



City of Moline, Illinois

\$85,075,000 Taxable General Obligation Bonds, Series 2021C
A1 Moody's

November 13, 2021
Sole Manager

Baird served as sole underwriter on the City of Moline's ("City") \$85,075,000 Taxable General Obligation Bonds, Series 2021C ("Bonds"). The Bonds were pension obligation bonds ("POBs") issued to fund 85% of the City's unfunded actuarial accrued liability ("UAAL") in its Police Pension Plan and Firefighters' Pension Plan (together, the "Pension Plans") and were secured by a tax levy without limitation as to rate or amount. The POBs were issued because of the expected significant savings generated by the POBs versus how the City traditionally funded its Pension Plan UAALs and to assist the City with fully funding its pensions by 2040.

The Police Pension Plans had a funded ratio of 51.7% and the Firefighters' Pension Plan had a funded ratio of 41.6% in the actuary's projections just before the bond pricing. Baird and the City's municipal advisor, Speer, were able to identify errors in the actuary's amortization models just before pricing because of our knowledge and experience modeling UAAL amortizations. This allowed the actuary to revise its amortization for the pricing.

Baird had discussed the concept with the City for over a decade and recently the City had extensive conversations with Baird and Speer as it considered both the benefits and risks of POBs. During this consultative process, the City grew comfortable with the risks and implemented a conservative Pension Obligation Bond Policy that acknowledged and attempted to mitigate these risks. The City also considered the low taxable interest rates and increasing amortization payment of the UAAL which was resulting in budgetary pressures. Ultimately, it decided that POBs offered a unique opportunity to fund 85% of its UAALs at a more affordable level.

We have found that Moody's, while claiming to be neutral on the use of POBs if conservatively structured, has recently developed a more pronounced negative lean toward the concept. Baird assisted the City and Speer in the development of a rating agency strategy and drafted the rating presentation for the City's meeting with Moody's. To minimize the possibility of a rating downgrade, the City not only adopted a Pension Obligation Bond Policy, but also funded a budget stabilization fund using General Fund reserves, structured the bonds to achieve level annual debt service and developed a long-range plan to fully fund the other 15% of its UAAL. The City's rating was affirmed at "A1" by Moody's.

In the weeks before pricing, the Treasury market experienced steadily increasing interest rates because of inflation concerns, the improving economic outlook and Chairman Powell's indication that the Fed would reduce its tapering and thus balance sheet. The financing team worked to price the POBs quickly in a relatively stable market environment. Baird also conducted extensive premarketing and attempted to interest a wide cross section of investors. Baird's marketing campaign worked. After the initial order period, we sold the entire transaction with **over \$340 million in orders (4.0x the par amount)** and oversubscriptions throughout most of the curve. We were able to lower yields 10 basis points in 2022, 5 basis points 2023 through 2029 and 2041 and 4 basis points in 2038. The POBs achieved a bond rate of 2.86% and all-in true interest cost of 2.94%, well below the 7.00% it was paying on its UAALs. Assuming the Pension Plans achieve an average rate of return of 7.00% over the life of the POBs, the City will achieve expected gross savings of \$53.2 million. The present value of that amount is **\$39.5 million (46.9% of the UAAL funded)**. As a result, the City **lowered future year UAAL payments by as much as \$4.4 million** with a level debt service structure.

Baird Public Finance

Stephan Roberts

Managing Director

630-778-9174

scroberts@rwbaird.com

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