

RatingsDirect®

Summary:

Great Lakes Water Authority, Michigan; Water/Sewer

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Summary:

Great Lakes Water Authority, Michigan; Water/Sewer

Credit Profile

US\$167.541 mil swg disp sys rev bnds ser 2007-SRF1 due 10/01/2029		
<i>Long Term Rating</i>	A/Positive	New
US\$82.2 mil swg disp sys rev bnds ser 2001-SRF1 due 10/01/2024		
<i>Long Term Rating</i>	A/Positive	New
US\$79.5 mil swg disp sys rev bnds ser 2015A-SRF due 04/01/2036		
<i>Long Term Rating</i>	A/Positive	New
US\$64.401 mil swg disp sys rev bnds ser 2000-SRF2 due 10/01/2022		
<i>Long Term Rating</i>	A/Positive	New
US\$59.85 mil swg disp sys rev bnds ser 2001-SRF2 due 10/01/2024		
<i>Long Term Rating</i>	A/Positive	New
US\$51.31 mil swg disp sys rev bnds ser 2016-SRF2 due 04/01/2039		
<i>Long Term Rating</i>	A/Positive	New
US\$48.52 mil swg disp sys rev bnds ser 2003-SRF1 due 10/01/2025		
<i>Long Term Rating</i>	A/Positive	New
US\$44.198 mil swg disp sys rev bnds ser 2000-SRF1 due 10/01/2022		
<i>Long Term Rating</i>	A/Positive	New
US\$38.45 mil swg disp sys rev bnds ser 2017-SRF1 due 10/01/2038		
<i>Long Term Rating</i>	A/Positive	New
US\$31.549 mil swg disp sys rev bnds ser 2002-SRF3 due 10/01/2024		
<i>Long Term Rating</i>	A/Positive	New
US\$27.175 mil swg disp sys rev bnds ser 2015B-SRF due 10/01/2035		
<i>Long Term Rating</i>	A/Positive	New
US\$25.055 mil swg disp sys rev bnds ser 2003-SRF2 due 04/01/2025		
<i>Long Term Rating</i>	A/Positive	New
US\$19.485 mil swg disp sys rev bnds ser 2015D-SRF due 10/01/2035		
<i>Long Term Rating</i>	A/Positive	New
US\$19.305 mil swg disp sys rev bnds ser 2016-SRF1 due 04/01/2038		
<i>Long Term Rating</i>	A/Positive	New
US\$18.985 mil swg disp sys rev bnds ser 2002-SRF1 due 04/01/2023		
<i>Long Term Rating</i>	A/Positive	New
US\$18.353 mil swg disp sys rev bnds ser 2004-SRF2 due 04/01/2024		
<i>Long Term Rating</i>	A/Positive	New
US\$17.51 mil swg disp sys rev bnds ser 2018-SRF1 due 10/01/2042		
<i>Long Term Rating</i>	A/Positive	New

Credit Profile (cont.)

US\$16.295 mil swg disp sys rev bnds ser 2018-SRF2 due 10/01/2039		
<i>Long Term Rating</i>	A/Positive	New
US\$14.95 mil swg disp sys rev bnds ser 2012-SRF1 due 10/01/2034		
<i>Long Term Rating</i>	A/Positive	New
US\$13.97 mil swg disp sys rev bnds ser 2009-SRF1 due 04/01/2030		
<i>Long Term Rating</i>	A/Positive	New
US\$13.805 mil wtr supp sys rev bnds ser 2005-SRF1 due 10/01/2026		
<i>Long Term Rating</i>	A+/Stable	New
US\$12.723 mil swg disp sys rev bnds ser 2004-SRF3 due 04/01/2025		
<i>Long Term Rating</i>	A/Positive	New
US\$10.0 mil swg disp sys rev bnds ser 2016-SAW due 10/01/2038		
<i>Long Term Rating</i>	A/Positive	New
US\$9.605 mil wtr supp sys rev bnds ser 2016A-SRF due 04/01/2048		
<i>Long Term Rating</i>	A+/Stable	New
US\$8.892 mil wtr supp sys rev bnds ser 2005-SRF2 due 10/01/2026		
<i>Long Term Rating</i>	A+/Stable	New
US\$6.675 mil wtr supp sys rev bnds ser 2017-SRF due 10/01/2048		
<i>Long Term Rating</i>	A+/Stable	New
US\$5.181 mil wtr supp sys rev bnds ser 2006-SRF due 10/01/2026		
<i>Long Term Rating</i>	A+/Stable	New
US\$4.215 mil swg disp sys rev bnds ser 2010-SRF1 due 04/01/2031		
<i>Long Term Rating</i>	A/Positive	New
US\$4.18 mil wtr supp sys rev bnds ser 2016B-SRF due 04/01/2048		
<i>Long Term Rating</i>	A+/Stable	New
US\$2.91 mil swg disp sys rev bnds ser 2004-SRF1 due 10/01/2024		
<i>Long Term Rating</i>	A/Positive	New
US\$2.591 mil wtr supp sys rev bnds ser 2008-SRF due 10/01/2028		
<i>Long Term Rating</i>	A+/Stable	New
US\$1.545 mil swg disp sys rev bnds ser 2002-SRF2 due 04/01/2023		
<i>Long Term Rating</i>	A/Positive	New

Rationale

S&P Global Ratings has assigned its 'A' rating to the Great Lakes Water Authority (GLWA), Mich.'s outstanding sewage disposal system junior-lien state revolving fund (SRF) bonds and its 'A+' rating to the authority's outstanding water supply system junior-lien SRF bonds. We have also affirmed our:

- 'A+' rating on GLWA's outstanding sewage disposal senior-lien bonds,
- 'A' rating the authority's outstanding sewage disposal second-lien bonds,

- 'AA-' rating on GLWA's outstanding water supply system senior-lien bonds, and
- 'A+' rating the authority's outstanding water supply system second-lien bonds.

The outlook on the sewage disposal system bonds is positive and the outlook on the water supply system bonds is stable. Related to its sewage disposal system, currently GLWA has \$523 million of SRF junior-lien bonds, \$752 million of second-lien bonds, and \$1.9 billion of senior-lien bonds outstanding. Related to its water supply system, currently, GLWA has \$34 million of SRF junior-lien bonds, \$668 million of second-lien bonds, and \$1.6 billion of senior-lien bonds outstanding. Our ratings incorporate our opinion of GLWA's creditworthiness to make payments on all of its outstanding obligations.

The ratings reflect the application of our wholesale utility criteria, but we do not follow a purely weak-link approach since GLWA has, in our view, additional financial strengths that could be used to support debt payments if a single participant does not fulfil its payment obligations. These strengths include pledged reserves and unrestricted liquidity available at the wholesaler GLWA level, the ability to adjust revenue requirements to participants as its cost structure changes, and strong management policies related to both the regional system and Detroit's local system. The fact that GLWA's service base is large and serves a large percentage of the state's population also supports our view that the ratings should reflect that diversity, with overall economic considerations playing a more prominent role in the credit analysis.

In September 2018, we raised the ratings to the above-mentioned levels based on several factors:

- Oversight through an agency relationship and cooperation with the Detroit Water and Sewer Department (DWSD) and its Board of Water Commissioners that we view as strong and supportive of credit quality. Because of Detroit's extremely weak overall economic indicators and historical collections and bad debt issues, we view both the existence and continuation of these functions as key to the maintenance of the rating at its current level.
- Overall management and governance functions that we also view as supportive of credit quality at the current rating level. GLWA management maintains active communication with both the DWSD retail system and its wholesale customers and has a comprehensive set of internal policies related to, among other things, maintenance of certain financial targets, key performance indicators for both financial and operational metrics, and internal controls.
- Actual financial performance has continued to exceed projections from prior feasibility studies. Now that GLWA has two full fiscal years (2017 and 2018) of operating as a separate entity from DWSD, and that various reconciliations and adjustments related to the separation have already taken place, we would expect that future variances to the feasibility studies may not be as dramatic. However, given GLWA's comprehensive budgeting practices and strong budgetary oversight of DWSD's operations, we would expect that future financial performance should be largely consistent with the most current projections.
- GLWA is not under any regulatory-driven capital costs from consent orders or consent decrees. While we view the GLWA system as highly leveraged, the fact that all of the capital plan is forward-looking and not mostly being used to cure regulatory infractions is a key credit strength that is supportive of the current rating level.
- Limited future exposure to pension cost escalation from legacy Detroit obligations resulting from prior bankruptcy negotiations. It is our understanding that after the 2023 fiscal year, both GLWA and DWSD pension costs related to legacy pension plans will drop from a total for both water and sewer systems of \$45.4 million (which is a mandated contribution based on Detroit's bankruptcy plan of adjustment) to what is currently projected to be no more than

\$9.1 million. These additional payments would be used to retire the remaining unfunded liability from the closed/legacy pension plans that has arisen after the original payments were determined in 2014.

Additional factors supporting the rating include the following:

- A diverse revenue stream from a large number of wholesale customers; and
- Revenues from both wholesale customers and the DWSD retail system that are either entirely (sewage disposal) or primarily (water) fixed, which, in our view, significantly insulates GLWA's financial performance from volatility caused by weather and flow variances.

Offsetting these strengths for the sewage disposal system rating are the following factors:

- Ongoing negative revenue variances from the DWSD local sewer system that have, in our view, material effects on the overall creditworthiness of the GLWA sewage disposal system. GLWA reports that the negative revenue variance caused by DWSD for the 2018 fiscal year is about \$19.8 million. The authority has also experienced significant negative and positive outflows in the DWSD system since 2016 due to various one-time events, although GLWA reports that the 2018 variance most likely reflected DWSD's implementation of a new drainage charge program and related litigation.
- We note that continued developments related to this drainage charge program litigation will help to inform our view on the rating depending on how it is resolved.

Offsetting the strengths for the ratings on both systems is Detroit's economy, which we consider very weak. In our view, this could continue to place downward pressure on utility collection rates in the city. Another factor is high system leverage that we do not believe will abate significantly at least over the two-year outlook horizon.

Additional details regarding the rating can be found in our report, published Sept. 5, 2018, on RatingsDirect.

Outlook

The positive outlook on the sewer system bonds reflects our expectation that there is at least a one-in-three chance that the rating could improve over the two-year outlook horizon. The most significant factor we are expecting to lead to an upgrade is resolution of what we view to be significant revenue variances caused by the DWSD local system. It is our understanding that progress is being made to resolve these variances, but there could be ongoing revenue pressures depending on how the drainage program litigation is resolved.

The stable outlook on the water supply system bonds reflects our opinion that the rating should not change, at least over the two-year outlook horizon, due to several factors, including the following:

- Our expectation that the water supply system's financial metrics should remain at levels generally consistent with current projections due to the rate structure that provides a large amount of revenue stability;
- DWSD revenue variances should remain low, given both GLWA's and DWSD's continued efforts to improve collections; and
- Exposure to a large service base that extends beyond the boundaries of the immediate Detroit area, which should

help continue to support stable usage trends.

Upside scenario

For an upgrade of the sewer system bonds to occur over the next two years, we would also expect the following to occur:

- Continued financial performance that meets or exceeds GLWA's expectations as reflected in the current feasibility study;
- No large and unforeseen capital needs that would cause either large and sustained reductions in liquidity or significant increases in fixed costs; and
- Continued demonstration that the relationship with DWSD through the service agreement and memorandum of understanding is being successfully used to minimize any future financial disruptions that may occur.

While possible, we currently do not expect to raise the rating on the water supply system bonds in the foreseeable future, absent both financial performance well above what current projections indicate and economic indicators for Detroit that show significant improvement. We believe that both current and projected financial performance and service base characteristics are consistent with the current rating level.

Downside scenario

While the outlook on the sewer system debt is currently positive, we could revise it to stable without raising the rating if we believe that a resolution with DWSD related to its ongoing revenue variances is not settled in a fashion that is either sustainable long term or able to achieve a significant amount of variance reduction. If economic stress or cost escalations lead to financial results measurably worse than that GLWA currently projects, then either the outlook, rating, or both could be negatively affected.

As for the water supply system debt, if economic stress or cost escalations lead to financial results measurably worse than that GLWA currently projects, then either the outlook, rating, or both could be negatively affected.

Ratings Detail (As Of November 13, 2018)

Great Lakes Wtr Auth swg (wrap of insured) (ASSURED GTY) (SEC MKT) <i>Unenhanced Rating</i>	A+(SPUR)/Positive	Affirmed
Great Lakes Wtr Auth swg (wrap of insured) (MBIA, National & ASSURED GTY) (SEC MKT) <i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Great Lakes Wtr Auth swg (Sr lien) <i>Long Term Rating</i>	A+/Positive	Affirmed
Great Lakes Wtr Auth swg (Sr lien) <i>Long Term Rating</i>	A+/Positive	Affirmed
Great Lakes Wtr Auth swg (Sr lien) (AGM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Positive	Affirmed
Great Lakes Wtr Auth swg (2nd lien) <i>Long Term Rating</i>	A/Positive	Affirmed
Great Lakes Wtr Auth swg (2nd lien) (wrap of insured) (FGIC, AGM & BHAC) (SEC MKT) <i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed

Ratings Detail (As Of November 13, 2018) (cont.)

Great Lakes Wtr Auth swg (2nd lien) (AGM) <i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Great Lakes Wtr Auth swg (2nd lien) (AGM) <i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Great Lakes Wtr Auth swg (2nd lien) (BAM) (SECMKT) <i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Great Lakes Wtr Auth swg (2nd lien) (BAM) (SECMKT) <i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Great Lakes Wtr Auth swg (2nd lien) (BHAC) <i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Great Lakes Wtr Auth swr (wrap of insured) (FGIC) (ASSURED GTY - SEC MKT) <i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Great Lakes Wtr Auth wtr (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Great Lakes Wtr Auth wtr (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Great Lakes Wtr Auth wtr (BAM) (SECMKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Great Lakes Wtr Auth wtr (Sr lien) <i>Long Term Rating</i>	AA-/Stable	Affirmed
Great Lakes Wtr Auth wtr (Sr lien) <i>Long Term Rating</i>	AA-/Stable	Affirmed
Great Lakes Wtr Auth wtr (Sr lien) <i>Long Term Rating</i>	AA-/Stable	Affirmed
Great Lakes Wtr Auth wtr (Sr lien) (National) (MBIA) <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Great Lakes Wtr Auth wtr (Sr Lien) <i>Long Term Rating</i>	AA-/Stable	Affirmed
Great Lakes Wtr Auth wtr (2nd lien) <i>Long Term Rating</i>	A+/Stable	Affirmed
Great Lakes Wtr Auth wtr (2nd lien) (wrap of insured) (AGM & BHAC) (SEC MKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Great Lakes Wtr Auth wtr (2nd lien) (AGM) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Great Lakes Wtr Auth wtr (2nd lien) (MBIA) (National) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Great Lakes Wtr Auth WTRSWR (National) (MBIA) <i>Unenhanced Rating</i>	A+(SPUR)/Positive	Affirmed
Detroit wtr supp sys (Senior lien)		

Ratings Detail (As Of November 13, 2018) (cont.)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Great Lakes Wtr Auth		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Great Lakes Wtr Auth supp sys (2nd lien)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Great Lakes Wtr Auth swg disp sys		
<i>Unenhanced Rating</i>	A+(SPUR)/Positive	Affirmed
Great Lakes Wtr Auth swg disp sys VRBD (2nd lien) ser 2006A		
<i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Great Lakes Wtr Auth swg (FGIC) (National)		
<i>Unenhanced Rating</i>	A+(SPUR)/Positive	Affirmed
Great Lakes Wtr Auth swg (Sr lien) (AGM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Positive	Affirmed
Great Lakes Wtr Auth swg (2nd lien)		
<i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Great Lakes Wtr Auth swg (2nd lien) (MBIA) (National)		
<i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Great Lakes Wtr Auth wtr supp sys		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Great Lakes Wtr Auth wtr supp sys (Sr lien) (MBIA) (National)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Great Lakes Wtr Auth wtr supp sys (2nd lien)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Great Lake Wtr Auth swg (2nd lien)		
<i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Michigan Fin Auth, Michigan		
Great Lakes Wtr Auth, Michigan		
Michigan Fin Auth (Great Lakes Wtr Auth) swg		
<i>Unenhanced Rating</i>	A+(SPUR)/Positive	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) swg disposal (AGM)		
<i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) swg disposal (BAM)		
<i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) swg (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed

Ratings Detail (As Of November 13, 2018) (cont.)		
Michigan Fin Auth (Great Lakes Wtr Auth) swg (National)		
<i>Unenhanced Rating</i>	A(SPUR)/Positive	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) wtr		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) wtr (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) wtr (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) wtr (National)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) WTRSWR		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) WTRSWR		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) WTRSWR		
<i>Long Term Rating</i>	A+/Positive	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) WTRSWR		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) WTRSWR		
<i>Long Term Rating</i>	A+/Positive	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) WTRSWR		
<i>Long Term Rating</i>	A+/Positive	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) WTRSWR		
<i>Unenhanced Rating</i>	A+(SPUR)/Positive	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) WTRSWR		
<i>Long Term Rating</i>	A/Positive	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) WTRSWR		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Michigan Fin Auth (Great Lakes Wtr Auth) WTRSWR (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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