

## **FOR CONSIDERATION**

March 26, 2024

**TO:** Board of Trustees of the Utility Debt Securitization Authority

**FROM:** Thomas Falcone

**REQUEST:** Approval of the 2023 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

**RESOLUTION APPROVING THE 2023 FINANCIAL REPORT OF THE UTILITY DEBT SECURITIZATION AUTHORITY**

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**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 26, 2024

**UTILITY DEBT SECURITIZATION AUTHORITY**

(A Component Unit of the Long Island Power Authority)

Basic Financial Statements

And Required Supplementary Information

December 31, 2023 and 2022

(With Independent Auditors' Reports Thereon)

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

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Basic Financial Statements:	
Statements of Net Position	10
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	13
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 <i>Government Auditing Standards</i>	23

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

Management's Discussion and Analysis  
(Unaudited)

December 31, 2023 and 2022

**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, the Statements of Cash Flows, and the notes to the financial statements.

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 notes to the financial statements (Notes) provide additional information regarding amounts reported in the financial statements and other information necessary for a fair presentation of the financial statements.

The MD&A of the financial performance of UDSA, which is required supplementary information, provides an overview for the years ended December 31, 2023, and 2022, with certain comparative information as of and for the year ended December 31, 2021. The MD&A should be read in conjunction with the Basic Financial Statements which follow this section. The Notes are an integral part of UDSA's Basic Financial Statements.

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, 2023 and 2022

**Nature of Operations**

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 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 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 UDSA to issue Restructuring Bonds.

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 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, 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.

On March 28, 2023, UDSA's Board of Trustees approved the issuance of Series 2023 bonds in an amount not to exceed \$2 billion pursuant to Financing Order No. 7. On December 15, 2023, UDSA issued \$36 million Series 2023 Taxable Restructuring Bonds, \$662 million Series 2023 Tax-Exempt Restructuring Bonds, and \$136 million Series 2023 Tax-Exempt Green Bonds. The proceeds of these Restructuring Bonds, plus \$57 million of premium received, refunded \$750 million of LIPA and UDSA debt and funded \$141 million of LIPA resiliency investments. The 2023 UDSA Restructuring Bonds generated total net present value debt service savings of \$45 million for LIPA's customers.

UDSA refinancings have saved LIPA customers \$579 million of net present value debt savings since 2013. A total of \$6.3 billion of UDSA Restructuring Bonds have been issued resulting in \$1.7 billion in remaining statutory capacity.

Each financing order authorized Restructuring Bonds secured by a separate restructuring charge created pursuant to that financing.

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

Management's Discussion and Analysis  
(Unaudited)

December 31, 2023 and 2022

**Financial Condition Overview**

UDSA's condensed Statements of Net Position as of December 31, 2023, 2022, and 2021 are summarized below:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Assets and Deferred Outflows of Resources</b>			
Current assets	\$ 168,414	223,211	165,917
Noncurrent assets	3,902,830	4,032,258	3,946,865
Deferred outflows of resources	8,554	10,059	—
Total assets and deferred outflows of resources	<u>4,079,798</u>	<u>4,265,528</u>	<u>4,112,782</u>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>			
Current liabilities	212,768	273,993	186,125
Noncurrent liabilities	3,773,546	3,872,915	3,839,019
Deferred inflows of resources	21,908	—	—
Total liabilities	4,008,222	4,146,908	4,025,144
Net position-restricted	71,576	118,620	87,638
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,079,798</u>	<u>4,265,528</u>	<u>4,112,782</u>

The following summarizes UDSA's statements of net position variances for the years 2023 and 2022:

*2023 Compared to 2022*

Current assets decreased by \$55 million compared to 2022 due to lower cash and cash equivalents of \$38 million and lower accounts receivable balances of \$17 million driven by lower restructuring charge rates effective in November 2023 for lower debt service requirements in 2024.

Noncurrent assets decreased by \$129 million compared to 2022 primarily due to the reduction of \$725 million related to Financing Order No. 1 Restructuring Property as a result of the early retirement of Series 2013 Bonds and scheduled amortizations of the Restructuring Property of \$298 million. These decreases were offset by the issuance of Financing Order No. 7, which increased the Restructuring Property by \$898 million. The remaining \$4 million decrease is due to scheduled amortization of bond issuance costs recorded as a regulatory asset.

Deferred outflows of resources decreased by \$2 million compared to 2022 primarily due to the scheduled amortization of the deferred defeasance costs on refunding associated with the issuance of the 2022 Restructuring Bonds.

Current liabilities decreased by \$61 million compared to 2022 primarily due to lower scheduled current maturities of long-term debt resulting from the early retirement of Series 2013 Restructuring Bonds.

Noncurrent liabilities decreased by \$99 million compared to 2022, primarily due to the early retirement of Series 2013 Bonds of \$714 million, scheduled current maturities of long-term debt of \$205 million, and scheduled amortization of debt premium of \$47 million. This was offset by the issuance of the 2023 Restructuring Bonds of \$833 million.

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

Management's Discussion and Analysis  
(Unaudited)

December 31, 2023 and 2022

Deferred inflows of resources increased by \$22 million compared to 2022, due to the recognition of a deferred gain from the refunding of Restructuring Bonds, Series 2013 with the issuance of Restructuring Bonds, Series 2023.

*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.

Noncurrent 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.

Deferred outflows of resources increased by \$10 million compared to 2021 due to the recognition of a deferred loss from the refunding of Restructuring Bonds, Series 2013 with the issuance of Restructuring Bonds, Series 2022.

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.

Noncurrent 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.



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

Management's Discussion and Analysis  
(Unaudited)

December 31, 2023 and 2022

**Results of Operations**

UDSA's condensed Statements of Revenues, Expenses, and Changes in Net Position for the years ended December 31, 2023, 2022 and 2021 are summarized as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues, net of uncollectible accounts expense	\$ 390,914	389,830	354,409
Operating expenses	(301,570)	(219,003)	(237,942)
Operating income	89,344	170,827	116,467
Interest income	10,745	2,306	39
Interest charges and credits, net	(147,133)	(142,151)	(144,689)
Change in net position	(47,044)	30,982	(28,183)
Restricted net position, beginning of year	118,620	87,638	115,821
Restricted net position, end of year	\$ <u>71,576</u>	<u>118,620</u>	<u>87,638</u>

The following summarizes UDSA's financial performance for the years 2023 and 2022:

*2023 Compared to 2022*

Operating revenues, net of uncollectible expense, increased by \$1 million compared to 2022 due to an increase in restructuring charge rates. Any excess recoveries resulting from the 2023 charges are applied to the rate resets for 2024.

Operating expenses increased by \$83 million compared to 2022 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 income increased by \$8 million compared to 2022 due to higher interest rates earned on UDSA cash balances.

Interest charges and credits increased by \$5 million compared to 2022 due to the recognition of debt issuance costs as expense in the current period.

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

Management's Discussion and Analysis  
(Unaudited)

December 31, 2023 and 2022

*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.

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

Management's Discussion and Analysis  
(Unaudited)

December 31, 2023 and 2022

**Cash and Liquidity**

Included in current assets are UDSA's restricted cash accounts totaling approximately \$115 million, \$153 million, and \$112 million as of December 31, 2023, 2022, and 2021, respectively. The lower balance in 2023 compared to 2022 is due to the higher redemptions of bonds required in 2023. 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 refunding of Restructuring Bonds, Series 2013.

**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 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
Series 2023	Aaa (sf)	AAA (sf)	Not applied for

**Contacting the Utility Debt Securitization Authority**

This financial report is designed to provide UDSA's bondholders, and other interested parties, with a general overview of 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 UDSA's website at [www.lipower.org/](http://www.lipower.org/) UDSA.

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

Statements of Net Position  
December 31, 2023 and 2022  
(Amounts in thousands)

	<b>2023</b>	<b>2022</b>
<b>Assets and Deferred Outflows of Resources</b>		
Current assets:		
Restricted cash and cash equivalents	\$ 114,951	153,150
Accounts receivable, net of allowance for uncollectible accounts of \$180 and \$101, respectively	53,463	69,743
Prepaid expenses	—	318
Total current assets	168,414	223,211
Noncurrent assets:		
Restructuring property, net of accumulated amortization	3,888,672	4,013,451
Regulatory asset – unamortized debt issuance costs	14,158	18,807
Total noncurrent assets	3,902,830	4,032,258
Total assets	4,071,244	4,255,469
Deferred outflows of resources:		
Deferred defeasance costs on debt refunding	8,554	10,059
Total assets and deferred outflows of resources	\$ 4,079,798	4,265,528
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 204,790	264,660
Accrued interest	7,571	7,812
Accrued expenses	407	1,521
Total current liabilities	212,768	273,993
Noncurrent liabilities:		
Long-term debt, net	3,451,555	3,537,550
Unamortized premium of long-term debt	321,991	335,365
Total noncurrent liabilities	3,773,546	3,872,915
Total liabilities	3,986,314	4,146,908
Deferred inflows of resources:		
Deferred defeasance costs on debt refunding	21,908	—
Net position – restricted	71,576	118,620
Total liabilities, deferred inflows of resources and net position	\$ 4,079,798	4,265,528

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, 2023 and 2022  
(Amounts in thousands)

	<b>2023</b>	<b>2022</b>
Operating revenue, net of uncollectible accounts expense	\$ 390,914	389,830
Operating expenses:		
Amortization of restructuring property	297,527	215,566
Servicing, administrative and other fees	4,043	3,437
Total operating expenses	301,570	219,003
Operating income	89,344	170,827
Nonoperating revenue and expenses:		
Interest income	10,745	2,306
Income before interest charges and (credits)	100,089	173,133
Interest charges and (credits):		
Interest on debt	184,298	183,144
Other interest	5,787	331
Other interest amortizations	(42,952)	(41,324)
Total non-operating expenses, net	147,133	142,151
Change in net position	(47,044)	30,982
Net position, beginning of year	118,620	87,638
Net position, end of year	\$ 71,576	118,620

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, 2023 and 2022

(Amounts in thousands)

	<b>2023</b>	<b>2022</b>
Cash flows from operating activities:		
Operating revenues received	\$ 407,194	374,033
Servicing, administrative and other fees	(4,911)	(2,935)
Net cash provided by operating activities	402,283	371,098
Cash flows from investing activities:		
Interest income	10,745	2,306
Net cash provided by investing activities	10,745	2,306
Cash flows from financing activities:		
Interest paid	(184,539)	(173,395)
Proceeds from the issuance of long-term debt	894,630	1,046,780
Early defeasance of UDSA long-term debt	(713,513)	(702,279)
Redemption of long-term debt	(264,660)	(177,511)
Payments to bond escrow agent to refinance LIPA bonds	(36,277)	(217,804)
Payments to LIPA System Resiliency Fund	(141,000)	(100,000)
Other interest costs	(418)	(331)
Debt issuance costs	(5,450)	(7,408)
Net cash used in financing activities	(451,227)	(331,948)
Net (decrease) increase in cash and cash equivalents	(38,199)	41,456
Restricted cash and cash equivalents, beginning of year	153,150	111,694
Restricted cash and cash equivalents, end of year	\$ 114,951	153,150
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 89,344	170,827
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of restructuring property	297,527	215,566
Changes in operating assets and liabilities:		
Prepaid expenses and accrued expenses	(868)	502
Accounts receivable	16,280	(15,797)
Net cash provided by operating activities	\$ 402,283	371,098

See accompanying notes to financial statements.

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

Notes to Financial Statements

December 31, 2023 and 2022

(Amounts in thousands, unless otherwise stated)

**(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 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, 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 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.

On December 15, 2023, UDSA issued \$36 million Series 2023 Taxable Restructuring Bonds, \$662 million Series 2023 Tax-Exempt Restructuring Bonds, and \$136 million Series 2023 Tax-Exempt Green Bonds. The proceeds of these Restructuring Bonds, plus \$57 million of premium received, refunded \$750 million of LIPA and UDSA debt and funded \$141 million of LIPA resiliency investments. The 2023 UDSA Restructuring Bonds generated total net present value debt service savings of \$45 million for LIPA's customers.

UDSA refinancings have saved LIPA customers \$579 million of net present value debt savings since 2013. A total of \$6.3 billion of UDSA Restructuring Bonds have been issued resulting in \$1.7 billion in remaining statutory capacity.

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

Notes to Financial Statements

December 31, 2023 and 2022

(Amounts in thousands, unless otherwise stated)

**(b) Financial Reporting Entity**

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

The financial statements of 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 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.

UDSA is considered a blended component unit of LIPA. The basic financial statements of UDSA are consolidated with LIPA for financial reporting purposes in LIPA's Basic 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**

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, UDSA records these future economic benefits and obligations as regulatory assets or regulatory liabilities, respectively.

UDSA established a regulatory asset, in accordance with GASB Codification Section RE10 for debt issuance costs incurred prior to 2023. The regulatory asset will be amortized as a component of interest expense on a systematic basis over the life of the debt they relate. Debt issuance costs incurred for 2023 and beyond will be expensed as incurred.



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

Notes to Financial Statements

December 31, 2023 and 2022

(Amounts in thousands, unless otherwise stated)

**(e) Accounts Receivable**

Accounts receivables are classified as current assets and are reported net of an allowance for uncollectible accounts. 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. Bad debt expense for UDSA totaled \$4 million and \$2 million as of December 31, 2023 and 2022, respectively.

UDSA's 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 UDSA totaled \$20 million and \$23 million as of December 31, 2023 and 2022, 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 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 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 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.

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

Notes to Financial Statements

December 31, 2023 and 2022

(Amounts in thousands, unless otherwise stated)

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

<b>Financing Order</b>	<b>Date Issued</b>	<b>Initial Amount Issued</b>	<b>Amount Outstanding</b>	<b>Net Present Value Savings</b>	<b>Restructuring Charge Rate Effective Date</b>
Financing Order No. 1	December 18, 2013	\$ 2,022,324	—	131,609	Not Applicable*
Financing Order No. 2	October 27, 2015	1,002,115	955,255	127,978	January 1, 2016
Financing Order No. 3	April 7, 2016	636,770	553,805	115,238	April 7, 2016
Financing Order No. 4	September 8, 2016	469,320	127,510	71,647	September 8, 2016
Financing Order No. 5	November 21, 2017	369,465	283,905	45,387	January 1, 2018
Financing Order No. 6	September 29, 2022	935,655	902,655	42,080	October 3, 2022
Financing Order No. 7	December 15, 2023	833,215	833,215	44,646	December 15, 2023
		<u>\$ 6,268,864</u>	<u>3,656,345</u>	<u>578,585</u>	

\*Restructuring Bonds, Series 2013 were fully refunded in 2023 and a restructuring charge for Financing Order No. 1 is no longer required.

**(g) Deferred Outflows/Inflows of Resources**

Deferred defeasance costs on refunded debt represents the difference between the reacquisition price and the carrying amount of refunded debt. These deferred costs are amortized as a component of interest expense over the shorter of the life of the old or new debt.

**(h) Revenues**

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

**(i) Income Taxes**

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

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

Notes to Financial Statements

December 31, 2023 and 2022

(Amounts in thousands, unless otherwise stated)

**(2) Restricted Cash and Cash Equivalents**

Restricted cash and cash equivalents consist of funds held in UDSA's restricted bank accounts to pay the principal, interest, and other expenses associated with the Restructuring Bonds. 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. With the issuance of the 2023 Restructuring Bonds, the remaining balances of the 2013 Restructuring Bonds outstanding were refunded. As such, the 2013 Reserve Subaccount funds were used to pay the debt service on the 2013 Restructuring Bonds refunded.

The Reserve Subaccounts related to the Series 2015, 2016A, 2016B, 2017, 2022 and 2023 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 and Series 2023 were 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 is transferred to the Collection Account to fund debt service.

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

Notes to Financial Statements

December 31, 2023 and 2022

(Amounts in thousands, unless otherwise stated)

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

<u>Reserve Subaccounts</u>	<u>2023</u>	<u>2022</u>
Restructuring Bonds, Series 2013	\$ —	10,112
Restructuring Bonds, Series 2015	19,434	19,689
Restructuring Bonds, Series 2016A	12,121	12,735
Restructuring Bonds, Series 2016B	4,458	5,343
Restructuring Bonds, Series 2017	6,385	6,833
Restructuring Bonds, Series 2022	9,181	9,357
Restructuring Bonds, Series 2023	8,332	—
	<u>\$ 59,911</u>	<u>64,069</u>

**Risks**

*Credit Risk:* 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:* 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 UDSA's total invested funds are invested with any single eligible institution, other than the Trustee, the UDSA Board shall be notified. UDSA deposits invested in money-market mutual funds are primarily invested in U.S. government obligations.

*Custodial Credit Risk:* UDSA believes that custodial credit risk is minimal, as it is 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:* 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, UDSA presently holds its funds in money-market mutual funds as cash equivalents.

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

Notes to Financial Statements

December 31, 2023 and 2022

(Amounts in thousands, unless otherwise stated)

Below is a summary of UDSA's restricted cash and cash equivalents as of December 31, 2023 and 2022:

Deposit/investment type	2023 Fair value	Percent of portfolio	2022 Fair value	Percent of portfolio
Money-market mutual fund	\$ 114,951	100%	153,150	100%
Total	<u>\$ 114,951</u>	<u>100%</u>	<u>153,150</u>	<u>100%</u>

For 2023 and 2022, the money-market mutual funds were rated by S&P and Moody's as AAAM and Aaa-mf, respectively.

**(3) Long-Term Debt**

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

The Restructuring Bonds are included on LIPA's basic 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 UDSA.

Each Restructuring Property 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.

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.

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

Notes to Financial Statements

December 31, 2023 and 2022

(Amounts in thousands, unless otherwise stated)

UDSA's long-term debt as of December 31, 2023 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	72,660	—	72,660	—	—	—	—
Series 2013TE	715,100	—	680	714,420	—	—	—
Series 2015	967,710	—	12,455	—	955,255	2024-2035	3.00-5.00
Series 2016A	636,770	—	82,965	—	553,805	2024-2033	5.00
Series 2016B	153,695	—	26,185	—	127,510	2025-2033	4.00-5.00
Series 2017	320,620	—	36,715	—	283,905	2024-2039	5.00
Series 2022T	53,585	—	20,945	—	32,640	2029-2037	4.65-4.95
Series 2022TE-1	787,290	—	12,055	—	775,235	2024-2037	5.00
Series 2022TE-2	94,780	—	—	—	94,780	2038-2050	5.00
Series 2023T	—	36,200	—	—	36,200	2039	5.67
Series 2023TE-1	—	661,500	—	—	661,500	2024-2039	5.00
Series 2023TE-2	—	135,515	—	—	135,515	2034-2051	5.00
Subtotal	3,802,210	833,215	264,660	714,420	3,656,345		
Less: Current maturities	(264,660)				(204,790)		
Total Long-term debt	<u>\$ 3,537,550</u>				<u>3,451,555</u>		

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	3,703,356	935,655	177,511	659,290	3,802,210		
Less: Current maturities	(177,511)				(264,660)		
Total Long-term debt	<u>\$ 3,525,845</u>				<u>3,537,550</u>		

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

Notes to Financial Statements

December 31, 2023 and 2022

(Amounts in thousands, unless otherwise stated)

The debt service requirements for UDSA's bonds as of December 31, 2023 are as follows:

<u>Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service Requirements</u>
2024	\$ 204,790	179,181	383,971
2025	223,965	168,697	392,662
2026	231,310	157,409	388,719
2027	222,120	145,957	368,077
2028	222,595	134,845	357,440
2029–2033	1,280,125	491,128	1,771,253
2034–2038	823,000	228,826	1,051,826
2039–2043	307,945	54,414	362,359
2044–2048	90,905	25,359	116,264
2049–2051	49,590	3,537	53,127
Total	\$ <u>3,656,345</u>	<u>1,589,353</u>	<u>5,245,698</u>

UDSA has approximately \$2.2 billion of Restructuring Bonds that become callable from 2025 through 2034.

**(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 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 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.

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

Notes to Financial Statements

December 31, 2023 and 2022

(Amounts in thousands, unless otherwise stated)

During 2023 and 2022, 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 26, 2024, 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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