

August 6, 2014



# Detroit Water & Sewerage Department

2014 Tender Offer, Refunding, and New Money Plan

Presentation to the Board of Water Commissioners

# Overview of Proposed DWSD Financing Plan

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The Board of Water Commissioners (“BOWC”) is considering approval of a consensual, voluntary tender with its existing Water and Sewer Bondholders in conjunction with a current refunding for savings and a small Sewer System new money financing.

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## **Proposed Voluntary Tender Offer**

- If the BOWC approves, the DWSD financing team will run a 10-day tender process on its outstanding Water and Sewer bonds from August 7<sup>th</sup> through August 21<sup>st</sup>
- All bondholders will be given the opportunity to either retain their existing bond holdings or voluntarily tender their bonds at a fixed tender offer price

## **Current Refunding**

- DWSD will current refund some of its existing callable bonds for savings, all in accordance with those bonds’ existing call provisions and terms

## **New Money**

- DWSD is issuing approximately \$175 million in 2014 Sewer System Revenue Bonds to raise \$150 million in capital for required projects via the Michigan Finance Authority (“MFA”)
- No new money for the Water System is required or contemplated for FY2015

## **Financing the Proposed Transactions**

- The tender price will be financed by either a bridge loan from Citibank, N.A., a public offering of exit tender bonds via the MFA, or a combination of both financing sources
- The current refunding will be financed by either a bridge loan from Citibank, N.A., a public offering of current refunding bonds via the MFA, or a combination of both financing sources

# Legal Approvals Required for a Successful Transaction

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The Bonds will be presented for approval by the BOWC, the City, the State, and the Bankruptcy Court.

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## **DWSD Approvals**

- Sale order of the BOWC approving the tender
- Sale order of the BOWC approving refunding Bonds
- Sale order of the BOWC approving the 2014 Sewer System New Money Bonds

## **City Approvals**

- Emergency Manager Orders approving (1) a tender and (2) refunding and new money bonds
- City Council approval of bonds issued to finance the refunding and new money bonds

## **State Approvals**

- If City Council does not approve issuance of the refunding and new money bonds, Local Emergency Financial Assistance Loan Board approval
- Michigan Department of Treasury long-form borrowing approval
- MFA approval of MFA Bonds issued to purchase tendered DWSD Bonds
- MFA approval to issue MFA Bonds to purchase DWSD Bonds issued as refunding bonds for savings and the 2014 DWSD Sewer System new money bonds

## **Federal Bankruptcy Court Approvals**

- Court Order lifting the Automatic Stay and approving the issuance by DWSD of new bonds to finance the refunding and new money bonds and related reserve deposits and costs of issuance
- City files POA Amendment to unimpaired the DWSD Bonds

## **Additional Bonds Test Compliance**

- All bonds will be issued in full compliance with the DWSD Bond Ordinance's existing Additional Bonds Test

# Removal of Plan of Adjustment Impairment

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If the tender process succeeds, the City will file an amended Plan of Adjustment that will remove the provisions contained in the current Plan of Adjustment that impair certain classes of DWSD Bonds.

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## Court Approval of 2014 Bond Financings

- The City will seek an expedited hearing for a Federal Bankruptcy Court order to lift the Automatic Stay and to approve the issuance of new DWSD Bonds through the MFA for financing the:
  1. Purchase of tendered bonds;
  2. Current refunding of bonds;
  3. Funding of the Sewer System new money capital improvements;
  4. Funding of required deposits to Bond Reserves; and
  5. Costs of issuance of the Bonds

## Amendment of Plan of Adjustment to Remove DWSD Bonds from Proposed Impairment

- At or prior to the closing of the purchase of the tendered bonds, the City of Detroit (the “City”) will file an amended Plan of Adjustment with the Bankruptcy Court that will unimpaired all classes of DWSD bonds
- ***Under such amended Plan of Adjustment, all of DWSD’s Bonds will be unimpaired***

## Other Approvals

- In addition to BOWC approvals, the transactions will also receive the prior approval of the Emergency Manager (“EM”), the City Council, the Michigan Department of Treasury and the MFA

# Preliminary Financing Schedule (1 of 2)

| Date                | Event                                                                                                                                                                                                                                                                               |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Wednesday August 6  | <ul style="list-style-type: none"> <li>➤ <b>BOWC Approval of Tender at 1:00PM ET</b></li> <li>➤ EM Approval of Tender</li> <li>➤ Citi Approval of Interim Financing Loan Commitment</li> <li>➤ Press Releases On Tender</li> <li>➤ <b>TENDER GOES PUBLIC ON THIS DAY</b></li> </ul> |
| Thursday August 7   | <ul style="list-style-type: none"> <li>➤ Presentation to Rating Agencies</li> <li>➤ Launch Tender Process</li> <li>➤ File Motions for Approval of Tender / Takeout, New Money, and expedited hearings on those matters</li> </ul>                                                   |
| Tuesday August 12   | <ul style="list-style-type: none"> <li>➤ MFA Meeting to Approve Interim Financing, Public Refinancing, and New Money</li> </ul>                                                                                                                                                     |
| Wednesday August 13 | <ul style="list-style-type: none"> <li>➤ <b>BOWC Approval of Interim Financing, Public Refinancing, and New Money</b></li> <li>➤ EM Approval of Interim Financing, Public Refinancing, and New Money</li> </ul>                                                                     |
| Thursday August 14  | <ul style="list-style-type: none"> <li>➤ File for Michigan Department of Treasury Approval of Interim Financing, Public Refinancing, and New Money</li> </ul>                                                                                                                       |
| Week of August 18   | <ul style="list-style-type: none"> <li>➤ City Council Approval of Interim Financing, Public Refinancing, and New Money</li> </ul>                                                                                                                                                   |
| Thursday August 21  | <ul style="list-style-type: none"> <li>➤ Bankruptcy Confirmation Proceeding Begins</li> <li>➤ Tender Period Closes at 5:00PM ET</li> </ul>                                                                                                                                          |

| August |    |    |    |    |    |    |
|--------|----|----|----|----|----|----|
| S      | M  | T  | W  | T  | F  | S  |
|        |    |    |    |    | 1  | 2  |
| 3      | 4  | 5  | 6  | 7  | 8  | 9  |
| 10     | 11 | 12 | 13 | 14 | 15 | 16 |
| 17     | 18 | 19 | 20 | 21 | 22 | 23 |
| 24     | 25 | 26 | 27 | 28 | 29 | 30 |
| 31     |    |    |    |    |    |    |

# Preliminary Financing Schedule (2 of 2)

| Date                  | Event                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Friday August 22      | <ul style="list-style-type: none"> <li>➤ <b>BOWC and EM Decision on Tender Acceptance</b></li> <li>➤ Decision to Accept and Notice to Investors of Tender Acceptance Subject to Required Approvals and Closing of Financing by 12:00PM ET</li> <li>➤ Post POS on 2014 DWSD Financings</li> <li>➤ Post Investor Presentation for Refinancing via Public Offering (if any)</li> </ul>                                    |
| Monday August 25      | <ul style="list-style-type: none"> <li>➤ Publish Act 94 Ordinance</li> <li>➤ Michigan Department of Treasury Approval of Interim Financing, Public Refinancing, and New Money</li> <li>➤ Receive Ratings for Exit Tender, Refinancing, and New Money Bonds</li> <li>➤ Expedited Bankruptcy Hearing on Tender, Takeout, and New Money Financings</li> <li>➤ Bankruptcy Court Order Approving DWSD Financings</li> </ul> |
| Tuesday August 26     | ➤ Pricing 2014 DWSD Financings                                                                                                                                                                                                                                                                                                                                                                                         |
| Wednesday August 27   | ➤ Sale of DWSD Public Offering of Tender Takeout, Refunding, and New Money Bonds                                                                                                                                                                                                                                                                                                                                       |
| Tuesday September 3   | ➤ Pre-closing of 2014 DWSD Financings                                                                                                                                                                                                                                                                                                                                                                                  |
| Wednesday September 4 | <ul style="list-style-type: none"> <li>➤ File POA Amendment to Unimpaired DWSD Bonds</li> <li>➤ Closing of 2014 DWSD Financings</li> </ul>                                                                                                                                                                                                                                                                             |
| Week of September 22  | ➤ Conclusion of Plan Confirmation Proceedings                                                                                                                                                                                                                                                                                                                                                                          |

| August |    |    |    |    |    |    |
|--------|----|----|----|----|----|----|
| S      | M  | T  | W  | T  | F  | S  |
|        |    |    |    |    | 1  | 2  |
| 3      | 4  | 5  | 6  | 7  | 8  | 9  |
| 10     | 11 | 12 | 13 | 14 | 15 | 16 |
| 17     | 18 | 19 | 20 | 21 | 22 | 23 |
| 24     | 25 | 26 | 27 | 28 | 29 | 30 |
| 31     |    |    |    |    |    |    |

| September |    |    |    |    |    |    |
|-----------|----|----|----|----|----|----|
| S         | M  | T  | W  | T  | F  | S  |
|           | 1  | 2  | 3  | 4  | 5  | 6  |
| 7         | 8  | 9  | 10 | 11 | 12 | 13 |
| 14        | 15 | 16 | 17 | 18 | 19 | 20 |
| 21        | 22 | 23 | 24 | 25 | 26 | 27 |
| 28        | 29 | 30 |    |    |    |    |

# Rating Implications for DWSD Bonds

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As part of the Tender Offer and New Money Financing Process, the DWSD Team will seek bond ratings for the 2014 Bonds and to ultimately restore ratings on existing DWSD to investment grade levels, although the impact on ratings is uncertain.

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## **2014 Bonds Issued to Finance the Tender, to Refund prior bonds and to fund Sewer System New Money**

- Since the bonds issued to finance Tendered Bonds, the refunding bonds, and the new money will be issued with approval of the Bankruptcy Court, the DWSD finance team will be requesting the assignment of Investment Grade ratings on all DWSD bonds issued for such purposes
- These bonds are new issues (with new CUSIPs), have never been threatened with impairment, and will be issued with Bankruptcy Court Approval

## **Amendment of Plan of Adjustment to Remove DWSD Bonds from Proposed Impairment**

- All three rating agencies (S&P, Moody's and Fitch) have lowered DWSD Bond ratings below Investment Grade during the City's Chapter 9 proceeding; all three agencies had assigned DWSD Investment Grade ratings prior to that period
- The primary reason cited for the current ratings below Investment Grade ratings is the threat of impairment posed by the current Plan of Adjustment
- Accordingly, concurrent with the removal of threatened impairment, DWSD will request that the investment grade ratings be restored to all existing DWSD Bonds upon conclusion and closing of the Tender Offer financing and the amendment of the Plan of Adjustment to remove the DWSD Bond-related impairment provisions
  - However, there can be no assurance as to this outcome and it is possible one or more rating agencies may consider the process to amount to a “distressed exchange” and actually lower existing ratings for a period of time
  - There is a distinct possibility that one or more rating agencies could temporarily lower the rating to “D” during the tender process; under existing agency guidelines, such “distressed exchange” treatment typically ends soon after conclusion of the tender offer and, as noted above, would not apply to the 2014 tender financing, refunding, and new money bonds
- The DWSD financing team will stress to the rating agencies that the Tender Offer is voluntary and not “distressed” and that all bondholders receiving the offer to tender their bonds will have the voluntary option to either receive the offered tender price for their tendered bonds, or to retain ownership of their bonds with their original terms

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