



Financial Services Audit Committee Communication

Date: August 24, 2022

To: Great Lakes Water Authority Audit Committee

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

Re: Update: 2022 Bond Transaction Update

Background: Last month, the GLWA Audit Committee received an update related to the 2022 bond transaction. Focus over the past few weeks has on been securing credit ratings as well as finalizing the preliminary official statements (POS) and investor roadshow for the upcoming pricing.

Analysis: Current status of the above activities includes the following.

Rating Agency Meeting Outcomes: Great News! GLWA earned positive ratings actions on the outlook from two of three rating agencies and an affirmation from the third rating agency who previously established the highest credit rating for GLWA in the “AA” category.

Rating Agency	Water	Sewer
Fitch	Affirmed Stable Outlook for A+ Senior / A Second Lien	<i>Revised to Positive Outlook</i> (from Stable) for A+ Senior / A Second Lien
Moody's	<i>Revised to Positive Outlook</i> (from Stable) for A1 Senior / A2 Second Lien	<i>Revised to Positive Outlook</i> (from Stable) for A1 Senior / A2 Second Lien
Standard & Poor's	Affirmed Stable Outlook for AA- Senior / A+ Second Lien	Affirmed Stable Outlook for AA- Senior / A+ Second Lien

All reports are attached with some excerpts below.

- Fitch – Key Ratings Drivers
 - *“Strong Purchaser Credit Quality, Ability to Recover Costs*
 - *The authority has the ability to offset any payment shortfalls from any single customer by shifting the shortfall to the remaining customers via a rate increase.*

- *Rate setting is not subject to external approval, providing sound rate flexibility. Lastly, the authority's largest suburban members contribute to a strong overall PCQ [purchaser credit quality].*
- *Very Low Operating Cost Burden and Life Cycle Ratios*
- *Cost per million gallons (mg) delivered is very low, as the system's operating cost burden finished at just \$2,327 per mg in 2021. The system's lifecycle ratio is equally favorable at 28%. Capex to depreciation has been below average the last few years but is beginning to ramp up."*
- **Moody's Rating Outlook commentary**
 - *"The outlook is positive because the authority has strong management and stable operations and its underlying service area continues improve, particularly in the City of Detroit, as well as across Wayne (A3 positive), Oakland (Aaa stable) and Macomb (Aa1 stable) counties."*
- **Standard & Poor's Credit Highlights**
 - *"A number of key provisions in the lease agreement, service agreement, and memorandum of understanding (MOU) between GLWA and Detroit support the ability of the GLWA regional system to help make the net revenues originating from Detroit's local system more predictable despite these economic and collection risks..."*
 - *Requirements that both GLWA and Detroit retail maintain a biennial budget and a five-year capital improvement plan (CIP).*
 - *DWSD is required to submit periodic budget and operational reporting ...*
 - *Additional overall credit strengths that we believe will continue to support the rating include:*
 - *A revenue stream that arises from 100% fixed-cost recovery not dependent on volume.*
 - *Active management of governance risks through formal working relationships with both suburban wholesale customers and DWSD. Coordination of all aspects of the utility's operations are managed, including environmental compliance, asset management, procurement, rate-setting, two separate bill assistance programs, and future capital needs."*

Offering Documents Now Available

The preliminary official statement for both the [water](#) and [sewer](#) system, as well as the [investor roadshow](#), are now available online. Individuals are required to register to view.

Proposed Action: Receive and file this report.