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Resolution Regarding Approval of Series Ordinance Authorizing Issuance and Sale of Water Supply System Revenue and Revenue Refunding Bonds in an Amount Not to Exceed \$515,000,000 (Ordinance 2020-03)

..Body

Agenda of: February 12, 2020
Item No.: **2020-049**
Amount: Not to Exceed \$515,000,000

TO: The Honorable
Board of Directors
Great Lakes Water Authority

FROM: Sue F. McCormick
Chief Executive Officer
Great Lakes Water Authority

DATE: February 12, 2020

RE: Resolution Regarding Approval of Series Ordinance Authorizing Issuance and Sale of Water Supply System Revenue and Revenue Refunding Bonds an Amount Not to Exceed \$515,000,000 (Ordinance 2020-03)

MOTION

Upon recommendation of Sue McCormick, Chief Executive Officer, the Board of Directors (Board) of the Great Lakes Water Authority (GLWA), **approve the resolution Approval of Series Ordinance Authorizing Issuance and Sale of Water Supply System Revenue and Revenue Refunding Bonds in an Amount Not to Exceed \$515,000,000 as presented**, and authorizes the CEO to take such other action as may be necessary to accomplish the intent of this vote.

BACKGROUND

In order for the Great Lakes Water Authority (“GLWA”) to proceed with the refunding of various outstanding water supply system bonds for the purpose of achieving annual debt service savings, the GLWA Board must approve the included resolution approving the Series Ordinance. As part of the proposed transaction, there is also a new money piece to be issued on behalf of the city of Detroit Water and Sewerage Department (DWSD).

The Series Ordinance sets forth the guidelines for the New Money and Refunding Bonds and authorizes the Chief Executive Officer of the Chief Financial Officer to execute the final terms of the Bonds, paying issuance costs and signing of the Bond Purchase Agreement, within the parameters set forth in the Series Ordinance.

JUSTIFICATION

New Money Portion- The authorized amount for the New Money Bonds in Section 3, page 4 is for an aggregate principal amount not to exceed \$100,000,000. GLWA will be issuing water revenue bonds on behalf of DWSD for improvements to their local water system.

Refunding Portion- The authorized amount for the Refunding Bonds in Section 3, page 4 is for an aggregate principal amount of not to exceed \$415,000,000. The final par amount of the Refunding Bonds will be determined at the time of pricing and is based on current bond market pricing levels, issuance costs and the par amount of the bonds to be refunded as determined by the savings level achieved. *While the approval of the resolution gives GLWA the authorization to issue refunding bonds, GLWA does not have to proceed with the refunding if market conditions become less favorable when it comes time to price the bonds.*

Key Provisions:

- Not to Exceed Par Amount: \$515 million (\$415 million for refunding, \$100 million for new money)
- Maximum Coupon Rate: 6.00%
- Minimum Purchase Price: 98% of principal amount of bonds
- Maximum Underwriter Discount: 0.40% of principal amount of bonds
- Present Value Savings: Equal to or greater than 10.00% of principal amount of bonds to be refunded

Additional Provisions:

Similar to the 2016 and 2018 water and sewer bond ordinances approved by the GLWA Board, Ordinance No. 2020-03 also contains the “springing amendment” provision in Section 23- *Amendments to Ordinance*. As noted on page 24, this section gives GLWA the ability to reduce or eliminate the bond reserve requirement for the senior lien bonds when at least 2 of the 3 national rating agencies rate the senior lien bonds in the AA category, provided that the reduction in the reserve requirement would not negatively affect the outstanding ratings. The amendments will become effective upon the deemed consent of at least 51% of the holders of the outstanding senior lien bonds. GLWA will add this springing amendment to each future series ordinance to obtain the 51% consent level. The currently level of water consents achieved is 33.7% for senior lien bonds and 84.2% for second lien bonds, before the issuance of the bonds herein.

BUDGET IMPACT

Savings as a result of the proposed Water Refunding Bonds have not been included in the FY 2020 or FY 2021 financial plan. If savings are achieved as a result of the proposed refunding, a budget amendment may be required for FY 2020 and/or FY 2021 depending on the final pricing and savings structure on the bonds.

COMMITTEE REVIEW

This matter was reviewed by the GLWA Audit Committee at its special meeting on February 12, 2020. It is anticipated that the Audit Committee will recommend approve the resolution Approval of Series Ordinance Authorizing Issuance and Sale of Water Supply System Revenue and Revenue Refunding Bonds in an Amount Not to Exceed \$515,000,000 as presented.