



## City of Freeport, Illinois

**\$52,735,000 Taxable General Obligation Bonds, Series 2020 (the "POBs")**  
**"A" S&P Ratings**

**October 2020**  
**Sole Manager**

### City of Freeport (the "City") Pension Obligations

- The Police Pension Plan and Firefighters' Pension Plan (together, the "Pension Plans") had an unfunded actuarial accrued liability ("UAAL") of \$50.7 million and a funding ratio of under 45% according to the City's actuary before issuance.
- The City's **annual amortization payments were anticipated to nearly double by 2040.**

### POB Analysis , Structure and Approval Process:

- Baird's **preliminary calculations illustrated potential for savings which would utilize POB proceeds to retire its UAALs.**
- The POBs would be **secured by any legally available funds and a tax levy without limitation as to rate or amount.**
- Baird and the City underwent a two-year consultative process that analyzed potential benefits and risks of the City issuing the POBs.
- The **City's Pension Plans average annual investment returns were in the 7.00% range** historically.
- Combined with **historically low taxable interest rates** and prevailing economic uncertainty, the City decided that **POBs offered a significant savings opportunity** while still acknowledging the associated risks.

### Rating Agency Guidance

- Although rating agencies claim that they are neutral on the use of POBs, Baird's experience has found that that is true only when the client demonstrates:
  - a **thoughtful management approach that evaluates risks of POBs**; and
  - a **concrete plan in mitigating the perceived risks.**
- With Baird's assistance, the **City implemented several risk mitigation strategies including a budget stabilization fund and a pension funding policy** that was adopted contemporaneously with the parameters ordinance.
- The City's rating was affirmed at "A" by S&P.

### Key Results

- **3.08% bond rate and an all-in true interest cost of 3.24%**, well below the 6.75% interest paid on the UAAL.
- **\$31.2 million in expected gross savings and \$23.7 million in present value savings** (46.6% of the UAAL funded) assuming the Plan achieves an average rate of return of 6.75% over the next 20 years.

“ Freeport expects to be able to eliminate all, or a substantial portion, of the unfunded liabilities associated with its police and fire pension funds, which it has historically funded based on the minimum statutory requirement, resulting in severe underfunding over time... We think that the structure of the financing is, for the most part, reasonably conservative...”

*-S&P Global on Freeport's 2020 POB issuance after it affirmed the City's "A" rating.*

## **POB Services to the City**

- **Modeled UAAL payments** and quantified potential savings through the issuance of POBs.
- **Educated the** City administration and the City Council on the potential benefits as well as risks associated with a POB issuance.
- Assisted in **the creation of risk mitigation strategies.**
- **Led the credit rating strategy which affirmed the City's rating (no downgrade) and the pricing process** resulting in a successful bond sale.

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