



Financial Services Audit Committee Communication

Date: May 15, 2020

To: Great Lakes Water Authority Audit Committee

From: Nicolette Bateson, CPA
Chief Financial Officer & Treasurer

Re: Recap: April 2020 Water System Refunding and New Money Transaction

Background: Over the course of the past year, the Great Lakes Water Authority has monitored a trend of decreasing interest rates to determine if there were financially feasible bond refunding opportunities to secure a lower annual debt service requirement. In addition, the Detroit Water & Sewerage Department (DWSD) was seeking new money for water system improvement projects in accordance with their five-year capital improvement plan.

Analysis: Based on favorable market conditions, on Thursday, April 30, 2020 a successful bond pricing occurred with a closing on Tuesday, May 10, 2020. Key highlights include the following.

- 1. Refunding Savings:** Successfully refinanced \$366 million of taxable Water System Bonds resulting in gross cashflow savings of \$103.1 million (\$66.5 million of present value savings, or an impressive 18.2%) at a very favorable arbitrage yield of 3.36%
- 2. Low Cost New Money:** Issued \$85.6 million of tax-exempt new money water bonds for DWSD at a premium, achieving a very favorable arbitrage yield of 2.98% for 30-year debt and generating nearly \$100 million for DWSD water system capital improvements
- 3. Outstanding investor participation:** Over \$1.6 billion in orders for the combined total of \$443 million in bonds (3.6x oversubscribed). This resulted in a mid-day re-pricing and allowed us to achieve even greater savings for the refunding and to further lower the borrowing rate for the new money bonds for DWSD capital improvements.
- 4. Recent Ratings Upgrades Not Impacted by COVID-19:** The recent rating agency upgrades occurred prior to the declaration of emergency as it relates to COVID-19 in Michigan. Pre-pricing updates to rating agencies focused on efforts taken to address the impact of COVID-19. A resulting bulletin was issued by Standard & Poor's which noted

GLWA's "efforts to mitigate any revenue losses, including the ability to reprioritize capital projects without weakening environmental compliance, use of cash balances to stabilize operations, the future water charge structure ..., and general operating expense adjustments".

The following items are also attached.

- ✓ *Presentation to the Audit Committee Summary of 2020 Water System Financing Results* prepared by Citigroup, Siebert Williams Shank & Co. and PFM Financial Advisors (Attachment 1).
- ✓ Standard and Poor's Global Ratings bulletin dated April 29, 2020 titled, "*Great Lakes Water Authority, MI Ratings Unaffected By COVID-19 Pandemic.*" (Attachment 2)
- ✓ GLWA press release dated May 1, 2020 titled, "*GLWA Receives Ratings Upgrades and Executes Money Saving Refunding for Regional System While Generating Funding for Detroit Local Water System Improvements.*" (Attachment 3)

The final official statement for the [Water Supply System Revenue and Revenue Refunding Series 2020 Official Statement](#) on the Investor Relations Page of GLWA's website.

Proposed Action: Receive and file report.