



Borough of Naugatuck, Connecticut

\$53,860,000 General Obligation Bonds, Issue of 2021 (Federally Taxable)

"AA- / AA" Ratings

September 2021

Senior Manager

On September 1, 2021, Baird served as Senior Managing Underwriter for the Borough of Naugatuck, Connecticut. Given a favorable interest rate environment, the Borough of Naugatuck approved the issuance of pension obligation bonds ("POBs") to fully fund the Unfunded Actuarial Accrued Liability ("UAAL") of its employee and firefighter pension plans (together, totaling ~\$53.3 million). Baird served as bookrunning senior manager; Piper Sandler served as co-manager. The financing required legislative authorization by the Connecticut General Assembly and approval by the Connecticut State Treasurer's Debt Management Division.

Baird's investment bankers worked with the Borough and its financing team to analyze multiple scenarios, including bond interest rates, amortization periods, call provisions, investment rates, and funded UAAL. The financing was structured as a federally taxable general obligation credit amortizing annually over 25 years with a nine-year optional par call.

In determining the funded UAAL, the assumed rate of return for the invested proceeds was conservatively set at 6% rate. This rate is below that utilized in many current POBs and well below that of the Borough's previous POBs financing in 2003 (where an 8% investment return was assumed).

Going into the pricing, Baird's underwriters and salesforce conducted an extensive premarketing campaign. As a result, 179 unique orders totaling \$384.7 million were received (a 7.14x oversubscription). Maturities, particularly in the front end of yield curve, were oversubscribed by as many as 14x. As a result of this robust demand, Baird's underwriters lowered yields on most maturities by 2 – 10 basis points. Highlighting the uniqueness of Baird's institutional investor coverage, many investors were unique names not typically seen in POBs financings.

Between Baird's efforts and the prevailing market environment, the Borough achieved a 2.76% cost of capital for a 25-year financing, besting the results of several other recent similar POBs financings.

Baird Public Finance

Craig Hrinkevich

Managing Director

732-576-4425

chrinkevich@rwbaird.com |

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