METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO

June 2016 Bond Sale Transaction Summary

Transaction Summary

- Pricing Date: June 6, 2016; and Closing Date: July 7, 2016.
- Bonds Issued: $426,260,000 General Obligation Capital Improvement Bonds, consisting of $280.9 million Unlimited Tax Refunding Bonds, $41.3 million Limited Tax Refunding Bonds, $30 million Unlimited Tax Bonds, $20 million Limited Tax Bonds, $50 million Unlimited Tax Bonds (Alternate Revenue Source), and $4 million Limited Tax Bonds (Qualified Energy Conservation Bonds).
- Cash deposit to CIB Project Fund: $124,714,188 July 7, 2016. Proceeds included $21,003,513 in original issue premium (generated from selling the bonds with higher coupons than the yields paid to investors).
- The District's premier AAA/AA+ credit ratings (bolstered by consistent and conservative financial management and strong reserves) is largely responsible for the tight pricing spread, and low all-in net cost of funds. There appears to have been no increase in the interest cost of the bonds due to the 2016 downgrade to AA+ by S&P Global.
- Average Life of the Bonds: 13.96 years
- Cost of Issuance: $1,131,550.31 (See Attachment 1 – Expense Analysis)
- The Engineering Department forecasts that funds will be depleted by the end of 2019 as required by IRS regulations.
- Major purchasers of the bonds by category (amounts in millions):

Type		Par	% of Total
Asset Manager	$	239,132	56%
Unsold Bonds underwritten by BAML*		78,858	19%
Retail Investor		74,169	17%
Bank		11,935	3%
Other		22,166	5%
Total	**$**	**426,260**	**100%**

**Bonds underwritten by BAML to support pricing levels*

Ninety-two percent of the Bonds were sold to thirty nine institutional investors representing bond funds, money management firms and retail investors. The District attracted a diverse and high quality investor base led by orders from long-term buy and hold accounts.

Transaction Highlights

- The District's AAA bond rating was affirmed for Fitch Ratings, while S&P Global lowered its long-term rating to AA+ from AAA for the new bond issue as well as for all outstanding District bonds. S&P Global stated their rating action reflects their view of the potential impacts of the combined pension liabilities and debt of the overlapping governmental entities on the District's tax base. This downgrade did not appear to negatively impact investor enthusiasm.
- Financing was completed at an all-in interest cost of 2.92% to maturity in 30 years; and an arbitrage yield of 2.33% (District financing cost to the call date of the bonds). The bonds priced at yields ranging from 1.69% in 2022 to 2.86% in 2045. This is down from the District's previous low interest rate of 3.28% for a 30 year bond maturity achieved in the District's 2014 bond sale.

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- The District realized more than $120.8 million in savings on future principal and interest payments which equates to $97.3 million in net present value savings or 24% savings on the $397.39 million of bonds refunded.
- Minority-and Women-Owned business participation in the deal was strong, with participation from four underwriting firms, one financial advisory firm, and three legal advisory firms. The RFP's for professional services related to the bond sale set a goal of 30% to be paid to Minority-Owned (MBE) and Women-Owned (WBE) business enterprises. The goal was exceeded with 37% of the professional services work performed and fees paid to MBE/WBE firms.

Market Conditions and the Illinois Spread
Interest rates were at 51 year lows on the sale date. As a point of reference, the 30 year Treasury bond traded at 2.54% on the date of the District bond sale. In comparison, the 30 year Treasury rate was 2.74% on the date of the 2014 bond sale, and 4.25% on the date of the 2011 District bond sale. Timing was definitely in our favor. The challenge was to keep the "Illinois penalty" as low as possible. The District is well received in the market due to the essential utility service it provides to a major metropolitan area. The District has a track record in the market for its long history of operating success, solid management, and financial stability. In recent years, the District's challenge in the market has been communicating to investors the strength of our credit while differentiating ourselves from other Illinois credits in our service area which are experiencing significant financial challenges. We decided to continue to showcase the District and its capital projects by selling Green Bonds, and focused on investor education and communication to help differentiate the District from other Illinois issuers.

To accomplish this, the underwriters targeted both new investors and buy and hold institutional investors. The District and its financial advisors aggressively challenged the underwriters to price the bonds with the lowest possible spread to the Aaa Municipal Market Data (MMD) yield curve. The Aaa MMD yield curve represents a "high grade" level of yields available to investors in the tax-exempt market, and is widely held as the municipal industry's pricing benchmark. The difference between the yield on the District's bonds and the Aaa MMD yield curve can be viewed as the District's credit spread. A portion of the District's credit spread can be attributed to the "Illinois penalty" as seen in recent markets. The District and its financial advisors worked with the underwriting syndicate which provided a strong execution of the sales strategy and produced very positive results for the sale.
Bank of America Merrill Lynch led a marketing strategy that involved an internet investor presentation and several hosted one-on-one investor calls in the midst of volatile market conditions leading up to the order period. The domestic economy was facing growing concerns about a slowdown in U.S. employment growth, and the global economy was awaiting the Brexit vote with the possibility that Britain would withdraw from the European Union. We wanted to sell prior to the vote. The Underwriters reached out to both retail and institutional investors in order to obtain the lowest pricing for the bonds. The successful marketing effort by the underwriters generated over $961 million in orders for the bonds, and allowed the District to anchor its pricing for institutions at aggressive levels. Bank of America Merrill Lynch purchased the $78.8 million in bonds which were unsold at the end of the sale day in order to support the aggressive pricing levels of the bonds.

Overall, the District received fair pricing and achieved fair market value for its bonds at the sale date.

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Green Bonds

The new money bonds were again labeled as “Green Bonds”, as was the previous bond sale in 2014. This was done for the purpose of highlighting the mission of the District, and allow investors to invest directly in the environmentally beneficial capital projects to be constructed by the District during the next three years. There is a growing group of investors who have mandates and goals to invest in responsible green infrastructure projects. The District’s bonds have always provided environmental and public benefits. The labeling of the bonds as Green helps to highlight these benefits. The District defines four categories of green projects: Tunnel and Reservoir Plan (TARP), Stormwater Management Program Projects, Resource Recovery Projects, and Water Reclamation Plant Expansions and System Improvements. The District will post periodic updates on the use of proceeds of the Green Bonds on its website until all of the proceeds are spent. Treasury will work with Engineering and Public Relations to create this report.

Investor Outreach

The District again included in its website a disclosure to include an Investor Relations Section to serve as a central repository for credit information of interest to investors. We are told by investors that they have a limited time to review all bond sales coming to market. The centralization of ratings information, District and Retirement Fund financial and budget reports, past bond sale official statements, and general information on bond financing was well received. During the marketing period of June 1 to June 10, the District portal traffic report for the view of financial reports had 89 page views with an average view time of 123 minutes, investor information had 28 page views, official statements had 5 page views, and the Treasury homepage had 37 page views. The number of hits is higher than expected and shows the level of interest in the District’s bond sale.

Underwriter Compensation

The Underwriters recommended a retail order period in the call we held prior to the sale. The compensation for underwriting bonds sold in a retail order period is paid directly to the firm who submits the order. There is no sharing of the compensation as is performed in the institutional order period. Therefore, any firm that submitted a retail order was paid for that order. This is standard practice within the industry, and is not issuer determined. This compensation is directed into retail networks who sell the bonds directly to individuals, and bank trust departments. The theory on retail compensation being paid directly to the firm that submits the order is to incentivize all underwriters to place bonds with retail accounts thereby providing positive momentum for the transaction. Using a retail order period aids in selling the most bonds at the lowest interest cost offered by the issuer.

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$426,260,000 General Obligation Capital Improvement Bonds of 2016
Expense Analysis: Initial Cost of Issuance

SERVICE	COST	PERCENT	
Bond Counsel			
Charity & Associates, P.C.	$46,181.70	22%	*
Katten Muchin Rosenman LLP	164,430.30	78%	
	210,612.00		
Disclosure Counsel			
Chapman and Cutler LLP	$65,870.56	70%	
Sanchez Daniels & Hoffman LLP	28,230.24	30%	*
	94,100.80		
Financial Advisors			
A.C. Advisory, Inc.	140,665.80	60%	*
Columbia Capital Management, LLC	93,777.20	40%	
	234,443.00		
Underwriters			
BofA Merrill Lynch	111,505.50	51%	
Siebert Brandford Shank & Co.	30,417.00	14%	*
Citi Global Markets, Inc.	13,958.50	7%	
JPMorgan Securities LLC	13,998.50	7%	
Loop Capital Markets	14,833.50	7%	*
North South Capital LLC	13,958.50	7%	*
Williams Capital Group L.P.	14,458.50	7%	*
	213,130.00		
Bond Filing and Related Fees (Various)	**39,689.16**		
Escrow, Trustee, Registrar			
Amalgamated	**5,950.00**		
Underwriter Counsel			
Kutak Rock LLP	81,122.02	70%	
Green & Letts	34,766.58	30%	*
	115,888.60		
Rating Agencies			
Fitch Ratings	100,000.00		
Standard & Poor's Ratings	105,000.00		
	205,000.00		
Printing and Internet Roadshow Costs			
Image Master	**6,136.75**		
Allocation Transfer Fee for Qualified Energy Conservation Bonds			
Illinois Finance Authority	**6,000.00**		
Refunding Redemption Fee			
BNY Mellon	**600.00**		
TOTAL INITIAL COST OF ISSUANCE:	**$ 1,131,550.31**		
***Minority/Women-owned:**	**$ 323,511.82**	**29%**	
Professional Services Only:	**$ 868,174.40**	**37% Minority/Women-owned**	