



## City of McHenry, Illinois

**\$24,265,000 Taxable General Obligation Bonds, Series 2020B (the "POBs")**  
**"Aa2" Moody's Ratings**

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

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

- The Police Pension Plan ("Plan") had an unfunded actuarial accrued liability ("UAAL") of over **\$26 million (funded ratio of 51%)** as of its most recent actuarial report at the time of the financing.
- The City was **paying 7% interest on that UAAL with annual amortization payments growing at 3% annually** and expected **to nearly double by 2040**.
- The City maintained an overall flat levy which would likely result in its General Fund's share of the Corporate Levy decreasing while its annual UAAL payments increased which would be **unsustainable over time**.

### Baird's POB Structuring Analysis:

- Modeled the City's unfunded pension liability amortization payments and compared that to a potential POB issuance to quantify expected savings.
- Analyzed historical returns over different periods of time, including the 2008/2009 recession, and ran a sensitivity analysis to quantify potential savings based on those average returns.
- Presented multiple POB structuring alternatives that achieved different financial objectives and potential savings patterns which included a level debt service structure which made annual payments more affordable into the future.

### Education and Rating Agency Guidance

- Baird ensured all members of the financing team understood and were comfortable with the various risks associated with POBs which included the need for the Plan to earn at least the bond rate over the life of the POBs to breakeven.
- Baird guided the City in the implementation of risk mitigation strategies which included funding a budget stabilization fund and adopting a pension bond policy.
- Baird developed and coordinated the rating agency presentation which highlighted the strategies mentioned above, the plan of finance and the structure of the POBs which resulted in the affirmation of the City's "Aa2" Moody's rating.

### Marketing and Pricing

- Baird recommended issuing the bonds prior to the November 3<sup>rd</sup> election to bypass potential volatility that occurred after the last presidential election.
- With the surge of supply, specifically with taxable bonds, Baird utilized a two-day pre-marketing period to market both to our municipal and general salesforce but also nontraditional buyers that were active in the taxable muni space at that time.
- Every maturity was oversubscribed two to seven times allowing Baird to tighten (lower) spreads by 3 to 10 basis points (0.03% to 0.10%) across the many maturities, increasing anticipated POB savings by \$25,000.

### Key Results

- **2.82% bond rate and an all-in true interest cost of 2.93%**, well below the 7.00% interest paid on the UAAL.

- **\$15.8 million in expected gross savings and \$12.5 million in present value savings** (53.4% of the UAAL funded) assuming the Plan achieves an average rate of return of 7.0% over the next 20 years.
- **Lowered future year UAAL payments by as much as \$1.4 million** with a level debt service structure which will free up a portion of the City's Corporate Levy for other General Fund purposes.
- Allowed the Plan to retire its UAAL and invest in other assets.

#### **POB Services to the City**

- **Modeled UAAL payments** and quantified potential savings through the issuance of POBs.
- **Educated the Police Pension Board**, 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**.
- **Developed a rating agency strategy** that resulted in a rating affirmation (no downgrade).
- **Led the pricing process** that resulted in oversubscriptions and a successful bond sale.

#### **Baird Public Finance**

##### **Stephan Roberts**

Director

630-778-9174

[scroberts@rwbaird.com](mailto:scroberts@rwbaird.com)

##### **Dalena Welkomer**

Senior Vice President

630-778-9857

[dwelkomer@rwbaird.com](mailto:dwelkomer@rwbaird.com)

*Robert W. Baird & Co. Incorporated is providing this information to you for discussion purposes only. The information does not contemplate or relate to a future issuance of municipal securities. Baird is not recommending that you take any action, and this information is not intended to be regarded as "advice" within the meaning of Section 15B of the Securities Exchange Act of 1934 or the rules thereunder. In providing this information, Baird is not acting as an advisor to you and does not owe you a fiduciary duty pursuant to Section 15B of the Securities Exchange Act of 1934. You should discuss the information contained herein with any and all internal or external advisors and experts you deem appropriate before acting on the information.*

©2021 Robert W. Baird & Co. Incorporated.