



Financial Services Audit Committee Communication

Date: March 25, 2022

To: Great Lakes Water Authority Audit Committee

From: Nicolette N. Bateson, CPA, Chief Financial Officer & Treasurer

Re: CFO Update

External Auditor Proposals Due Monday, March 28, 2022

Attached is an outline of talking points from Joan Salwasser, Procurement Management Professional who is supporting the Audit Committee with the selection process. Joan will cover a few points at today's meeting as well as follow-up with you individually.

Moody's Credit Opinion - Great Lakes Water Authority, March 23, 2022

This week, Moody's completed a surveillance credit review of the Great Lakes Water Authority. The report is included in the Communications section of this binder.

Key Introductory Comments

- ✓ Water and sewer enterprises have solid credit profiles, bolstered by very large service areas and a sizable scale of operations.
- ✓ GLWA has effectively balanced its hefty capital needs with an affordable rate structure, stable operating performance, consistent debt service coverage and good liquidity for both systems since its inception in 2016.
- ✓ The systems have above-average leverage, however, and the City of Detroit (Ba2 positive) makes up a significant portion of their service area.

Credit strengths

- » Very large utility systems, providing essential water and wastewater services to a substantial portion of the state's population
- » Commitment to annual revenue enhancements to support sound debt service coverage and healthy liquidity
- » Track record of strong budget management and good transparency

Credit challenges

- » Declining water usage trends
- » High leverage will moderate slowly given outstanding capital needs and plans to issue additional debt
- » Increasing occurrence of extreme wet weather events placing strain on stormwater and sewer treatment capacity in certain segments of the system

Rating outlook

The outlook is stable because each system will sustain sound financial metrics given GLWA's track record of strong budget management and ability to raise rates. These strengths will continue to mitigate the challenges associated with high leverage and capital needs.

Factors that could lead to an upgrade

- » Sustained expansion and diversification of the service area's economic base
- » Growth in revenue that continues to outpace borrowing so as to moderate leverage of pledged resources

Factors that could lead to a downgrade

- » Renewed economic stress that pressures consumption and revenue trends
- » Material reduction to the water or sewer system's liquidity or debt service coverage ratios
- » Growth in leverage of the water or sewer system's net revenue

Bond Insurer Assured Guaranty Municipal Corporation Receives Rating Upgrade

As of March 18, 2022, Moody's released a Bond Insurer/Liquidity Provider rating change for Assured Guaranty Municipal Corporation (AGM). Moody's upgraded the financial strength rating of AGM from A2 to A1. AGM provides bond insurance and reserve fund sureties for certain GLWA debt. GLWA will be issuing a continuing disclosure statement to communicate this change as required by SEC Rule 15c2-12.

March is Procurement Month

Procurement Month is dedicated to honoring the unique role of public procurement professionals and expanding awareness of the vital work that they perform every day for their organizations and for the public. At GLWA, Procurement Month offers us the opportunity to acknowledge our own outstanding Procurement Team who procure the goods and services that support GLWA's mission of providing water of unquestionable

quality to the southeastern Michigan communities that we serve. Dedicated and service-oriented, the GLWA Procurement Team provides the best possible information to its internal business partners as well as creates a productive and transparent environment for qualified vendors with open and fair access to GLWA opportunities.

This month's Audit Committee binder includes the Annual Procurement Report which is a testament to the volume of work that this team produces with their cross-functional partners across GLWA. We are also proud of our team members who are regular speakers at procurement and vendor events. Finally, it is important to note the leadership roles that GLWA Procurement team members have assumed in their field including Ms. Tina Clinkscales, CPPO, CPPB, who is presently the President for the Michigan Public Purchasing Officers Association. Thank you, Tina!

