

**Bulletin:**

## Great Lakes Water Authority, MI Ratings Unaffected By COVID-19 Pandemic

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NEW YORK (S&P Global Ratings) June 3, 2020--S&P Global Ratings said that the COVID-19 pandemic has not affected its 'AA-' rating on the Great Lakes Water Authority (GLWA), Mich.'s senior-lien sewage disposal system revenue bonds or its 'A+' rating on GLWA's second- and junior-lien sewage disposal revenue bonds. (See the full analysis on GLWA, published March 16, 2020 on RatingsDirect.)

GLWA is planning on issuing its series 2020A senior lien and 2020B second lien, both for refunding previously issued sewage disposal system revenue bonds, in a total par amount of approximately \$706.7 million.

Although limited revenue volatility is likely for all its customer classes, there will be a more pronounced effect applicable to GLWA's retail customer class (which includes Detroit). That being said, we believe that the system's overall financial position is unlikely to see significant declines related to COVID-19 because of management's ability to reprioritize its capital projects and achieve positive expense variances.

Our belief is supported by GLWA's diverse sewer system revenue base generated from communities that represent about 30% of Michigan's population, and revenue requirements for all of its customer classes are designed to be fixed. We also have observed that the authority has been able to identify an additional \$9.9 million in budgetary adjustments that, in our view, should be

able to mitigate its currently estimated \$1 million revenue shortfall in regional system revenues due to the effects of COVID-19.

Additional year-over-year shortfalls attributable to the Detroit retail sewer system in March and April 2020 total \$6.6 million for those two months, but GLWA also reports that collections for May 2020 are \$1.4 million better than the figure for 2019. We would expect that retail customer class shortfalls will be likely cured through a process outlined in a Memorandum of Understanding (MOU) agreed to in 2018--a process to cure any Detroit Water and Sewer Dept. cumulative negative budgetary variance of more than 2% by repaying the shortfall to GLWA in annual installments over a period not to exceed three years with an additional surcharge based off the U.S. Treasury rate plus 150 basis points. We view this as an important credit factor because GLWA's overall sewage disposal revenue requirements for all of its customer classes are designed to be fixed. Both the existence and use of this shortfall curing mechanism is supportive of GLWA's overall legal and operational framework, and also supportive of the rating at its current level.

As the pandemic's effects on future budgets are better understood, we will continue to incorporate into our rating analysis management's efforts to mitigate any revenue losses, including the ability to reprioritize capital projects without weakening environmental compliance, potential use of existing cash balances to stabilize current operations while planning for rebuilding them in subsequent fiscal years if needed, the future sewer charge structure to its member partners, and general operating expense adjustments.

Despite these efforts by management to mitigate financial effects due to COVID-19, we will continue to examine both Detroit's and Michigan's overall economic indicators to determine the extent to which they could weaken the rating. For instance, current data seem to indicate that the unemployment rate both within the Detroit metro area and throughout Michigan exceeds 20%. If sustained over a protracted period, this level of economic displacement could have a negative effect on the rating in the future.

For more information on our views related to COVID-19 and the recessionary effects it has exacerbated, see our article, "An Already Historic U.S. Downturn Now Looks Even Worse" (published April 16, 2020 on RatingsDirect).

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