



Legislation Text

File #: 2020-253, **Version:** 1

Presentation: Recap of 2020 Bond Transactions

Agenda of: July 22, 2020

Item No.: **2020-253**

Amount: Not Applicable

TO: The Honorable
Board of Directors
Great Lakes Water Authority

FROM: Sue F. McCormick
Chief Executive Officer
Great Lakes Water Authority

DATE: July 22, 2020

RE: Presentation: Recap of 2020 Bond Transactions

MOTION

Upon recommendation of Sue McCormick, Chief Executive Officer, the Board of Directors (Board) of the Great Lakes Water Authority (GLWA), **receives and files the Presentation: Recap of 2020 Bond Transactions**, and authorizes the CEO to take such other action as may be necessary to accomplish the intent of this vote.

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. On December 23, 2019, the financing team kicked off the process to develop the legal and financial analysis and documents anticipating a water and sewer transaction in calendar year 2020 for secure financial savings from water and sewer system refunding bonds and new money for the Detroit Water & Sewerage Department (DWSD) water system improvements in accordance with lease agreements.

In early March 2020, GLWA met with three rating agencies in anticipation of an upcoming transactions. All three agencies provided positive results. Nearly a week later, the COVID-19 pandemic declaration of emergency diverted priorities as well as created market uncertainty. As markets subsequently stabilized, GLWA was able to proceed with two successful transactions.

JUSTIFICATION

Due to the unique market conditions, the water and sewer system transactions were executed separately at a time that was ideal for the respective offering. Each is discussed below. The bond financing team has provided a consolidated presentation (attached) to recap both of the transactions at the Board of Directors meeting.

WATER SYSTEM TRANSACTION

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

1. **Refunding Savings:** Successfully refinanced \$366 million of tax-exempt Water System Bonds with \$377.5 million of taxable 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 take 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.

- ✓ Standard and Poor's Global Ratings bulletin dated April 29, 2020 titled, "*Great Lakes Water Authority, MI Ratings Unaffected By COVID-19 Pandemic.*"
- ✓ 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.*"

The final official statement for the [Water Supply System Revenue and Revenue Refunding, Series 2020 Official Statement <https://www.glwater.org/wp-content/uploads/2020/05/Water-Supply-System-Revenue-and-Revenue-Refunding-Bonds-Series-2020.pdf>](https://www.glwater.org/wp-content/uploads/2020/05/Water-Supply-System-Revenue-and-Revenue-Refunding-Bonds-Series-2020.pdf) on the Investor Relations Page of GLWA's website.

SEWER SYSTEM TRANSACTION

Based on favorable market conditions, on Thursday, June 4, 2020 a successful bond pricing occurred with a closing on Tuesday, June 16, 2020. Key highlights include the following.

1. **Refunding Savings:** Successfully refinanced \$657.2 million of tax-exempt Sewer System Bonds with \$687.4 million of taxable bonds resulting in gross cashflow savings of \$221 million (\$123 million of present value savings, or an impressive 18.7%) at a very favorable all-in borrowing cost of 3.04%.
2. **Outstanding investor participation:** Over \$4.3 billion in orders for the total of \$687.5 million in bonds (6.3x oversubscribed). This resulted in a mid-day re-pricing and allowed us to achieve even greater savings for the refunding.
3. **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 take 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, potential use of 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".

The following items is also attached.

- ✓ Standard and Poor's Global Ratings bulletin dated June 3, 2020 titled, "*Great Lakes Water Authority, MI Ratings Unaffected By COVID-19 Pandemic.*" (Attachment 2)

The final official statement for the [Sewage Disposal System Revenue Refunding, Series 2020 Official Statement](https://www.glwater.org/wp-content/uploads/2020/05/Water-Supply-System-Revenue-and-Revenue-Refunding-Bonds-Series-2020.pdf) <<https://www.glwater.org/wp-content/uploads/2020/05/Water-Supply-System-Revenue-and-Revenue-Refunding-Bonds-Series-2020.pdf>> on the Investor Relations Page of GLWA's website.

BUDGET IMPACT

The budget impact of these transactions is positive and in alignment with the five-year financial plan. See attached memo from The Foster Group dated June 17, 2020 related to the Series 2020 Bond Results and Impact on the FY 2021 - 2022 Forecast Update.

COMMITTEE REVIEW

The results of the water system refunding and new money transaction was reviewed by the GLWA Audit Committee at its meeting on May 15, 2020. Similarly, the results of the sewer refunding transaction was reviewed by the GLWA Audit Committee at its meeting on June 19, 2020. The related reports were received and filed by the Audit Committee.