

**UTILITY DEBT SECURITIZATION AUTHORITY**

(A Component Unit of the Long Island Power Authority)

Basic 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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## Independent Auditors' Report

Board of Trustees  
Utility Debt Securitization Authority:

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the financial statements of the Utility Debt Securitization Authority (UDSA), a component unit of the Long Island Power Authority, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise UDSA's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of UDSA, as of December 31, 2022 and 2021, and the changes in its financial position, and its, cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

#### *Basis for Opinions*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of UDSA, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about UDSA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UDSA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about UDSA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2023 on our consideration of UDSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of UDSA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UDSA's internal control over financial reporting and compliance.

**KPMG LLP**

Melville, New York  
March 28, 2023

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

Management's Discussion and Analysis  
(Unaudited)

December 31, 2022 and 2021

**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).

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

Management's Discussion and Analysis  
(Unaudited)

December 31, 2022 and 2021

**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%

























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

Notes to Financial Statements

December 31, 2022 and 2021

(Amounts in thousands, unless otherwise stated)

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

<u>Reserve Subaccounts</u>	<u>2022</u>	<u>2021</u>
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	—
	<u>\$ 64,069</u>	<u>56,590</u>

***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.

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Notes to Financial Statements

December 31, 2022 and 2021

(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	<u>2022 Fair value</u>	<u>Percent of portfolio</u>	<u>2021 Fair value</u>	<u>Percent of portfolio</u>
Money-market mutual fund	\$ 153,150	100%	111,694	100%
Total	<u>\$ 153,150</u>	<u>100%</u>	<u>111,694</u>	<u>100%</u>

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 15<sup>th</sup> and December 15<sup>th</sup>. 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.

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December 31, 2022 and 2021

(Amounts in thousands, unless otherwise stated)

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Maturities</u>	<u>Refundings</u>	<u>Ending balance</u>	<u>Years of Maturity</u>	<u>Interest Rate (%)</u>
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	<u>3,703,356</u>	<u>935,655</u>	<u>177,511</u>	<u>659,290</u>	<u>3,802,210</u>		
Less: current maturities	<u>(177,511)</u>				<u>(264,660)</u>		
Total long-term debt	<u>\$ 3,525,845</u>				<u>3,537,550</u>		

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Maturities</u>	<u>Refundings</u>	<u>Ending balance</u>	<u>Years of Maturity</u>	<u>Interest Rate (%)</u>
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	<u>3,882,775</u>	<u>—</u>	<u>179,419</u>	<u>—</u>	<u>3,703,356</u>		
Less: current maturities	<u>(179,419)</u>				<u>(177,511)</u>		
Total long-term debt	<u>\$ 3,703,356</u>				<u>3,525,845</u>		

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

Notes to Financial Statements

December 31, 2022 and 2021

(Amounts in thousands, unless otherwise stated)

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

<u>Due</u>		<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service Requirements</u>
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	\$	<u>3,802,210</u>	<u>1,633,728</u>	<u>5,435,938</u>

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.

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December 31, 2022 and 2021

(Amounts in thousands, unless otherwise stated)

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, which comprise UDSA's statement of financial position as of December 31, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2023.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered UDSA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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 or significant deficiencies may exist that were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether UDSA's 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 financial statements. 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*KPMG LLP*

Melville, New York  
March 28, 2023