



Press Release

City of Detroit • Mike Duggan, Mayor

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DWSD Bond Refinancing to Net \$241 Million in Savings

Tender offer increases funds for DWSD which can go toward system improvements, reducing debt

A successful tender offer for its bond portfolio is expected to enable the Detroit Water and Sewerage Department (DWSD) to realize nearly a quarter billion dollars in cash flow savings over the next 27 years.

On August 21, 2014, the DWSD Board of Water Commissioners (BOWC) accepted tender offers for its bond portfolio as a market based alternative to the potential impairment of certain classes of bonds under the City of Detroit's Chapter 9 bankruptcy plan of adjustment.

"There were two key goals from the onset of this undertaking," said DWSD Director Sue McCormick. "The first was to execute a tender/refinancing transaction that achieved meaningful dollars savings for our customers. The second was to seek an open market alternative to the impairment in the City of Detroit's plan of adjustment. Both of those goals were accomplished."

The first goal of relevant dollars savings is expected to be realized by a nearly quarter billion in cash flow savings (over \$241 million) over the life of the refunding bonds. Most notably, the annual savings for the first 19 years is expected to be \$11.4 million per year, thereby increasing funds available for system improvements and reducing the need for future debt.

The tendered bonds represent approximately 93 percent of the \$2.2 billion of bonds specifically targeted, which was within the range of expected participation given the debt structure and the number of bondholders. In addition to targeting large investors, letters were sent to 48,500 individual investors.

A common public sector benchmark from the Government Finance Officers Association providing guidelines for refunding decisions (including tenders) is a range of three to five percent net present

value savings. The DWSD tender is expected to exceed that industry benchmark with 6.243 percent net present value savings.

The tender/restructuring will preserve the opportunity to achieve additional savings on the remainder of the debt portfolio. More than a billion dollars of bonds become refundable within the next two years. Across that time period, DWSD is expected to be able to pursue additional market based savings opportunities.

The second goal of a market based alternative to impairment has also been achieved. Acceptance of this consensual tender transaction occurs with the City of Detroit Emergency Manager's approval. The goal of the EM's team was to realize savings and that has been accomplished.

"As a result of the successful tender, the impending refinancing of DWSD debt through the Michigan Finance Authority promises a win-win situation," said Tom Saxton, Chief Deputy State Treasurer and chair of the Michigan Finance Authority. "Through this critically important transaction, the department and its customers should save millions over the next several years."

Settlement of the tender is subject to all terms and conditions outlined in the Invitations to Offer, including receipt of Bankruptcy Court approval and satisfactory consummation of the anticipated refinancing transaction.

Q&A

1. What is a municipal bond tender?

A municipal bond tender is a voluntary process to allow existing bond holders the opportunity to sell their bonds back to an issuer.

2. What did DWSD accomplish by offering its bonds in the tender?

DWSD accomplished many goals, including debt-service savings; creating conditions for improved bond ratings; and access to capital markets as well as improved investor relations. Also, the tender allowed bond holders who have limited ability to sell their bonds a prime opportunity to do so.

3. What is the advantage of the tender compared to a Plan of Adjustment (POA)?

While there are projected savings from the POA, there also are negative results that can't be quantified. The tender provides savings and other outcomes that are more predictable.

4. How much does the tender save DWSD?

The tender is expected to save \$241 million in debt-service savings over the life of the bonds and has a present value basis of \$107 million or 6.2 percent of refunded bonds. This level of savings provides debt service and operational benefits to DWSD customers, removes the DWSD bonds from the POA and preserves significant future debt service savings opportunities.

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