



Financial Services Audit Committee Communication

Date: June 21, 2019

To: Great Lakes Water Authority Audit Committee

From: Jon Wheatley, Public Finance Manager

Re: FY 2020 State Revolving Fund (SRF) Project Plan Submittal for the Detroit Water and Sewerage Department Sewer Rehabilitation Project

Background: The Detroit Water & Sewerage Department (DWSD) has identified two (2) sewer system rehabilitation projects in its FY 2020 to 2024 Capital Improvement Plan (CIP) for submittal to the Michigan Department of Environment, Great Lakes, and Energy (MDEGLE) for the SRF financing program for funding in the state's 2020 fiscal year. The deadline for submitting all SRF project plans to MDEGLE is July 1, 2019, but prior to submitting the project plans, a public hearing must be held for the affected area.

The two (2) projects are comprised of the rehabilitation with some limited replacement of aging sewers in nine (9) neighborhoods within the City of Detroit. Construction will include rehabilitation of sewers and manhole structures, and in limited instances, excavation of existing sewers for replacement. The impact of the projects will be improved customer satisfaction and safe reliable service delivery of sewage sewer conveyance to the Water Resource Recovery Facility (WRRF). The estimated cost of these projects is \$25,628,000.

The FY 2020 SRF Project Plan and public hearing notice for these combined DWSD Sewer Rehabilitation Projects has been posted on the DWSD website and can be found at: <https://detroitmi.gov/events/public-hearing-sewer-rehabilitation>. This project plan was presented at the DWSD Capital Improvement Program and Operations Committee on June 5, 2019. These documents are subject to review and approval by the DWSD Board of Water Commissioners following the Public Hearing on June 19, 2019.

Analysis: Pursuant to Section 7.2(b) of the Regional Sewage Disposal System Lease between the City of Detroit and GLWA, the Authority shall cooperate fully with the City in the implementation of the Detroit Capital Improvement Plan, including financing through the Authority. Therefore, GLWA will submit the local project plan as it will be the SRF loan applicant. Per notification, from MDEGLE, GLWA does not need to hold a separate public hearing on the local project, however, the GLWA Board of Directors will need to act on the included resolution at its regularly scheduled meeting on June 26, 2019. The resolution must be approved and signed to ensure that the finalized Project Plan is assembled, printed, and submitted to the MDEGLE by the deadline of July 1, 2019.

GLWA concurs with the DWSD Sewer Rehabilitation project plan adoption, and as the SRF applicant, is seeking low interest loan assistance through the SRF program.

Although the MDEGLE interest rate for FY 2020 will not be determined until October 2019, the current year's interest rate of 2.25% for 30-year loans is less than the present conventional bond rate. Based on the estimated project amount, DWSD could save an estimated \$11.2 million in interest costs and avoided issuance costs, based on a similar market revenue bond with a 30-year and 4.50% interest rate. This will afford saving to DWSD and its customers.

Budget Impact: GLWA is the loan applicant on the SRF loans issued on behalf of DWSD, and DWSD will be the SRF loan recipient as determined by MDEGLE. All project costs financed by GLWA, on behalf of DWSD, through the SRF program bonds and resulting principal and interest payments on the bonds will be directly allocable to the DWSD local system. Debt service is anticipated to begin in FY 2021 for this project and will be included as part of the FY 2021 financial plan.

Proposed Action: The Audit Committee recommends that the Great Lakes Water Authority Board approves the Resolution to Adopt the Detroit Water and Sewerage Department Sewer Rehabilitation – FY 2020 SRF Project Plan.