintained together with, or commingled with, other revenues, collections, claims, payments, money, or proceeds; and (c) in and to all rights to obtain adjustments to the Restructuring Charges. These non-bypassable consumption-based Restructuring Charges are billed to all existing and future retail electric customers taking electric transmission or distribution service within the Service Area from LIPA or any of its successors or assignees. Restructuring Charges are established on behalf of the UDSA and are not subject to oversight by the New York State Public Service Commission, the Department of Public Service, or any other regulatory body, including LIPA's Board. LIPA has lowered its electric rates to reflect the savings from the securitization and modified its rate structure to create restructuring offset charges, which are amounts equal to and opposite the Restructuring Charges, so that utility customer bills are less than they would have been absent the sale of Restructuring Bonds. The securitization offset charges will be adjusted along with changes to the Restructuring Charges, subject to true-up adjustments as discussed in note 4.

The Restructuring Property is amortized annually based on principal payments due on the Restructuring Bonds. Included in the annual amortization is an amount equal to the bond premium amortization, which is recorded using the effective-interest-rate method.

Below is a summary of the Financing Orders and the original issuance amounts:

Financing Order	Date Issued		Initial Amount Issued*	Restructuring Charge Rate Effective Date
Financing Order No. 1	December 18, 2013	$	2,022,324	March 1, 2014
Financing Order No. 2	October 27, 2015		1,002,115	January 1, 2016
Financing Order No. 3	April 7, 2016		636,770	April 7, 2016
Financing Order No. 4	September 8, 2016		469,320	September 8, 2016
Financing Order No. 5	November 21, 2017		369,465	January 1, 2018
Financing Order No. 6	September 29,2022		935,655	October 3, 2022
		$	5,435,649	

* See note 3 for details on current outstanding balances.

(g) Revenues

The UDSA records revenue for Restructuring Charges under the accrual method of accounting in an amount equal to the imposed charges.

(h) Income Taxes

The UDSA is a political subdivision of the State of New York and, therefore, is exempt from federal, state, and local income taxes.

(2) Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of funds held in the UDSA's restricted bank accounts to pay the principal, interest, and other expenses associated with the Restructuring Bonds. The UDSA has specific investment guidelines to address the legal and contractual requirement such that investment maturities are managed to meet the restructuring bonds' debt service obligations.

The Bond Trustee (Trustee), under the indenture for each series of Restructuring Bonds, must maintain a segregated trust account for each series of Restructuring Bonds known as the Collection Account. The Collection Account for the bonds consists of four subaccounts: a General Subaccount, an Excess Funds Subaccount, Reserve Subaccounts (described below), and an Upfront Financing Costs Subaccount. For administrative purposes, the subaccounts have been established by the Trustee as separate accounts, which will be recognized collectively as the Collection Account.

The Trustee shall have sole dominion and exclusive control over all money in each Collection Account and shall apply such money as provided in the Indenture. Each account shall remain at all times with a securities intermediary. Only the Trustee shall have access to each Collection Account for the purpose of making deposits to and withdrawals from such account. Funds in each Collection Account shall not be commingled with any other monies.

Reserve Subaccounts

The Reserve Subaccount related to the Series 2013 Restructuring Bonds was established at a reserve level of 0.5% of the initial principal amount of the Restructuring Bonds originally issued.

The Reserve Subaccounts related to the Series 2015, 2016A, 2016B, 2017 and 2022 Restructuring Bonds were each established with two subaccounts — the Operating Reserve Subaccount and the Debt Service Reserve Subaccount. Each Operating Reserve Subaccount requires a reserve level of 0.5% of the initial principal amount of the respective Restructuring Bonds.

The Debt Service Reserve Subaccounts related to the Series 2015, 2016A, 2016B and 2017 Restructuring Bonds were each established at a reserve level of 1.50% of the aggregate principal amount of the respective Restructuring Bonds issued. Series 2022 was established at a reserve level of 0.50% of the aggregate principal amount. The Debt Service Reserve Subaccounts are subsequently measured at 1.50% or 0.50% of aggregate principal amounts of Bonds minus the minimum principal amount of Bonds due on the next scheduled debt service payment date. Any release from the Debt Service Reserve Subaccounts are transferred to the Collection Account to fund debt service.

(continued)

(Amounts in thousands, unless otherwise stated)

Below is a summary of the Reserve Subaccounts as of December 31:

Reserve Subaccounts		**2022**	**2021**
Restructuring Bonds, Series 2013	$	10,112	10,112
Restructuring Bonds, Series 2015		19,689	19,948
Restructuring Bonds, Series 2016A		12,735	12,737
Restructuring Bonds, Series 2016B		5,343	6,569
Restructuring Bonds, Series 2017		6,833	7,224
Restructuring Bonds, Series 2022		9,357	—
	$	64,069	56,590

Risks

Credit Risk: The UDSA's permissible investments include: (i) demand deposits and certificates of deposit; (ii) direct obligations of, or obligations guaranteed by, the United States of America; (iii) commercial paper having a rating of not less than A-1, P-1, F1 at the time of the commitment; (iv) money market funds which have the highest rating available; (v) repurchase obligations that are a direct obligation of, or obligation guaranteed by, the United States of America; and (vi) repurchase obligations meeting the minimum ratings criteria set forth in the investment guidelines.

Concentration of Credit Risk: The UDSA's investment policies have established limits such that no more than 5% of the investment portfolio may be invested in the securities of any one issuer except as follows: (i) U.S. Treasury Obligations; (ii) demand deposits, time deposits, or certificates of deposit and bankers' acceptance of eligible institutions (as defined in investment guidelines); (iii) repurchase obligations with respect to any security that is a direct obligation of, or obligations guaranteed by, the United States of America; (iv) repurchase obligations with an eligible institution; and (v) money market funds which have the highest rating available. To the extent that more than 35% of the UDSA's total invested funds are invested with any single eligible institution, other than the Trustee, the UDSA Board shall be notified. The UDSA deposits invested in money-market mutual funds are primarily invested in U.S. government obligations.

Custodial Credit Risk: The UDSA believes that custodial credit risk is minimal, as it is the UDSA's policy and practice, as stipulated in its investment guidelines, that its investments be held by only eligible institutions with investment grade credit ratings.

Interest Rate Risk: The UDSA's investment guidelines state that investments must mature on or before the business day preceding the debt service payment dates of the restructuring bonds and all investments, therefore, are generally maturities of a short nature. As such, the UDSA presently holds its funds in money-market mutual funds as cash equivalents.

(Amounts in thousands, unless otherwise stated)

Below is a summary of the UDSA's restricted cash and cash equivalents as of December 31, 2022 and 2021:

Deposit/investment type		2022 Fair value	Percent of portfolio	2021 Fair value	Percent of portfolio
Money-market mutual fund	$	153,150	100%	111,694	100%
Total	$	153,150	100%	111,694	100%

The money-market mutual funds were rated by S&P and Moody's as AAA-mf and Aaa-mf, respectively.

(3) Long-Term Debt

The Financing Orders adopted by LIPA's Board authorize the issuance of Restructuring Bonds by the UDSA to provide funds for the purchase of Restructuring Property from LIPA.

The Restructuring Bonds are included on LIPA's financial statements; however, they are not direct obligations of LIPA. The Restructuring Bonds are also not a debt, and do not constitute a pledge of the faith and credit or taxing power of the State or of any county, municipality, or any other political subdivision, agency, or instrumentality of the State other than the UDSA.

Each Restructuring Property (2013, 2015, 2016A, 2016B, 2017 and 2022) secures only their respective Restructuring Bonds. In each restructuring transaction, LIPA used the net proceeds from the sale of the Restructuring Property to refund debt and other obligations of LIPA or to fund resiliency investments, producing net present value savings to LIPA's utility customers.

Interest payments on all the Restructuring Bonds are paid semi-annually every June 15th and December 15th. Restructuring Charges are set to collect amounts sufficient to pay principal of, and interest on, the bonds on a timely basis and any ongoing financing costs.

The UDSA's restructuring bonds contain a provision that in an event of a default, including defaults of debt service payments, the timing of repayment of outstanding amounts may become immediately due.

(Amounts in thousands, unless otherwise stated)

The UDSA's long-term debt as of December 31, 2022 consisted of the following:

	Beginning balance	Additions	Maturities	Refundings	Ending balance	Years of Maturity	Interest Rate (%)
Restructuring bonds:							
Series 2013T	$ 114,641	—	41,981	—	72,660	2023	3.44
Series 2013TE	1,374,390	—	—	659,290	715,100	2023-2039	5.00
Series 2015	989,095	—	21,385	—	967,710	2023-2035	3.00-5.00
Series 2016A	636,770	—	—	—	636,770	2023-2033	5.00
Series 2016B	244,675	—	90,980	—	153,695	2023-2033	4.00-5.00
Series 2017	343,785	—	23,165	—	320,620	2023-2039	5.00
Series 2022T	—	53,585	—	—	53,585	2023-2037	4.42-4.95
Series 2022TE-1	—	787,290	—	—	787,290	2023-2037	5.00
Series 2022TE-2	—	94,780	—	—	94,780	2038-2050	5.00
Subtotal	3,703,356	935,655	177,511	659,290	3,802,210		
Less: current maturities	(177,511)				(264,660)		
Total long-term debt	$ 3,525,845				3,537,550		

The UDSA's long-term debt as of December 31, 2021 consisted of the following:

	Beginning balance	Additions	Maturities	Refundings	Ending balance	Years of Maturity	Interest Rate (%)
Restructuring bonds:							
Series 2013T	$ 186,200	—	71,559	—	114,641	2022-2023	3.44
Series 2013TE	1,374,390	—	—	—	1,374,390	2023-2039	5.00
Series 2015	1,002,115	—	13,020	—	989,095	2022-2035	3.00-5.00
Series 2016A	636,770	—	—	—	636,770	2023-2033	5.00
Series 2016B	317,270	—	72,595	—	244,675	2022-2033	4.00-5.00
Series 2017	366,030	—	22,245	—	343,785	2022-2039	5.00
Subtotal	3,882,775	—	179,419	—	3,703,356		
Less: current maturities	(179,419)				(177,511)		
Total long-term debt	$ 3,703,356				3,525,845		

(continued)

(Amounts in thousands, unless otherwise stated)

The debt service requirements for the UDSA's bonds as of December 31, 2022 are as follows:

Due		Principal	Interest	Annual Debt Service Requirements
2023	$	264,660	184,539	449,199
2024		217,265	172,810	390,075
2025		229,810	161,954	391,764
2026		231,165	150,786	381,951
2027		221,465	139,845	361,310
2028–2032		1,269,660	521,327	1,790,987
2033–2037		855,655	239,142	1,094,797
2038–2042		447,235	48,596	495,831
2043–2047		37,745	12,269	50,014
2048–2050		27,550	2,460	30,010
Total	$	3,802,210	1,633,728	5,435,938

The UDSA has approximately $2.6 billion of Restructuring Bonds that become callable from 2023 through 2032.

(4) Significant Agreements and Related-Party Transactions

LIPA acts as the initial Servicer of the applicable Restructuring Property pursuant to the terms of a Servicing Agreement with the UDSA executed in connection with each issuance of Restructuring Bonds. Under the Servicing Agreement, LIPA, as Servicer, is required to manage and administer the UDSA bondable Restructuring Property and to collect the Restructuring Charges on the UDSA's behalf. However, pursuant to LIPA's Second Amended and Restated Operation Services Agreement, PSEG Long Island, among other things, performs the billing and collections, meter reading, and forecasting required of the Servicer under the Servicing Agreement. LIPA is responsible for taking all necessary action in connection with true-up adjustments (described below) and certain reporting requirements.

The Restructuring Charges will be adjusted at least annually (true-up adjustment) and, if determined by the Servicer during the mid-year review process to be necessary, semi-annually or more frequently, to ensure that the expected collections of the Restructuring Charges are adequate to timely pay all scheduled payments of principal and interest on the Restructuring Bonds and all other ongoing financing costs when due.

During 2022 and 2021, the UDSA reset its Restructuring Charge on all its Restructuring Bonds semi-annually, as provided by the Servicing Agreements.

Under the Financing Orders, LIPA withholds from the Restructuring Charge collections an annual servicing fee equal to 0.05% of the initial principal amount of the Restructuring Bonds originally issued.

(5) Subsequent Events

Subsequent events for UDSA have been evaluated through March 28, 2023, which is the date that the financial statements were available to be issued, and no material events were noted requiring disclosure.

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Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Trustees
Utility Debt Securitization Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Utility Debt Securitization Authority (UDSA), a component unit of the Long Island Power Authority, as of and for the year ended December 31, 2022, and the related notes to the basic financial statements, and have issued our report thereon dated March 28, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered UDSA’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of UDSA’s internal control. Accordingly, we do not express an opinion on the effectiveness of UDSA’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether UDSA’s basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of UDSA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UDSA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Melville, New York
March 28, 2023