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Long Island Power Authority, New York: Fitch New Issue Report

The Positive Outlook reflects Long Island Power Authority's (LIPA) improving leverage ratio and Fitch Ratings' expectation that the gradual but consistent deleveraging trend that began in 2015 will continue through 2027. Leverage, measured by net adjusted debt to adjusted funds available for debt service (FADS), improved to 8.1x at YE 2022 from 8.8x four years prior. The improvement is in part attributable to LIPA's strategy of budgeting to achieve higher fixed-obligation coverage. Fitch expects leverage ratios to trend below 8.0x in 2023/2024, consistent with a higher rating, as performance continues to benefit from LIPA's revenue-decoupling mechanism (RDM) and modest but consistent rate increases designed to achieve higher fixed-charge coverage. LIPA's very strong service area, more disciplined approach to rate setting and authorized RDM should sustain its very strong revenue defensibility and overall performance even through periods of stress, further supporting its financial profile. LIPA's operating cost burden remains comparatively high within the sector. However, ongoing efforts to moderate costs and operating risk, and improve the terms of its operating services agreement (OSA) with system operator PSEG Long Island (PSEGLI) were reasonably successful in recent years, and are factored in the rating. The adoption of a public power model, whereby LIPA would directly operate the system upon termination of the OSA in 2025, is still under consideration. An upgrade of the rating is unlikely prior to a final decision related to management of the authority's assets.

ACCESS REPORT

Thu 27 Jul, 2023