



Financial Services Audit Committee Communication

Date: March 15, 2019
To: Great Lakes Water Authority Audit Committee
From: Jon Wheatley, Public Finance Manager
Re: PFM Financial Advisors Annual Update

Background: Every year the Great Lakes Water Authority (GLWA) receives an annual market update from its financial advisor, PFM Financial Advisors (PFM). The included presentation provides a current bond market update, commentary on the SEC Rule 15c2-12 amendment, current water and sewer debt profiles and potential refunding opportunities. The presentation also includes updates to the rating agency scorecards and GLWA peer comparisons, based on GLWA's audited FY 2018 financial statements.

Analysis: Key takeaways from the PFM presentation include the following.

- **Current Market:** The AAA Rated Municipal Market Data (MMD) rates remain well below historical averages, with the 30-year MMD remaining in the historically low range;
- **Amendments to Rule 15c2-12:** On August 31, 2018 the SEC posted amendments to the rule that became effective on February 27, 2019. The amendments add two new events to the list of reportable events for new continuing disclosure agreements:
 - *“Incurrence of a financial obligation of the issuer or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the issuer or obligated person, any of which affect security holders, if material”;* and
 - *“Default, event of acceleration, termination event, modification of terms or other similar events under the terms of the financial obligation of the issuer or obligated person, any of which reflect financial difficulties.”*
- **Previous Bond Refundings:** Since 2014, GLWA (previous to January 1, 2016, DWSD) has saved over \$677 million in debt service payments as a result of water and sewer bond refundings.
- **Future Bond Refundings:** GLWA has three water bond issues totaling a par amount of \$366.0 million that are callable July 1, 2021 and three sewer bond issue totaling a par amount of \$445.4 million that are callable between July 1, 2021 and July 1, 2022 that may be candidates for taxable refundings in FY 2020.

- Ratings Scorecards:** GLWA’s water and sewer ratings were last updated in September 2018 as part of the 2018 bond issues. Current senior lien ratings are shown below. Based on GLWA’s FY 2018 audited results, PFM has updated the ratings scorecards for both Moody’s and S&P.

Current Debt Ratings			
	S&P Global Ratings	Moody's Investors Service	Fitch Ratings
Water Supply System Revenue Bonds			
Senior lien	AA-	A2	A
Second lien	A+	A3	A-
Junior lien	A+	N/A	N/A
Sewage Disposal System Revenue Bonds			
Senior lien	A+	A2	A
Second lien	A	A3	A-
Junior lien	A	N/A	N/A

- Peer Comparisons:** Based on GLWA’s audited FY 2018 results, PFM has also updated (from the March 16, 2018 Audit Committee presentation) the comparison of peer utilities. The peer utilities include Atlanta (W&S), Baltimore (W&S), Chicago (Water), DC Water (W&S), Louisville MSD (Sewer), Miami-Dade County (W&S), MSD of Greater Cincinnati (Sewer), Philadelphia (W&S) and San Francisco PUC (W&S).

Budget Impact: GLWA management does not anticipate the issuance of any water or sewer refunding bonds during FY 2019. The proposed FY 2020 water and sewer budgets also do not include the potential impacts of any refunding bond issues, but to the extent bond refundings are recommended by PFM and approved by the GLWA Board of Directors, the FY 2020 debt service budgets would be amended accordingly, based on actual results.

Proposed Action: Receive and file the PFM presentation.