

UTILITY DEBT SECURITIZATION AUTHORITY

(A Component Unit of the Long Island Power Authority)

Quarterly Unaudited Financial Report

For the three-month period ended March 31, 2023

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UTILITY DEBT SECURITIZATION AUTHORITY
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Introduction

Overview of the Financial Statements

The annual financial report for the Utility Debt Securitization Authority (UDSA) includes management's discussion and analysis and the Basic Financial Statements. The Basic Financial Statements consist of the Statements of Net Position, the Statements of Revenue, Expenses, and 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 all 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.

UDSA publishes interim financial results on a quarterly basis with a fiscal year ending December 31. The interim consolidated financial statements and related Management's Discussion and Analysis do not include all the information and notes required under Generally Accepted Accounting Principles (GAAP) for annual consolidated financial statements. Therefore, the Management's Discussion and Analysis of UDSA's three-month period ended March 31, 2023 compared to 2022 should be read in conjunction with the annual audited consolidated financial statements, which may be found on UDSA's website at www.lipower.org/UDSA.

The UDSA's financial statements are prepared on an accrual basis in accordance with GAAP as prescribed by the Governmental Accounting Standards Board (GASB). The UDSA is considered a blended component unit of the Long Island Power Authority (LIPA). The assets, liabilities, and results of operations are blended with the operations of LIPA for financial reporting purposes in LIPA's Financial Statements.

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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 \$841 million Series 2022 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.

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%

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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
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Statements of Net Position

March 31, 2023 and December 31, 2022

(Amounts in thousands)

	2023	2022
	<u>(unaudited)</u>	<u>(audited)</u>
Assets and Deferred Outflow of Resources		
Current assets:		
Restricted cash and cash equivalents	\$ 255,080	153,150
Accounts receivable, net of allowance for uncollectible accounts of \$168 and \$101, respectively	65,722	69,743
Prepaid expenses	231	318
Total current assets	<u>321,033</u>	<u>223,211</u>
Noncurrent assets:		
Restructuring property, net of accumulated amortization	3,938,099	4,013,451
Regulatory asset – unamortized debt issuance costs	18,214	18,807
Total noncurrent assets	<u>3,956,313</u>	<u>4,032,258</u>
Total assets	<u>4,277,346</u>	<u>4,255,469</u>
Deferred outflow of resources:		
Deferred defeasance costs on debt refunding	9,682	10,059
Total assets and deferred outflows of resources	<u>\$ 4,287,028</u>	<u>4,265,528</u>
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 264,660	264,660
Accrued interest	54,686	7,812
Accrued expenses	2,423	1,521
Total current liabilities	<u>321,769</u>	<u>273,993</u>
Noncurrent liabilities:		
Long-term debt, net	3,537,550	3,537,550
Unamortized premium of long-term debt	323,424	335,365
Total noncurrent liabilities	<u>3,860,974</u>	<u>3,872,915</u>
Total liabilities	<u>4,182,743</u>	<u>4,146,908</u>
Net position – restricted	<u>104,285</u>	<u>118,620</u>
Total liabilities and net position	<u>\$ 4,287,028</u>	<u>4,265,528</u>

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Statements of Revenues, Expenses, and Changes in Net Position

Three-month period ended March 31, 2023 and 2022

(unaudited)
(Amounts in thousands)

	2023	2022
Operating revenue, net of uncollectible accounts expense	\$ 95,935	83,049
Operating expenses:		
Amortization of restructuring property	75,352	55,771
Servicing, administrative and other fees	990	834
Total operating expenses	76,342	56,605
Operating income	19,593	26,444
Nonoperating revenue and expenses:		
Interest income	1,973	8
	21,566	26,452
Interest charges and (credits):		
Interest on debt	46,873	45,517
Other interest amortizations	(10,972)	(10,268)
Total non-operating expenses, net	35,901	35,249
Change in net position	(14,335)	(8,797)
Net position, beginning of year	118,620	87,638
Net position, end of year	\$ 104,285	78,841

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Statements of Cash Flows

Three-month period ended March 31, 2023 and 2022
(unaudited)

(Amounts in thousands)

	2023	2022
Cash flows from operating activities:		
Operating revenues received	\$ 99,957	85,321
Net cash provided by operating activities	99,957	85,321
Cash flows from investing activities:		
Interest income	1,973	8
Net cash provided by investing activities	1,973	8
Net increase in cash and cash equivalents	101,930	85,329
Restricted cash and cash equivalents, beginning of year	153,150	111,694
Restricted cash and cash equivalents, end of year	\$ 255,080	197,023
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 19,593	26,444
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of restructuring property	75,352	55,771
Changes in operating assets and liabilities:		
Prepaid expenses and accrued expenses	991	904
Accounts receivable	4,021	2,202
Net cash provided by operating activities	\$ 99,957	85,321

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Management's Discussion and Analysis
(Unaudited)

Three-Month Period ended March 31, 2023 Compared to 2022

The UDSA results for the three months ended March 31, 2023 showed a decrease of \$6 million in the change in net position compared to the first three months of 2022. The net position and changes in net position reflect the timing differences between the accrual-based accounting required under GAAP and the ratemaking treatment followed by the UDSA. The UDSA's Restructuring Charge is set at an amount sufficient to recover the debt service payments and other cash operating expenses that the UDSA incurs in any given year, which differs from accrued revenues and expenses.

Operating revenues

Operating revenues increased \$13 million compared to 2022 due to higher restructuring charges primarily as a result of Financing Order No. 6 increasing revenue by \$18 million. This was partially offset by lower sales compared to 2022 impacting revenue by \$5 million.

Operating expenses

Operating expenses increased \$20 million compared to 2022 primarily due to an increase in the amortization of the restructuring property resulting from higher principal payments due in June 2023 compared to 2022. The UDSA recognizes the amortization of the restructuring property on a proportionate basis annually based upon the total principal payments due and premiums outstanding on its restructuring bonds.

Nonoperating revenues and expenses

Interest expense increased \$1 million compared to 2022 due to higher debt outstanding. Interest income increased \$2 million due to higher interest rates earned combined with higher cash balances in 2023 attributable to collections related to Financing Order No. 6.

Long-Term Debt

The Financing Orders adopted by LIPA's Board authorized the issuance of Restructuring Bonds by the UDSA to provide funds for the purchase of Restructuring Property from LIPA. Each Restructuring Property (2013, 2015, 2016A, 2016B, 2017 and 2022) and secured 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.

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The UDSA's long-term debt as of March 31, 2023 consisted of the following:

(Amounts in thousands)

	<u>Beginning balance</u>	<u>Additions</u>	<u>Maturities</u>	<u>Repaid/ Refundings</u>	<u>Ending balance</u>	<u>Years of Maturity</u>	<u>Interest Rate (%)</u>
UDSA restructuring bonds:							
Series 2013T	72,660	—	—	—	72,660	2023	3.44
Series 2013TE	715,100	—	—	—	715,100	2023-2039	5.00
Series 2015	967,710	—	—	—	967,710	2023-2035	3.00-5.00
Series 2016A	636,770	—	—	—	636,770	2023-2033	5.00
Series 2016B	153,695	—	—	—	153,695	2023-2033	4.00-5.00
Series 2017	320,620	—	—	—	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	3,802,210	—	—	—	3,802,210		
Less: Current maturities	(264,660)				(264,660)		
Total Long-term debt	<u>\$ 3,537,550</u>				<u>3,537,550</u>		

The debt service requirements for the UDSA's bonds as of March 31, 2023 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.