

County of Winnebago, Illinois

\$31,005,000 Taxable General Obligation Bonds (Alternate Revenue Source), Series 2018

"Aa2" Moody's Ratings



November 2018

Sole Manager

The County sponsors three multiple-employer defined benefit pension plans administered by the Illinois Municipal Retirement Fund ("IMRF"). Baird reviewed the County's unfunded actuarial accrued liabilities ("UAAL") for each plan to determine if issuing pension obligation bonds ("POBs") would be a more cost effective method to amortize its UAAL than what was currently being employed by IMRF.

The County had an estimated \$29.3 million in combined UAAL and was paying 7.5% interest on these liabilities to IMRF. Baird estimated that the County could borrow at a lower rate in the bond market, generating significant expected savings through the amortization of the UAAL. In addition, the IMRF open amortization funding methodology results in payment on these UAALs for well over 100 years which would be much shorter with bonds.

While our calculations demonstrated that the County had significant potential savings by using bond proceeds to retire its UAAL, it is important to Baird that issuers of POBs understand and become comfortable with the risks. Baird encouraged the County to evaluate the risks associated with issuing POBs and Baird and the deal team took the time to educate the County's administration and Board on these risks. In addition, Baird drafted a pension funding policy for the County to adopt which set forth procedures to follow in order to mitigate the potential risks identified.

Baird produced a detailed ratings presentation on the County's plan of finance, which included the potential benefits, risks and mitigation strategies. Because the Bonds replaced one existing legal obligation with another and the County had clearly thought through the risks having adopted a policy and established a budget stabilization fund, the rating agency treatment was neutral. Moody's affirmed the County's Aa2 rating.

As the County's Bonds were preparing to price, Baird became aware that a comparable taxable Illinois general obligation bond issue rated AA+ (one notch stronger than the County) was scheduled to price on the same day. Baird recommended that the County accelerate its pricing date by one day so as to not directly compete for investor orders. At the conclusion of the initial order period, over 40% of the Bonds remained unsold. Baird repriced and ran a second order period which generated a few additional orders. Rather than run a third order period, Baird offered to underwrite the balance of \$8.5 million (27% of the offering) with upward adjustments in rates. Baird believes it is important to support our clients and, when appropriate, to transfer the risk of the unsold balances to our firm. The final interest rates achieved by Baird were as many as 23 basis points better than the other Illinois transaction which priced the next day. We believe this demonstrates our ability to use our understanding of the market to generate attractive rates for our clients.

The County achieved a bond rate of 4.59%, well below the 7.50% it was paying to IMRF. Bond proceeds were paid to IMRF to retire the UAAL and to be invested in its \$41 billion investment pool which has demonstrated historical returns greater than the actuarial rate of 7.5%. Assuming IMRF achieves 7.5%, as it has in the past, the County will achieve expected gross savings of \$66.5 million. The present value of that amount is \$29.3 million (34.6% of the UAAL funded). In addition, the County will shorten its amortization period for these liabilities

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