

UTILITY DEBT SECURITIZATION AUTHORITY

(A Component Unit of the Long Island Power Authority)

Quarterly Unaudited Financial Report

For the six-month period ended June 30, 2024

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Table of Contents

	Page
Introduction	1-3
Basic Financial Statements (Unaudited)	
Statements of Net Position	4
Statements of Revenues, Expenses, and Changes in Net Position	5
Statements of Cash Flows	6
Management's Discussion and Analysis (Unaudited)	7-8

UTILITY DEBT SECURITIZATION AUTHORITY
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Introduction

Overview of the Financial Statements

The Utility Debt Securitization Authority (UDSA) publishes interim financial results on a quarterly basis with a fiscal year ending December 31. The interim Basic 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 six-month period ended June 30, 2024 compared to 2023 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 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.

The UDSA's basic 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 Basic Financial Statements.

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

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 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.

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, 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.

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

UDSA refinancings have saved LIPA customers \$579 million of net present value debt savings since 2013.

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

As of June 30, 2024, a total of \$6.3 billion of UDSA Restructuring Bonds have been issued resulting in \$1.7 billion in remaining statutory capacity. The UDSA's Financing Orders are summarized below:

Financing Order	Date Issued	Initial Amount Issued	Amount Outstanding	Net Present Value Savings	Restructuring Charge Rate Effective Date
Financing Order No. 1	December 18, 2013	\$ 2,022,324	—	131,609	Not Applicable*
Financing Order No. 2	October 27, 2015	1,002,115	933,510	127,978	January 1, 2016
Financing Order No. 3	April 7, 2016	636,770	487,970	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	283,715	45,387	January 1, 2018
Financing Order No. 6	September 29, 2022	935,655	896,600	42,080	October 3, 2022
Financing Order No. 7	December 15, 2023	833,215	826,215	44,646	December 15, 2023
		<u>\$ 6,268,864</u>	<u>3,555,520</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.

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 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

June 30, 2024 and December 31, 2023

(Amounts in thousands)

	2024	2023
	(unaudited)	(audited)
Assets and Deferred Outflows of Resources		
Current assets:		
Restricted cash and cash equivalents	\$ 98,655	114,951
Accounts receivable, net of allowance for uncollectible accounts of \$115 and \$180, respectively	67,441	53,463
Prepaid expenses	136	—
Total current assets	<u>166,232</u>	<u>168,414</u>
Noncurrent assets:		
Restructuring property, net of accumulated amortization	3,762,992	3,888,672
Regulatory asset – unamortized debt issuance costs	13,220	14,158
Total noncurrent assets	<u>3,776,212</u>	<u>3,902,830</u>
Total assets	<u>3,942,444</u>	<u>4,071,244</u>
Deferred outflows of resources:		
Deferred defeasance costs on debt refunding	7,801	8,554
Total assets and deferred outflows of resources	<u>\$ 3,950,245</u>	<u>4,079,798</u>
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 214,605	204,790
Accrued interest	7,361	7,571
Accrued expenses	476	407
Total current liabilities	<u>222,442</u>	<u>212,768</u>
Noncurrent liabilities:		
Long-term debt, net	3,340,915	3,451,555
Unamortized premium of long-term debt	298,489	321,991
Total noncurrent liabilities	<u>3,639,404</u>	<u>3,773,546</u>
Total liabilities	<u>3,861,846</u>	<u>3,986,314</u>
Deferred inflows of resources:		
Deferred defeasance costs on debt refunding	19,699	21,908
Net position – restricted	68,700	71,576
Total liabilities, deferred inflows of resources and net position	<u>\$ 3,950,245</u>	<u>4,079,798</u>

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

Statements of Revenues, Expenses, and Changes in Net Position

Six-month period ended June 30, 2024 and 2023

(unaudited)

(Amounts in thousands)

	2024	2023
Operating revenue, net of uncollectible accounts expense	\$ 186,560	185,964
Operating expenses:		
Amortization of restructuring property	125,680	150,703
Servicing, administrative and other fees	1,747	2,017
Total operating expenses	127,427	152,720
Operating income	59,133	33,244
Nonoperating revenue and expenses:		
Interest income	4,790	5,169
Income before interest charges and (credits)	63,923	38,413
Interest charges and (credits):		
Interest on debt	90,641	93,501
Other interest	177	182
Other interest amortizations	(24,019)	(21,947)
Total non-operating expenses, net	66,799	71,736
Change in net position	(2,876)	(33,323)
Net position, beginning of year	71,576	118,620
Net position, end of period	\$ 68,700	85,297

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

Statements of Cash Flows

Six-month period ended June 30, 2024 and 2023

(unaudited)

(Amounts in thousands)

	2024	2023
Cash flows from operating activities:		
Operating revenues received	\$ 172,572	193,533
Servicing, administrative and other fees	(1,805)	(3,073)
Net cash provided by operating activities	170,767	190,460
Cash flows from investing activities:		
Interest income	4,790	5,169
Net cash provided by investing activities	4,790	5,169
Cash flows from financing activities:		
Interest paid	(90,851)	(93,748)
Redemption of long-term debt	(100,825)	(124,875)
Other interest costs	(177)	(182)
Net cash used in financing activities	(191,853)	(218,805)
Net decrease in cash and cash equivalents	(16,296)	(23,176)
Restricted cash and cash equivalents, beginning of year	114,951	153,150
Restricted cash and cash equivalents, end of period	\$ 98,655	129,974
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 59,133	33,244
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of restructuring property	125,680	150,703
Changes in operating assets and liabilities:		
Prepaid expenses and accrued expenses	(67)	(1,224)
Accounts receivable	(13,979)	7,737
Net cash provided by operating activities	\$ 170,767	190,460

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Management's Discussion and Analysis
(Unaudited)

Six-Month Period ended June 30, 2024 Compared to 2023

The UDSA results for the six months ended June 30, 2024, showed an increase of \$30 million in the change in net position compared to the first six months of 2023. 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 \$1 million compared to 2023 primarily due to higher sales.

Operating expenses

Operating expenses decreased \$25 million compared to 2023, primarily due to the refunding of all remaining outstanding UDSA Series 2013 Restructuring Bonds in 2023 which lowered 2024 debt service requirements. 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 decreased \$3 million compared to 2023 due to lower debt outstanding in the second quarter of 2024 compared to 2023.

Other interest amortization increased \$2 million due to the issuance of UDSA Series 2023 Restructuring Bonds in 2023.

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 is secured only by 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 the 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 June 30, 2024, consisted of the following:

(Amounts in thousands)

	<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 2015	955,255	—	21,745	—	933,510	2023-2035	3.00-5.00
Series 2016A	553,805	—	65,835	—	487,970	2023-2033	5.00
Series 2016B	127,510	—	—	—	127,510	2023-2033	4.00-5.00
Series 2017	283,905	—	190	—	283,715	2023-2039	5.00
Series 2022T	32,640	—	—	—	32,640	2023-2037	4.65-4.95
Series 2022TE-1	775,235	—	6,055	—	769,180	2023-2037	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	—	7,000	—	654,500	2024-2039	5.00
Series 2023TE-2	135,515	—	—	—	135,515	2034-2051	5.00
Subtotal	<u>3,656,345</u>	<u>—</u>	<u>100,825</u>	<u>—</u>	<u>3,555,520</u>		
Less: current maturities	<u>(204,790)</u>				<u>(214,605)</u>		
Total long-term debt	<u>\$ 3,451,555</u>				<u>3,340,915</u>		

The annual debt service requirements for the UDSA's bonds are as follows:

(Amounts in thousands)

<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.