GLWA
Great Lakes Water Authority

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Overview of Structures Authorized by Series Ordinance

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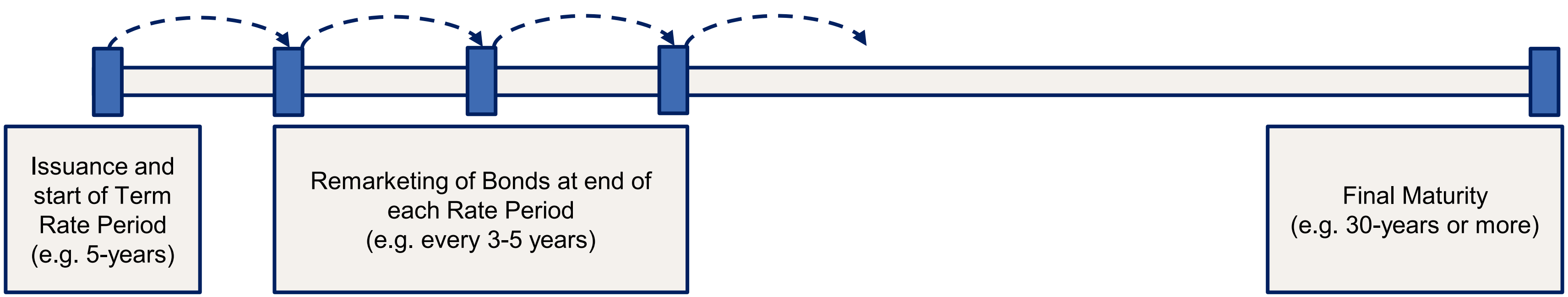
Comparison of Debt Structures Authorized by Series Ordinance

Product Overview	Term Rate	Fixed Rate
Interest Rate Reset Frequency	Up to 10 Years	Never
Remarketing Frequency	Up to 10 Years	Never
Source of Liquidity for Investors	None	Not required
Investor Tender Option	None	None
Mandatory Tender	Mandatory tender in 1-10 years; Hard put ***or*** soft put with amortization to term at a penalty rate	None
Failed Remarketing	If soft put, amortization to term at a “stepped rate” (e.g., 7 - 8%)	n/a
Maximum Rate	Lifetime cap on interest costs; Set at high level expected to accommodate any future rate environment (e.g., 9% and up)	n/a
Call Option	Typically, on each remarketing date or up to 6 months prior	Typically, callable after year 10
Issuer Risks		
Interest Rate Risk	At issuance and remarketing only	At issuance only
Remarketing Risk	At remarketing only	None
Issuer Credit Risk	At issuance and remarketing only	At issuance only
Bank Liquidity Risk	None	None
Investor Base	Broad	Broad

Overview of Term Rate Bonds

- Term Rate bonds offer an intermediate option between fixed rate debt and floating rate debt
- Key benefits are to take advantage of short end of the yield curve but gain budgetary certainty, limit impacts of short-term interest rate volatility, and eliminate exposure to bank counterparties
- Bonds bear interest at a fixed rate through the expiration of each Term Rate period of up to 10 years
  - Interest rate paid during the initial period and each subsequent Term Rate period is determined at initial pricing or remarketing date
  - At the end of each Term Rate period the bonds are remarketed into a subsequent Term Rate period or into another interest rate mode (could also be remarketed to Fixed Rate)
- If the bonds are not remarketed at the end of each Term Rate period, the bonds bear interest at a stepped rate (e.g. 7% - 8%) until they can be remarketed or until the maturity of the bonds
- **No investor demand option, acceleration of principal, or bank liquidity facility**



Term Rate Bonds Offer Variable Rate Benefits with Improved Risk Profile

Benefits

- **Lower Debt Service Costs**
  - Historically, short-term rates are lower than long-term rates
  - Issuer may realize lower interest costs than if fixed rate debt had been issued
- **Asset-Liability Management**
  - Interest rates are correlated with earnings on short-term investment portfolio
- **Diversified Investor Base**
  - Variable rate debt appeals to different market segments and investors
- **Budgetary Certainty**
  - Provides fixed debt service through initial period (1 to 7 years)
- **No Bank Liquidity Risks**
  - No bank liquidity facility eliminates risks related to termination, bank credit quality, and future replacement

Risks and Other Considerations

- **Interest Rate Risk:** Increased interest costs in the future if rates are higher at the remarketing date

  Mitigant: earnings on short-term investment portfolio serve as a hedge to increased bond interest rates

- **Issuer Credit Risk:** Increased interest costs in the future if issuer credit rating deteriorates between issuance date and remarketing date

  Mitigant: key credit factors are within control of management and Board

- **Remarketing Risk:** Failed remarketing is possible due to market disruption or issuer market access

  Mitigant: interest rate steps up to Penalty Rate but no acceleration of principal and failed remarketing is not an Event of Default

Variable Rate Debt Policy Considerations

- GLWA's Debt Management Policy provides guidance on the issuance of variable rate debt:
- *GLWA will consider issuance of Variable Rate Debt when it **improves matching of assets and liabilities, provides the potential for lower debt service costs over the term of the debt, adds flexibility to GLWA's capital structure, diversifies GLWA's investor base**, or in other circumstances where supported by an analysis and recommendation from GLWA's Registered Municipal Advisor that evaluates and quantifies the risks and opportunities*
  - *(1) Limitation on Net Variable Rate Debt Exposure. The percentage of Net Variable Rate Debt may not exceed 20% of GLWA's total outstanding debt. Net Variable Rate exposure is calculated by excluding Variable Rate Debt hedged by Interest Rate Swaps in a synthetic fixed rate structure or by GLWA short-term assets earning variable interest income*
  - *(2) Adequate Safeguards Against Risk. GLWA will ensure that financing structures and/or budgetary safeguards are in place to mitigate adverse impacts from interest rate shifts and liquidity risks; such structures could include, but are not limited to, interest rate caps, offsetting short–term cash investments held at GLWA, Letters or Lines of Credit or other Liquidity Facilities, soft puts, and conservative budgeting practices based on historical fluctuations in interest activity and current market assumptions*

Source: GLWA Debt Management Policy.

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