

DRAFT for Audit Committee Review Only

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Approval of the 2022 Bond Program Underwriting Team

Agenda of: April 27, 2022

Item No.: **2022-___**

Amount: N/A

TO: The Honorable
Board of Directors
Great Lakes Water Authority

FROM: Suzanne R. Coffey, P.E.
Interim Chief Executive Officer
Great Lakes Water Authority

DATE: April 27, 2022

RE: Approval of the 2022 Bond Program Underwriting Team

MOTION

Upon recommendation of Nicolette Bateson, Chief Financial Officer & Treasurer, the Board of Directors (Board) of the Great Lakes Water Authority (GLWA):

- 1) Approves {insert firm} as Bookrunning Senior Managing Underwriter;**
- 2) Approves {insert firm} as Co-Senior Managing Underwriter;**
- 3) Authorizes a Takedown Fee of {TBD} per bond (plus expenses);**
- 4) Approves Citigroup, JP Morgan Securities LLC, Morgan Stanley & Co., Ramirez & Co., Loop Capital and {insert firm} as Co-Managers;**
- 5) and authorizes the Interim CEO to take such other action as may be necessary to accomplish the intent of this vote.

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BACKGROUND

GLWA's ten-year financial plan and the five-year capital improvement plan outline the need for a 2022 bond financing program. In addition, there are potentially favorable market conditions for a bond refunding. In prior GLWA financing programs, funding was also sought for the local water supply and local sewer disposal systems (Detroit Water & Sewerage Department, DWSD). For 2022, the management for the local water supply and local sewer disposal systems (Detroit Water & Sewerage Department, DWSD) has indicated that no additional bond proceeds beyond state revolving fund loans are requested by DWSD for at least the next two years.

The next step to begin the 2022 bond financing program is to select an underwriting team including a Book Running Senior Manager, Co-Senior Manager, and Co-Managers.

A selection process was recommended by staff, and approved by the GLWA Audit Committee, at its meeting on March 25, 2022 to move the financing forward as we see interest rates rise (although still in a historically favorable level). The following is additional background and an outline of that selection process for the underwriting team.

The Great Lakes Water Authority [Debt Management Policy](#) (page 5) provides the following overall guidance related to the selection of the senior manager.

Underwriter Selection

Senior Manager Selection. GLWA will select the senior manager for a proposed negotiated sale. The selection criteria will include, but not be limited to, the following:

- The firm's ability and experience in managing complex transactions
- Prior knowledge and experience with GLWA, if applicable
- The firm's willingness to risk capital and demonstration of such risk
- Quality and experience of personnel assigned to GLWA's engagement
- Financing plan presented
- Underwriting fees

Co-Manager Selection. Co-managers will be selected on the same basis as the senior manager. In addition to their qualifications, co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of GLWA's bonds.

Selling Groups. GLWA may establish selling groups in certain transactions in order to broaden the reach to potential investors.

GLWA has had three financing programs since its inception on January 1, 2016. The underwriter pool has consisted of the following firms.

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Role	Sewage Disposal System Revenue Refunding Bonds 2016 (B&C) (\$421,295,000)	Sewage Disposal System Revenue & Refunding Bonds 2018 (A,B,C) (\$257,465,000)	Sewage Disposal System Revenue Refunding Bonds 2020 (A&B) (\$687,455,000)
Book Running Senior Manager	Citigroup	Citigroup	Citigroup
Co-Senior Manager	Goldman Sachs and Co. LLC	Wells Fargo Securities	Siebert Williams Shank & Co., LLC
Co-Managers		Goldman Sachs and Co. LLC	Goldman Sachs
	J.P. Morgan	J.P. Morgan	J.P. Morgan
	Morgan Stanley	Morgan Stanley	Morgan Stanley
	Ramirez & Co., Inc	Ramirez & Co., Inc	Ramirez & Co., Inc
	Siebert Williams Shank & Co., LLC	Siebert Cisneros Shank & Co., LLC	
	Wells Fargo Securities		Wells Fargo Securities

Given the changing market conditions, the GLWA administration would like to proceed with the proposed bond transaction sooner rather than later. While it is good to “refresh” the underwriter pool periodically, the timing, along with competing priorities, dictates that we assemble the team to being working on the transaction soon.

A few considerations as it relates to underwriter selection.

1. GLWA administration meets with the firms listed above on a regular basis. That pool reflects excellence in the field of public sector utility finance who are very interested in continuing to work with GLWA.

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2. In prior conversations with the Board, there was a strong preference to rotate the “bookrunning senior manager” role. Citigroup has held that role for the last three transactions. Accordingly, it is recommended that Citigroup be asked to participate as a co-manager in the next financing so that GLWA can meet the Board’s rotational objective among the underwriting firms.
3. That being said, continuity and experience as a co-manager are incredibly important to GLWA in a successor in the bookrunning senior manager role. It is therefore recommended that Goldman Sachs and Co. LLC, Siebert Williams Shank & Co., LLC and Wells Fargo Securities, who have all served as co-managers, be invited to a) submit proposals to GLWA for the bookrunning senior manager role as well as b) prepare a 10-minute presentation based on that proposal to present to the Audit Committee at its regular meeting on April 22, 2022. Based on the proposals submitted and the presentation, it is recommended that the Audit Committee make a recommendation to the Board of Directors for the May 2022 Board meeting for the underwriting team and related fee.
4. All firms that have served on the financing team in the past would be invited to submit letters of interest to serve as co-managers for the 2022 transaction.
5. Within 12 months after the close of the 2022 transaction, GLWA will solicit proposals to refresh the pool. It is anticipated that the vacant Public Finance Manager role will be filled by then (this position has been vacant since April 2021; an active recruitment process has been underway).

JUSTIFICATION

Based on the Audit Committee approved approach outlined above, GLWA Procurement facilitated the Request for Proposal for Senior Managers and Letters of Interest Request for Co-Managers.

Senior Managers

GLWA Procurement facilitated the process of developing and posting the RFP for the senior manager roles with the agreed-upon minimum short-list qualifications of (1) being part of the current underwriting pool, (2) having served in a co-senior manager role on a GLWA transaction and, (3) having never served as the bookrunning senior manager on a GLWA transaction. A summary of the procurement outcomes is in the attached Procurement Report.

The Audit Committee employed a simple evaluation process based upon (1) the written responses to the proposals, which included recommended financing plan and structure,

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rating agency strategy and investor marketing strategy, and (2) ten-minute oral interviews held with the three underwriting firms during the April 22, 2022 meeting. The proposed commission takedown fee and total fees are summarized in the attached Procurement Report.

Co-Managers

GLWA also received letters of interest submissions for the co-manager underwriting syndicate. Letters of Interest were requested from those firms within the current GLWA underwriter pool to confirm their continued interest in participating in the upcoming bond transaction as co-managers. In addition to the pre-identified short-list, for the Audit Committees' consideration, a letter of interest was also solicited from Loop Capital which has strong public finance team as well as an office in the City of Detroit. This addition is in alignment with the Section 4.6 of GLWA's Procurement Policy to support Economic Equity and Development. All firms invited to submit letters of interest did provide successful responses. That list of firms is below.

- ✓ Citigroup Global Capital Markets, Inc.
- ✓ J.P. Morgan
- ✓ Loop Capital Markets
- ✓ Morgan Stanley
- ✓ Ramirez & Co., Inc.

GLWA staff and GLWA's financial advisor, PFM Financial Advisors LLC, also reviewed the RFPs and Letters of Interest received. All firms continue to meet GLWA requirements regarding service and financial capabilities, adherence to laws and regulations, and no conflicts of interest.

The RFPs were distributed to the Audit Committee for their review prior to the oral presentations from the three senior manager eligible firms at the Audit Committee on April 22, 2022. Based upon the three RFPs and related presentations, the Audit Committee determined which firms will be recommended to the Board to serve as the Bookrunning Senior Managing Underwriter, Co-Senior Managing Underwriter, and as a Co-Managers.

Proposed Underwriter Takedown: The Takedown Fee in a bond transaction is the compensation paid to the underwriter for selling the bonds. It is expressed as a dollar amount per \$1,000 of the par amount of the transaction. GLWA's Financial Advisor, PFM Financial Management completed a benchmarking analysis of the proposed fees and confirmed that all were within a competitive range. {Insert firm}, as the recommended Bookrunning Senior Manager, bid a takedown of \$X per \$1,000 (not including reimbursable expenses).

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BUDGET IMPACT

All fees related to the proposed transactions will be paid out of the proceeds of the bonds issued. The bond proceeds as shown in the financial plan are net of fees.

COMMITTEE REVIEW

The outcome of the GLWA Audit Committee on April 22, 2022 is the following recommendation for approval by the GLWA Board.

- 1) Approve {insert firm} as Bookrunning Senior Managing Underwriter;**
- 2) Approve {insert firm} as Co-Senior Managing Underwriter;**
- 3) Authorize a Takedown Fee of {TBD} per bond (plus expenses);**
- 4) Approve Citigroup, JP Morgan Securities LLC, Morgan Stanley & Co., Ramirez & Co., Loop Capital and {insert firm} as Co-Managers;**
- 5) and authorizes the Interim CEO to take such other action as may be necessary to accomplish the intent of this vote.