



## Financial Services Audit Committee Communication

**Date:** July 19, 2019

**To:** Great Lakes Water Authority Audit Committee

**From:** Jon Wheatley, Public Finance Manager

**Re:** Resolution Regarding Approval of Series Ordinance Authorizing Issuance and Sale of Water Supply System Revenue Bonds an Amount Not to Exceed \$46,000,000 (Ordinance 2019-02)

**Background:** On May 8, 2019, the Great Lakes Water Authority (“GLWA”) Board of Directors approved the “Resolution of the Great Lakes Water Authority Authorizing Publication of Notice of Intent to Issue Water Supply System Revenue Bonds in a principal amount not to exceed \$160,000,000” (the “Notice of Intent”). This will be the first two series of water bonds from that Notice of Intent and the combined total will be in an amount not to exceed \$46,000,000.

The approval of the attached Series Ordinance by the GLWA Board of Directors is the next formal step required in the bond issuance process. The Series Ordinance authorizes the issuance of the Bonds by GLWA, sets forth the guidelines for the Drinking Water Revolving Fund (DWRf) Bonds, designates the Bonds as 2019 SRF-2 and 2019 SRF-3 Junior Lien Bonds, and authorizes the Chief Executive Officer or the Chief Financial Officer to execute the final terms of the Bonds, paying issuance costs and signing of the Purchase Contract and Sale Order, within the parameters set forth in the Series Ordinance.

**Analysis:** The two series of bonds authorized by this ordinance will be sold through the state of Michigan’s DWRf program and will be used to finance improvements to the GLWA regional water system and the Detroit Water and Sewerage Department local water system. The GLWA regional project and the DWSD local project are described below:

GLWA Regional Water Project: This project is for the new flow control facility at the Northeast Water Treatment Plant and will provide additional redundancy to both the Northeast and Water Works Park service areas. This project is part of GLWA’s approved Capital Improvement Plan and is included in CIP #122003. Per the Ordinance, this series of bonds will be designated *2019 SRF-2 Junior Lien Bonds*, with a loan amount not to exceed \$33,000,000.

The *2019 SRF-2 Junior Lien Bonds* will be sold to the Michigan Finance Authority (MFA) in a separate series. The current program interest rate for the Drinking Water Revolving Funds (DWRF) is 2.00% and is payable over a 20-year term. Based on the not to exceed amount for this series of \$33.0 million, GLWA could save an estimated \$21.1 million in interest costs and avoided issuance costs, based on a similar open market revenue bond with a 30-year term and 4.50% interest rate, over the life of the 30-year bond issue.

DWSD Local Water Project: This project will continue DWSD's program to improve and replace water mains throughout the City. The improvements will include water mains along Grand River Avenue and the replacement of existing lead service piping. Per the Ordinance, this series of bonds will be designated *2019 SRF-3 Junior Lien Bonds*, with a loan amount not to exceed \$13,000,000.

The *2019 SRF-3 Junior Lien Bonds* will also be sold to the MFA in a separate series. The current program interest rate for the DWRF is 2.00% and is typically payable over a 20-year term however, DWSD qualifies for disadvantaged community status which allows for a 30-year term. Based on the not to exceed amount for this series of \$13.0 million, DWSD could save an estimated \$6.6 million in interest costs and avoided issuance costs, based on a similar open market revenue bond with a 30-year term and 4.50% interest rate, over the life of the 30-year bond issue.

GLWA is the loan applicant on the DWRF loans issued on behalf of DWSD, and DWSD will be the DWRF loan recipient as determined by Michigan Department of Environment, Great Lakes, and Energy (EGLE). All project costs financed by GLWA, on behalf of DWSD, through the DWRF program and resulting principal and interest payments on the bonds will be directly allocable to the DWSD local system.

**Budget Impact:** The debt service on both the proposed projects is anticipated to start in late FY 2020 with minimal amounts of interest due on each as a result of the projected draw down schedules. A small amount of interest expense was included on the DWSD loan was included in the FY 2020 Budget however, due to the minimal amount anticipated to be drawn on the GLWA loan, no debt service was included in FY 2020 Budget.

**Proposed Action:** The GLWA Audit Committee recommends that the Great Lakes Water Authority Board approve the resolution for the Approval of Series Ordinance Authorizing Issuance and Sale of Water Supply System Revenue Bonds an Amount Not to Exceed \$46,000,000 as presented, at its Regular Meeting on July 24, 2019.