

13 MAY 2024

# Fitch Rates Great Lakes Water Authority's Sewage Revs 'AA-'/'A+'; Outlook Positive

Fitch Ratings - New York - 13 May 2024: Fitch Ratings has assigned the following ratings to the obligations issued by the Great Lakes Water Authority, MI (GLWA or the authority):

--Approximately \$345.3 million sewage disposal system revenue refunding senior lien bonds series 2024A at 'AA-';

--Approximately \$40.2 million sewage disposal system revenue refunding second lien bonds series 2024B at 'A+'.

The bonds are scheduled to sell via negotiation the week of May 20th. Proceeds will be used to refund certain bonds and pay costs of issuance.

In addition, Fitch has affirmed the ratings on the following GLWA bonds, including bonds previously issued by the city of Detroit (the city) and the Michigan Finance Authority on behalf of the Detroit Water and Sewerage Department (DWSD) and assumed by GLWA (all pre-refunding):

--\$1.78 billion senior lien sewage disposal system revenue bonds at 'AA-';

--\$766.0 million second lien sewage disposal system revenue bonds at 'A+'.

Fitch has assessed GLWA's sewer system's (the system) standalone credit profile (SCP) at 'a+'.

The Rating Outlook remains Positive.

The 'AA-' and 'A+' sewer revenue bond rating, along with the 'a+' SCP, reflect the system's very strong financial profile in the context of its very strong revenue defensibility and very strong operating risk profile, both assessed at 'aa'. The system's leverage, measured as net-adjusted debt to adjusted funds available for debt service (FADS), was very low at 9.2x in fiscal 2023. Leverage is projected to peak at 9.7x in fiscal 2024 in Fitch's Analytical Stress Test (FAST) rating case, supporting the Positive Outlook.

The revenue defensibility assessment considers the authority's ability to reallocate any shortfalls from a non-performing customer to its performing customers via a rate increase, and the overall strength of such customers. While Fitch considers the credit quality of DWSD's sewer system midrange, the authority's other large wholesale customers have stronger credit profiles, resulting in a strong aggregate purchaser credit quality (PCQ). The operating risk profile considers the system's very low operating cost burden, coupled with its favorable life cycle ratio, while recognizing continued robust capital plans.

The Positive Rating Outlook is based on the realized and expected leverage trend, which Fitch expects will stabilize to decline over the five-year horizon, potentially falling to 8.6x by fiscal 2028. However, the system's capital improvement plan (CIP) has increased, in part due to cost pressures. The system has increased its targeted spend rate to 100% from 75% of the plan. The capital plan is designed to maintain and improve the

resiliency of the system, which is an overall positive; however, the authority must balance ambitious capital plans that include some remaining uncertainty regarding costs, with the goal of maintaining modest revenue adjustments.

The distinction between the senior and the second lien bonds reflects the meaningful protection afforded to senior debt, given the sizable balance of subordinated obligations, which include the second lien bonds, state revolving fund loans, and long-term leases payable under the lease agreement between GLWA and DWSD. It also includes the absence of an automatic cross-default or acceleration between the liens.

## **SECURITY**

Senior lien bonds are secured by a first lien on net revenues of the system. Second lien bonds are secured by net revenues after payment of the senior lien bonds.

## **KEY RATING DRIVERS**

### **Revenue Defensibility - 'aa'**

#### **Strong Purchaser Credit Quality, Very Strong Revenue Source Characteristics**

The authority has contract provisions that allow for full cost recovery and the unlimited reallocation of costs across users. Under the water and sewer services agreements (WSSAs) in place with the wholesale customers, the authority has the exclusive right to establish rates for the water and sewer services it provides. The authority has delegated to the city its right to establish rates with respect to services provided to city of Detroit customers.

After the city of Detroit, which accounted for about 50% of the system's operating revenues (inclusive of the local sewer system operating revenues) in fiscal 2023, the largest customers include the Oakland-Macomb Interceptor Drainage District, Wayne County's Rouge Valley and Oakland County's George Kuhn Drainage District. Although the city exhibits just midrange credit quality, the authority's large suburban members contribute to a strong overall PCQ. The local sewer system is the portion of the sewer system that provides service directly to the city's retail customers.

### **Operating Risk - 'aa'**

#### **Very Low Operating Cost Burden; Moderate Investment Needs**

In fiscal 2023, the system's operating cost burden was very low at \$3,617 per million gallons (mg), consistent with the operating risk assessment. The life cycle ratio was very low at 33% in fiscal 2023. Annual capital spending relative to depreciation has been weak though improving, averaging 50% over the last five fiscal years from 2019 to 2023. Planned capital spending through fiscal 2028, which reflects the goal to spend 100% of plan, should pace historical depreciation, supporting a continued very low life cycle ratio.

The DWSD CIP is funded through the lease payments and debt issued by GLWA for local DWSD sewer projects. Planned CIP spending for fiscal 2024 through 2028 for the consolidated GLWA and DWSD sewer systems approximates \$1.3 billion. The CIP focuses on implementation of the authority's sewer master plan; projects include those tied to general repair and maintenance, with a focus on resiliency.

Given inflationary pressure, expected spending has increased over prior years, but costs associated with the CIP appear manageable overall. Funding for the CIP is expected to be provided by approximately 70% new debt proceeds and 30% existing funds on hand.

## Financial Profile - 'aa'

### Leverage to Stabilize; Neutral Liquidity

The system had very low leverage of 9.2x as of fiscal 2023; this measure has been on a generally downward trend since fiscal 2018, when it measured 10.3x. The liquidity profile is neutral to the overall assessment with a Fitch-calculated liquidity ratio of 278 days and coverage of full obligations (COFO) of 1.6x in fiscal 2023. Fitch-calculated total debt service coverage for fiscal 2023 was also about 1.6x.

The FAST considers the potential trend of key ratios in a base case and stress scenario over a five-year period. The stress scenario is designed to impose capital costs 10% above expected base case levels and evaluate potential variability in projected key ratios. The FAST reflects Fitch's view of a reasonable scenario, which is generally informed by publicly available and/or management provided information with respect to capital expenditures, user charges and rate of revenue and expenditure growth.

In the base case scenario, the leverage ratio is projected to increase to 9.6x in fiscal 2024, then decrease to 8.3x through fiscal 2028. In the stress scenario, which is considered the rating case, the leverage ratio is expected to increase to 9.7x in fiscal 2024, then decline to 8.6x through fiscal 2028. The liquidity profile is expected to remain neutral to the assessment over the five-year horizon. The Positive Outlook reflects Fitch's expectation that actual and projected leverage will remain consistent with a 'aa' financial profile.

### Asymmetric Additional Risk Considerations

No asymmetric additive considerations affected this rating determination.

## RATING SENSITIVITIES

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A material reversal in the trend of leverage would likely stabilize the Outlook.
- Sustained weakening in the leverage ratio such that it approaches 12.0x would pressure the ratings.
- Downward revision to the system's PCQ and/or revenue defensibility assessment.
- Material declines in liquidity that expose bondholders to timing risk of the true-up.
- The senior lien rating could converge at the SCP assessment if there is a significant erosion of the financial cushion afforded to senior bondholders that results in a lack of meaningful difference in the probability of payment default between the liens.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Greater certainty that upcoming planned capital spending has fully accounted for inflationary pressures while meeting authority goals and maintaining leverage within current expectations.
- Sustained leverage below 10.0x, assuming stability in the current revenue defensibility and operating risk assessments.

## PROFILE

GLWA provides wholesale sewer services to a population of approximately 2.8 million, or 28% of the state population. In January 2016, the authority assumed operational control of Detroit's system assets (excluding its local collection infrastructure) via a 40-year lease agreement, and authorized GLWA the right to set and collect rates from the customers historically served by the city.

Separately, security interest in the city's system-related revenues was granted under the master bond ordinance (MBO), while the WSSA assigned the city the right to set and collect rates from its retail customers. The agreement required GLWA to assume all liabilities of the DWSD's regional water and sewer systems, including outstanding indebtedness related to the respective systems.

System assets include a wastewater treatment plant (the water resource recovery facility, or WRRF), which is one of the largest single-site facilities in the U.S., with capacity of 1,700 mg per day. The treatment plant can accommodate dry-weather flows without further mediation, but also operates eight combined sewer overflow retention treatment basins to accommodate wet-weather flows. Wholesale customers retain ownership in collection system infrastructure, which conveys flows and ultimately discharges such flows into GLWA's interceptors.

## Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

### Summary of Financial Statement Adjustments

In its analysis, Fitch adjusted GLWA's "Statement of Revenues, Expenses and Changes in Net Position" to include information from DWSD's "Statement of Revenues, Expenses and Changes in Net Position." Fitch also adjusted GLWA's balance sheet to include DWSD's unrestricted cash. The adjustments are made to provide greater comparability of GLWA's financial position in accordance with the flow of funds under the bond ordinances and lease-related agreements.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## Fitch Ratings Analysts

### Kristen Reifsnyder

Director

Primary Rating Analyst

+1 646 582 3448

Fitch Ratings, Inc. Hearst Tower 300 W. 57th Street New York, NY 10019

**Allison Clark**

Director  
 Secondary Rating Analyst  
 +1 646 582 4562

**Audra Dickinson**

Senior Director  
 Committee Chairperson  
 +1 512 813 5701

**Media Contacts**

**Sandro Scenga**








New York  
 +1 212 908 0278  
 sandro.scenga@thefitchgroup.com

**Rating Actions**

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Great Lakes Water Authority (MI) [Sewer]				
<ul style="list-style-type: none"> <li>Great Lakes Water Authority (MI) /Sewer Revenues (2nd Lien)/2 LT</li> </ul>	LT	A+	Affirmed	A+
<ul style="list-style-type: none"> <li>Great Lakes Water Authority (MI) /Sewer</li> </ul>	LT	AA-	Affirmed	AA-

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Revenues/1 LT			

## RATINGS KEY OUTLOOK WATCH

<b>POSITIVE</b>		
<b>NEGATIVE</b>		
<b>EVOLVING</b>		
<b>STABLE</b>		

## Applicable Criteria

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub.12 Jan 2024\) \(including rating assumption sensitivity\)](#)

[U.S. Water and Sewer Rating Criteria \(pub.29 Feb 2024\) \(including rating assumption sensitivity\)](#)

## Additional Disclosures

### Solicitation Status

## Endorsement Status

Great Lakes Water Authority (MI) EU Endorsed, UK Endorsed

## DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or

ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for

contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

## Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.