



City of Wheaton

\$45,740,000 Taxable General Obligation Bonds, Series 2021 "AAA" by S&P

October 2021 Municipal Advisor

Baird served as Municipal Advisor to the City of Wheaton on its issuance of pension obligation bonds (POBs) to fully fund its police and firefighters' pension plans unfunded actuarial accrued liabilities (UAAL) which totaled approximately \$40.5 million.

Baird spent the first six months of its engagement educating City staff and City Council on the POB concept as it evaluated five different pension funding alternatives. During the education process, we focused our discussions on the potential benefits/risks and worked alongside the City's actuary to conduct sensitivity analysis which assumed different investment earnings over the life of the POBs. This analysis, along with the low taxable bond rate environment, allowed the City to become comfortable with the associated risks and helped it establish a POB rate threshold.

Once City Council approved to proceed with a POB issuance, Baird took the lead in all aspects of the financing. This included implementing risk mitigation strategies such as funding a budget stabilization fund and utilizing a dollar cost averaging investment strategy over a 12-month period. Baird helped Bond Counsel craft language to authorize this investment strategy within the Ordinance. Baird also helped the City solicit an underwriting RFP, evaluate seven responses and develop a recommendation to present to Council.

Baird was tasked with developing a rating agency strategy. The City had an outstanding "Aa1" from Moody's with limited possibility of upward rating movement. Baird ran the City's statistics through its proprietary S&P scorecard and determined there was potential for a "AAA" rating. Prior to requesting a rating, we recommended the City adopt a formal debt management policy to ensure a favorable management score from S&P. We provided the City's finance director with example policies of other Illinois "AAA" rated credits, shared insight on what S&P likes to see in a debt management policy and commented on the version created by the City. Baird also took the lead in drafting a rating presentation book which covered all the credit factors evaluated by S&P and went into great detail on the City's POB transaction. We are proud to say that the City achieved a "AAA" rating from S&P on its POB financing.

When it came time to pricing the POBs, upon receipt of a pre-marketing scale from the senior managing underwriter, Baird was able to turn to its own Illinois based underwriting desk for insight and guidance. Based on recent comparable pricings, the increased demand for taxable bonds and our expectation that Wheaton's name would trade well, we recommended that the underwriter tighten its spread to Treasuries by five basis points in eight maturities prior to pre-marketing. Following the initial order period, the underwriters had oversubscriptions in all maturities which allowed the tightening of spreads an additional five to eight basis points in 2022-2033.

The City achieved a POB all-in true interest cost of 2.53%, well below the 6.75% it was paying on its UAAL. Assuming the pension plans achieve investment earnings of 6.75% over the life of the POBs, the City could achieve expected gross savings of \$22.6 million. The present value of that amount is \$17.7 million (40% of the UAAL funded). In addition, the City will lower future year UAAL payments by as much as \$2.8 million with a level debt service structure.

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