



Legislation Details (With Text)

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Title: Resolution Regarding Approval of First Supplemental Sale Order of Chief Executive Officer of the Great Lakes Water Authority Amending Sale Order of Finance Director of the City of Detroit with respect to \$370,000,000 City of Detroit Sewage Disposal System Revenue Refunding Senior Lien Bonds (Tax-Exempt Floating LIBOR Notes), Series 2006(D)

Sponsors: Nicolette Bateson

Indexes: Finance

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Attachments: 1. 7C1 AC Memo - Approval of Amendment to 2006D (LIBOR) Notes Sale Order, 2. 7C3 Resolution Approving Amendment to 2006D (LIBOR) Notes Sale Order, 3. 7C4 U.S. Bank Letter Regarding 2006D Bonds V2

Date	Ver.	Action By	Action	Result
4/26/2023	1	Board of Directors	Approved	Pass
3/24/2023	1	Audit Committee	Recommended for Approval	Pass

Resolution Regarding Approval of First Supplemental Sale Order of Chief Executive Officer of the Great Lakes Water Authority Amending Sale Order of Finance Director of the City of Detroit with respect to \$370,000,000 City of Detroit Sewage Disposal System Revenue Refunding Senior Lien Bonds (Tax-Exempt Floating LIBOR Notes), Series 2006(D)

Agenda of: April 26, 2023
Item No.: **2023-117**
Amount: N/A

TO: The Honorable
Board of Directors
Great Lakes Water Authority

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

DATE: **April 26, 2023**

RE: Resolution Regarding Approval of First Supplemental Sale Order of Chief Executive Officer of the Great Lakes Water Authority Amending Sale Order of Finance Director of the City of Detroit with respect to \$370,000,000 City of Detroit Sewage

Disposal System Revenue Refunding Senior Lien Bonds (Tax-Exempt Floating LIBOR Notes), Series 2006(D)

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 for the First Supplemental Sale Order of Chief Executive Officer of the Great Lakes Water Authority Amending Sale Order of Finance Director of the City of Detroit with respect to \$370,000,000 City of Detroit Sewage Disposal System Revenue Refunding Senior Lien Bonds (Tax-Exempt Floating LIBOR Notes), Series 2006(D)** and authorizes the Chief Executive Officer to take such other action as may be necessary to accomplish the intent of this vote.

BACKGROUND

The London Interbank Offered Rate (“LIBOR”) has been used as a benchmark short-term borrowing and lending rate for an estimated \$400 trillion financial products globally, including over \$220 trillion contracts referencing United States Dollar (USD) LIBOR. LIBOR is used extensively across a range of industries and business processes and is often referenced in derivative (swaps and options), bond and loan documentation as well as in a range of consumer lending instruments.

The United Kingdom’s Financial Conduct Authority (FCA), which regulates LIBOR, initially announced in July 2017 that it would no longer compel banks to make LIBOR submissions after the end of 2021. This announcement followed intense scrutiny by numerous regulatory bodies and interested parties and determination by the FCA that LIBOR is no longer compliant with sound international principals for interest rate benchmarks. The cessation of the publication of 1-week and 2-month USD LIBOR was effective December 31, 2021, while remaining USD LIBOR tenors will be published through June 30, 2023.

JUSTIFICATION

GLWA has certain outstanding variable rate bonds with an interest rate that relies upon the continued publication of the 3-month LIBOR index. These Sewer Series 2006D Bonds:

- Are outstanding in the amount of \$239,475,000.
- Have a final maturity of 2032.
- Are floating rate bonds with an interest rate based on 67% of 3-month USD LIBOR plus 0.60%.
- Contain favorable terms to GLWA that could not be replicated in the current bond market.
- Have been the lowest cost piece of GLWA’s debt portfolio for many years.

While short term rates have trended higher as recently as FY 2022, the effective interest rate GLWA paid on these 2006D bonds was less than 1%, and the annual interest savings offered by this vehicle was approximately \$10 million lower than that offered by “traditional” 5% coupon rates.

GLWA management has evaluated options and determined that given the favorable terms contained within the Series 2006D bonds, it is in GLWA’s best interest to retain these bonds until their maturity rather than refund at higher fixed rates or repay them.

At issue is the fact that the GLWA Series 2006D Bonds do not provide an alternative calculation methodology for the bond’s variable interest rate when LIBOR ceases to be published. Contracts and debt instruments without workable alternatives built-in are referred to as “tough legacy contracts”. While some LIBOR-based contracts and debt instruments specify workable alternatives, many like GLWA’s 2006D bonds do not.

With the 3-Month LIBOR methodology for ending on June 30, 2023, the U.S. Congress provided a fix for these contracts and tough legacy contracts by operation of law and passed the Adjustable Interest Rate (LIBOR) Act or “AIRLA” in March 2022. AIRLA establishes a federal mandate requiring the replacement of LIBOR in tough legacy contracts with an alternative benchmark called the Secured Overnight Funding Rate or “SOFR”.

AIRLA and its requirement of the use of SOFR provides a favorable resolution for the GLWA Sewer Series 2006D bonds. The change in variable lending rate from LIBOR to SOFR is not expected to materially impact the interest rates paid by GLWA going forward (which will continue to be based on a floating rate index plus a spread). And further, like other borrowers, allows GLWA to retain an advantageous risk profile and economics on the 2006D bonds without requiring costly or complex investor consent process or refunding.

GLWA management has worked with its trustee as well as legal and financial advisors to evaluate options and has determined that as a tough legacy contract, GLWA is required to adopt SOFR for the Sewer Series 2006D bonds. The GLWA US Bank Trustee provided letters of support for this transition which are included with this Board letter. Based upon review of the AIRLA legislation with these advisors, the GLWA staff requests the Board adopt the attached resolution and execute the attached supplemental sales order to amend the existing 2006D Sewer system bond issues outstanding and effectuate this mandated transition to SOFR.

BUDGET IMPACT

None. These changes are not expected to materially impact the interest rates paid by GLWA going forward (which will continue to be based on a floating rate index plus a spread). Transition to SOFR benchmark rate is not intended to impact economic position of either GLWA or investors and other debt terms are not impacted, with GLWA maintaining full flexibility to prepay debt prior to maturity.

COMMITTEE REVIEW

This matter was reviewed by the GLWA Audit Committee at its meeting on March 24, 2023. The Audit Committee unanimously recommends that the Board of Directors approves the resolution for the First Supplemental Sale Order of Chief Executive Officer of the Great Lakes Water Authority Amending Sale Order of Finance Director of the City of Detroit with respect to \$370,000,000 City of Detroit Sewage Disposal System Revenue Refunding Senior Lien Bonds (Tax-Exempt Floating LIBOR Notes), Series 2006(D).