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Title: Resolution Regarding Approval of Series Ordinance Authorizing Issuance and Sale of Sewage Disposal System Revenue Bonds in an Aggregate Amount Not to Exceed \$66,096,901 (Ordinance 2024-04)

Sponsors: Nicolette Bateson

Indexes: Finance

Code sections:

Attachments: 1. 7A3 Series Ordinance 2024 SRF-3-4, Q4 NWI Oakwood CIP 222001 and DWSD W Chicago S, 2. 7A4 Resolution Approving Series Ordinance 2024 SRF-3-4 NWI Oakwood CIP 222001 and DWSD W Chicago S

Date	Ver.	Action By	Action	Result
6/26/2024	1	Board of Directors	Approved	Pass
6/17/2024	1	Audit Committee	Recommended for Approval	Pass

Resolution Regarding Approval of Series Ordinance Authorizing Issuance and Sale of Sewage Disposal System Revenue Bonds in an Aggregate Amount Not to Exceed \$66,096,901 (Ordinance 2024-04)

Agenda of: June 26, 2024
Item No.: **2024-195**
Amount: Not to Exceed \$66,096,901

TO: The Honorable
Board of Directors
Great Lakes Water Authority

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

DATE: June 26, 2024

RE: Resolution Regarding Approval of Series Ordinance Authorizing Issuance and Sale of Sewage Disposal System Revenue Bonds in an Aggregate Amount Not to Exceed \$66,096,901 (Ordinance 2024-04)

MOTION

Upon recommendation of Nicolette N. Bateson, Chief Financial Officer & Treasurer, the Board of Directors (Board) of the Great Lakes Water Authority (GLWA), **approves the resolution related to the Approval of Series Ordinance Authorizing Issuance and Sale of Sewage Disposal System Revenue Bonds in an Aggregate Amount Not to Exceed \$66,096,901 (Ordinance 2024-04)**, and authorizes the Chief Executive Officer to take such other action as may be necessary to accomplish the intent of this vote.

BACKGROUND

There are two considerations related to this resolution: the projects being funded and financing.

Project Considerations

Regional Sewer System Project:

Northwest Interceptor to Oakwood Combined Sewer Overflow Sewer (NOCSOS) - (CIP #222001, Series 2024-SRF-3): This project consists of improvements to the existing Northwest Interceptor to Oakwood CSO Sewer, including the construction of an approximately 3,500-foot long, 10-foot finished diameter tunnel between the Northwest Interceptor and the Oakwood CSO Control Facility, to divert wet weather flows to the Oakwood CSO Facility for treatment and discharge into the Rouge River.

GLWA submitted this project for funding consideration to the Michigan Department of Environment, Great Lakes, and Energy (EGLE) Fiscal Year 2024 Clean Water State Revolving Fund (CWSRF) financing program. On May 25, 2022, GLWA held a [public hearing <https://glwater.legistar.com/LegislationDetail.aspx?ID=5660439&GUID=463E999F-6728-4E55-AB6A-84F4E44EF4DB&Options=&Search=>](https://glwater.legistar.com/LegislationDetail.aspx?ID=5660439&GUID=463E999F-6728-4E55-AB6A-84F4E44EF4DB&Options=&Search=>) to present the project and allow opportunities for public comment in accordance with the CWSRF guidelines. After the public hearing, the Board adopted the resolution approving the project plan and GLWA was subsequently approved for funding as notified on EGLE's final CWSRF Intended Use Plan (IUP) in October 2023.

- Since that time, the project was renamed **from** Oakwood District Intercommunity Relief Sewer Modification at Oakwood District - Northwest Interceptor Relief Sewer **to** Northwest Interceptor to Oakwood Combined Sewer Overflow Sewer (NOCSOS).
- The project cost estimate was \$75 million when presented at the May 2022 public hearing.
- The current estimated project cost is approximately \$103 million.
- GLWA was awarded a maximum funding amount of \$75 million, including a \$20 million

American Rescue Plan Act (ARPA) grant.

- The proposed series ordinance not to exceed amount of \$60.5 million in attached resolution includes an additional 10% loan financing contingency to allow for any fluctuation in the final SRF award amount.

Local Sewer System Project:

West Chicago South Stormwater Improvements - This project consists of sewer installation and construction of new stormwater outfalls to create capacity within the West Outer Drive Neighborhood upstream of Combined Sewer Overflow (CSO) B063 at West Chicago. The Detroit Water and Sewerage Department (DWSD) submitted this project for FY 2024 funding consideration through EGLE's CWSRF financing program. On March 15, 2023, DWSD held a public hearing to present the project and allow opportunities for public comment in accordance with the CWSRF guidelines. After the public hearing, the DWSD Board of Water Commissioners adopted the resolution approving the project plan and was subsequently approved for funding as notified on EGLE's final CWSRF Intended Use Plan (IUP) in October 2023.

- Current estimated project cost is approximately \$21.4 million.
- DWSD was awarded a maximum funding amount of \$19.1 million including \$14 million American Rescue Plan Act (ARPA) grant funds and an additional \$5.1 million in principal forgiveness.
- The project was fully funded with grant and principal forgiveness; however, a bond must be issued for the principal forgiveness portion (\$5.1 million) requiring GLWA to adopt a series ordinance in support of that issuance.
- The proposed series ordinance not to exceed amount of \$5.6 million in attached resolution includes an additional 10% loan financing contingency to allow for any fluctuation in the final SRF award amount.

Financing Considerations

The amount to be financed with revenue bonds through the CWSRF bonds is within authorized GLWA limits. On July 29, 2022, the GLWA Board of Directors approved Resolution 2022-312,

“Resolution of the Great Lakes Water Authority Authorizing Publication of Notice of Intent to Issue Sewerage Disposal System Revenue Bonds” in a principal amount not to exceed \$650,000,000 (the “Notice of Intent”). This is the second series of sewer bonds from that Notice of Intent and is in the amount not to exceed \$66,096,901.

The approval of the series ordinance is the next formal step required by the GLWA Board of Directors in the bond issuance process, and this proposed action authorizes the bonds to be issued. The series ordinance authorizes the issuance of the bonds by GLWA, sets forth the guidelines for the CWSRF bonds, designates the bonds as 2024 SRF-3/4 Junior Lien Bonds (with 3 representing GLWA Northwest Interceptor to Oakwood CSO Sewer project and 4 representing the DWSD West Chicago South Stormwater Improvements project), and authorizes the Chief Executive Officer or the Chief Financial Officer/Treasurer to execute the final terms of the bonds, paying issuance costs and signing of the Purchase Contract and Sale Order, within the parameters set forth in the Series Ordinance.

JUSTIFICATION

The bond series authorized by this ordinance will support the Regional and Local Sewer System improvements. The 2024 SRF-3/4 Junior Lien Bonds will be sold through the Michigan Finance Authority under the CWSRF program.

GLWA secures capital improvement financing for DWSD in accordance with foundational documents related to the establishment of GLWA. 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 this Detroit capital improvement, including financing through the Authority. GLWA is the loan applicant on behalf of DWSD, and DWSD will be the CWSRF loan recipient. All project costs financed by GLWA, on behalf of DWSD, through the CWSRF program and resulting principal and interest payments on the bonds will be directly allocable to the DWSD local system.

The current CWSRF interest rates for overburdened applicants are 2% for 20-year and 30-year loans. The GLWA Northwest Interceptor to Oakwood CSO Sewer project and DWSD West Chicago South Stormwater Improvements project both qualified for “overburdened applicant status”. Potential dollar savings are significant when compared to municipal bond interest rates in a market-based transaction. By way of example, the current GLWA ten-year financial plan utilizes an estimated interest rate of 5% for market-based debt. Comparing the current CWSRF interest rate of 2% to the GLWA estimated rate of 5%, the potential interest savings on a 20-year loan is approximately \$21 million and \$34 million on a 30-year loan related to the GLWA Oakwood CSO Sewer project. This comparative calculation is not necessary for the DWSD Stormwater Improvements project because the project is fully funded through grant and principal forgiveness.

Another advantage of the SRF program is that interest costs are only incurred on the amount drawn from the SRF loans as project expenditures are incurred. This results in additional debt service

savings early in the term of the loan compared to market-based transactions. Further, use of SRF funding as junior lien does not impact GLWA debt reserve requirements.

BUDGET IMPACT

The debt service payments on the GLWA Regional project are anticipated to start on October 1, 2029 with minimal amounts of interest due, because of the projected draw down schedules. An estimate for debt service on the loan will be included in the biennial FY 2025 Sewer Budget as well as GLWA's current ten-year forecast.

COMMITTEE REVIEW

This matter was reviewed by the GLWA Audit Committee at its meeting on June 17, 2024. The Audit Committee unanimously recommended the Board of Directors approve the resolution related to the Approval of Series Ordinance Authorizing Issuance and Sale of Sewage Disposal System Revenue Bonds in an Aggregate Amount Not to Exceed \$66,096,901 as presented.