



Legislation Text

File #: 2024-021, Version: 1

Resolution Regarding Approval of Series Ordinance Authorizing Issuance and Sale of Sewer Disposal System Revenue Bonds in an Aggregate Amount Not to Exceed \$331,980,000 (Ordinance 2024-01)

Agenda of: March 21, 2024
Item No.: **2024-021**
Amount: Not to Exceed \$331,980,000

TO: The Honorable
Board of Directors
Great Lakes Water Authority

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

DATE: March 21, 2024

RE: Resolution Regarding Approval of Series Ordinance Authorizing Issuance and Sale of Sewer Disposal System Revenue Bonds in an Aggregate Amount Not to Exceed \$331,980,000 (Ordinance 2024-01)

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 Sewer Disposal System Revenue Bonds in an Aggregate Amount Not to Exceed \$331,980,000 (Ordinance 2024-01)**, 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: projects being funded and financing.

Project Considerations

Project Plan Approvals - On May 25, 2022, the GLWA Board of Directors conducted 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=>](https://glwater.legistar.com/LegislationDetail.aspx?ID=5660439&GUID=463E999F-6728-4E55-AB6A-84F4E44EF4DB&Options=&Search=>) related to projects for Fiscal Year (FY) 2023 Clean Water State Revolving Fund (CWSRF) consideration: Freud Pump Station and Water Resource Recovery Facility (WRRF) Aeration Improvements 1 and 2. Subsequent to that public hearing, the Board adopted the project plans.

Freud Pump Station (Series 2024-SRF-1)

- Project Plan cost estimate was \$94.82 million when presented at the May 2022 public hearing
- Current estimated project cost is approximately \$147 million
- GLWA was awarded FY 2024 CWSRF maximum funding amount of \$86.8 million as notified on EGLE's final CWSRF Intended Use Plan (IUP) in October 2023.
- On February 27, 2024, GLWA was offered an additional \$80 million in CWSRF loan funds. Of that amount, \$40 million is recommended to be allocated to the Freud Pump Station project.
- The revised CWSRF IUP amount is \$126.8 million.
- Proposed series ordinance not to exceed amount of \$139.48 million in attached resolution includes an additional 10% loan financing contingency to allow for any fluctuation in the final SRF award amount.
- A summary of this analysis is provided as Attachment 1 to this Board Letter in Table 1 and 2.

WRRF Aeration Improvements 1 and 2 (Series 2024-SRF-2)

- Project Plan cost estimate was \$74.1 million when presented at the May 2022 public hearing
- Current estimated project cost is approximately \$211 million.
- GLWA was awarded FY 2024 CWSRF maximum funding amount of \$135 million as notified on EGLE's final CWSRF Intended Use Plan in October 2023
- On February 27, 2024, GLWA was offered an additional \$80 million in CWSRF loan funds. Of that amount, \$40 million is recommended to be allocated to the Aeration Improvements 1 and 2 project.
- The revised CWSRF IUP amount is \$175 million, which includes \$20 million in principal forgiveness.
- Proposed series ordinance not to exceed amount of \$192.5 million in attached resolution includes an additional 10% loan financing contingency to allow for any fluctuation in the final SRF award amount
- A summary of this analysis is provided as Attachment 1 to this Board Letter in Tables 1 and 2.

Financing Considerations

The amount to be financed with revenue bonds through the Clean Water State Revolving Fund (CWSRF) Bonds is within authorized GLWA limits. On July 29, 2022 the Great Lakes Water Authority ("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 first series of sewer bonds from that Notice of Intent and is in the amount not to exceed \$331,980,000.

The proposed action authorizes the bonds to be issued. The approval of the series ordinance presented today is the next formal step required by the GLWA Board of Directors in the bond issuance process. 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-1/2 Junior Lien Bonds (with 1 representing Freud Pump Station and 2 representing the WRRF Aeration Improvements 1 and 2 projects), 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 Sewer System projects involving Freud Pump Station and WRRF Aeration Improvements 1 and 2. The Freud Pump Station system is a key component in relaying wastewater and storm water generated in the eastern portion of Detroit. This project will improve system resiliency, station reliability, operability, integrity, and maintainability over the life of the facilities. The Aeration Improvements 1 and 2 project increases the overall efficiency and wet weather treatment capacity of the secondary treatment process at the WRRF.

The 2024 SRF-1/2 Junior Lien Bonds will be sold through the Michigan Finance Authority under CWSRF program. Note that these projects qualified for "overburdened applicant status." The current CWSRF interest rates for overburdened applicants are 2% for 20-year and 30-year loans. As long as the interest rates for 30-year are comparable to 20-year loans, GLWA will select the 30-year option. Potential dollar savings are significant when compared to municipal bond interest rates in a market-based transaction.

By way of example, the 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 using the SRF loan are shown below.

- For the Freud Pump Station project, utilizing SRF loan at \$126.8 million, there would potentially be a \$48.4 million in interest savings on a 20-year loan and a savings of \$77.6 million a 30-year loan.
- For the WRRF Aeration Improvements 1 and 2 project, utilizing SRF loan at \$175 million, there would potentially be \$66.8 million in savings on a 20-year SRF loan and \$107.1 million on a 30-year loan.
- A summary of this analysis is provided as Attachment 1 to this Board Letter in Table 3.

Another advantage of SRF 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, 2025 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 Water 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 February 9, 2024**. The Audit Committee unanimously recommended that the Board of Directors approve the resolution for the Approval of Series Ordinance Authorizing Issuance and Sale of Sewer Disposal System Revenue Bonds in an Aggregate Amount Not to Exceed **\$243,980,000** as presented.

Subsequent to the above Audit Committee meeting, GLWA was received good news on February 27, 2024 that an additional \$80 million in CWSRF loan funds became available. Given that GLWA's debt management strategy is to optimize this low interest rate funding, this matter is being forward to the Board of Directors directly with the Audit Committee's original recommendation of \$243,980,000 plus the \$80 million with a 10% loan financing contingency for **a new total of \$331,980,000** (\$243,980,000 plus \$80,000,000 plus \$8,000,000).