



## **FOR IMMEDIATE RELEASE**

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## **GLWA RECEIVES RATINGS UPGRADES AND EXECUTES MONEY SAVING REFUNDING FOR REGIONAL SYSTEM WHILE GENERATING FUNDING FOR DETROIT LOCAL WATER SYSTEM IMPROVEMENTS**

*Positive ratings actions from all three rating agencies in early March; successful bond transaction in April generated \$103 million in cashflow savings for the regional water system; historically low long-term borrowing cost for City of Detroit local water system; demonstrates Authority's agility as a result of long-term strategy for sustainability*

**DETROIT** – The Great Lakes Water Authority (GLWA) received positive ratings actions from all three ratings agencies – S&P Global Ratings (S&P), Moody's Investors Service (Moody's) and Fitch Ratings (Fitch) in early March 2020 in anticipation of a bond refunding and new money transaction. That transaction was paused for over a month, as a result of volatile market conditions attributable to the COVID-19 pandemic. Capitalizing on recent investor interest, combined with an acceptable level of market stability, GLWA was able to successfully price \$377.5 million of taxable advance refunding bonds to achieve cash flow savings of \$103 million on April 30, 2020. In addition, \$85 million par value of new tax-exempt bonds were sold to provide \$100 million in bond proceeds for City of Detroit Water and Sewerage Department (DWSD) water system improvements. The arbitrage yield of 2.98 percent on the new tax-exempt money borrowing is among the lowest 30-year borrowing rates achieved by GLWA or DWSD.

### **Positive Ratings Actions – Prior to COVID-19 Pandemic**

“The continued positive actions from the three ratings agencies in early March is tangible proof of how successful our collaborative operating philosophy has been to ensuring we achieve our vision of being the provider of choice for water and wastewater services in southeast Michigan,” said Sue F. McCormick, CEO, GLWA. “I am extremely proud of our team and am pleased that the rating agencies have recognized that we are an organization getting things done in new and innovative ways.”

### S&P Global Ratings

S&P affirmed GLWA's senior lien water system at AA- and its second lien water system rating at A+. S&P cited several strengths: as a wholesaler serving a large area, GLWA is not dependent on any single entity to fulfill its financial commitments, comprehensive budgeting practices, and a Capital Improvement Plan (CIP) that is forward-looking and not tied to any regulatory compliance mandates. Both the senior and second liens were assigned a stable outlook.

The rating agency upgraded GLWA's senior lien sewer system rating by one notch to AA- and its second lien sewer system was increased by one notch to A+.

Both the water and sewer senior and second lien bonds were assigned a stable outlook.

### Moody's Investors Service

Moody's upgraded both GLWA's water system and sewer system senior lien ratings one notch to A1 and both its second lien ratings one notch to A2. Moody's cited GLWA's strong operating trends, healthy liquidity, and an "experienced management team [that] remains committed to measured revenue growth through annual revenue requirement increases, while at the same time maintaining an affordable rate structure ...".

The ratings outlook for both water and sewer senior and second lien bonds remains stable.

### Fitch Ratings

Fitch also upgraded both system bond ratings, raising GLWA's ratings for its water system and sewer system senior lien bonds by one notch to A+, and its second lien bonds by one notch to an A. The credit outlook for both water and sewer senior and second lien bonds is stable.

In its report, Fitch said the improvement in its credit outlook for GLWA, "reflects sustained improvement to the Authority's financial profile," citing stable charge setting practices, accumulation of cash reserves, and prospects for achieving or beating expectations help to insulate GLWA from potential credit risks.

Fitch also cited GLWA's plans to use pay-as-you-go capital funding to moderate debt levels as a key factor in this outlook adjustment.

### **Post COVID-19 Pandemic - Positive Ratings Actions Remain**

Soon after the positive ratings actions in early March 2020, the World Health Organization declared a pandemic on March 11, 2020, following the outbreak of COVID-19, a respiratory disease caused by a novel strain of coronavirus. Then, on March 13, 2020, President Donald Trump declared a national emergency to unlock federal funds to help states and local governments fight the pandemic. Subsequently, on March 28, 2020, President Trump, at the request of Michigan Governor Gretchen Whitmer, declared that a major disaster exists

in Michigan. This crisis created a volatile municipal bond market and varying concerns by credit analysts of water sector financial outlook. GLWA was, therefore, in position to pause the contemplated refunding and new money transaction.

Concurrently, GLWA was proactively managing through the COVID-19 challenges utilizing an emergency management plan framework while focusing on GLWA's long-term operational and financial stability. In addition to expense reductions to offset potential reductions in water sales, at the recommendation of the Authority's administration, the GLWA Board of Directors voted to defer the previously approved service charge increase from July 1, 2020 until October 1, 2020 to support member partner communities who are facing increased expenses and/or cashflow needs due to the pandemic.

As GLWA prepared to return to the bond market this week, the recently upgraded ratings remained in place, despite the events of the previous 45 days. On April 29, 2020 S&P issued a ratings bulletin, [\*Great Lakes Water Authority, MI Ratings Unaffected by COVID-19 Pandemic\*](#) stating that the AA- rating on the senior lien water supply system bonds and the A+ rating on the second-lien revenue bonds has not been affected by the COVID-19 pandemic. S&P noted that GLWA has taken actions to maintain budgetary balance to date and has identified further actions that can be taken when the pandemic's effects on the future becomes clearer.

### **Successful Bond Transaction Achieves Savings for the Region and Low-Cost Financing for DWSD Water System Capital Improvement Program**

GLWA went to market on April 30, 2020, pricing a \$463 million bond sale, which included \$377.5 million of a taxable refunding of outstanding GLWA water system debt, and approximately \$85.5 million par amount in new water system bonds with a premium generating \$100 million in funds for Detroit local water system improvements.

As a result of the favorable interest rates on the bonds, the GLWA regional water system will realize a net cash flow savings of approximately \$103 million over the life of the refinanced bonds. Closing of the sale is expected by mid-May.

#### **Strong Investor Interest**

The Authority's marketing process leading up to the transaction generated over \$1.6 billion in investor orders for the \$463 million in bonds offered. For the taxable refunding bonds, there was over \$1 billion in orders for the \$377.5 million in bonds available (almost 2.7 times). For the tax-exempt new money bonds, there was over \$617 million in orders for the \$85.5 million in bonds available for the tax-exempt new money transaction (almost 7.2 times). This significant market demand by investors allowed GLWA to secure lower yields at final pricing on more than half of the par amount of the bond transactions, thereby further reducing the cost of borrowing.

Nearly 50 separate institutional investors placed orders for the water system refunding and more than 30 institutions placed orders for the Water New Money sale. In addition, retail orders were placed on behalf of several individual retail investors.

“The GLWA bond issue was very well received by the market this week and generated substantial savings for our member partner communities, including DWSD,” said Nicolette N. Bateson, Chief Financial Officer and Treasurer, GLWA. “We greatly appreciate the strong investor community interest leading up to this transaction and hope that our commitment to transparency, accessibility, and responsible management of the regional system sets the stage for further participation by these investors in future GLWA transactions.”

#### *Lower Cost of Debt*

The bond sale demonstrated strong market access at historically low yields over a 30-year period to drive savings for GLWA member partners and the local system. For the regional system refunding, the \$103 million in cash flow savings from the refunding translates to a present value of these future savings to be over \$66 million. For the new money bonds for the DWSD local system improvements, this week’s sale provided the lowest long-term cost of new money borrowing since the Authority’s inception on January 1, 2016.

#### *Lease Agreement between the GLWA and DWSD*

GLWA leases the regional water and sewer system from the City of Detroit pursuant to the terms of a 40-year lease agreement. The DWSD revenues are pledged to a GLWA master bond ordinance trust for repayment of the bonds issued by GLWA. The new tax-exempt bonds issued will fund local water system improvements outlined in its five-year CIP.

#### *Debt Management Efforts Impact Long-term Sustainability*

Since 2014, the GLWA management team, either through GLWA or the predecessor debt obligor DWSD, has executed five refunding transactions (for the water and sewer system combined) that resulted in debt service saving of more than three quarters of a billion dollars (\$781 million).

“GLWA is appreciative of its member partner communities for active engagement in the annual review of the financial forecast and participating in the charge setting process” said Jonathan Wheatley, Public Finance Manager, GLWA. “By working together to understand the complexity of GLWA’s debt portfolio and its relationship to service charges, we can continue to build upon these cumulative savings to continue to lower the cost of water in the future.”

#### *About the Great Lakes Water Authority (GLWA)*

The Great Lakes Water Authority (GLWA) is the provider-of-choice for drinking water services to nearly 40 percent and efficient and effective wastewater services to nearly 30 percent of Michigan’s population. With the Great Lakes as source water, GLWA is uniquely positioned to provide those it serves with water of unquestionable quality. GLWA also has

the capacity to extend its service beyond its 88 member partner communities. As part of its commitment to water affordability, the Authority offers a Water Residential Assistance Program to assist low-income households in participating member communities throughout the system. GLWA's board includes one representative each from Oakland, Macomb and Wayne counties, two representatives from the city of Detroit and one appointed by the Michigan governor to represent customer communities outside of the tri-county area.