Village of Skokie, Illinois

$150,450,000 Taxable General Obligation Bonds, Series 2022A
"AA" by S&P / "AA+" by Fitch

January 20, 2022
Senior Manager

Following a competitive RFP process, Baird was selected to serve as senior managing underwriter on the Village of Skokie's ("Village") $150,450,000 Taxable General Obligation Bonds, Series 2022A ("2022A Bonds"). The 2022A Bonds were pension obligation bonds ("POBs") issued to fund 90% of the Village's $172 million unfunded actuarial accrued liability ("UAAL") in its Police Pension Plan (funded ratio of 59.9%) and Firefighters' Pension Plan (funded ratio of 45.9%) (together, the "Pension Plans"). The Village was paying 7.375% interest on that UAAL and its annual UAAL amortization payments grew 5.50% annually, which would more than double by 2040.

Baird competed against national and regional underwriting firms and secured the business as senior managing underwriter (with one co-senior managing underwriter and two co-managers) based on its deep understanding and expertise with POBs having served on six POB transactions in the State in the last two years and our comparative advantage underwriting taxable bonds in Illinois.

The Village had been considering various options to fully address the UAAL. After deeply studying POBs and becoming comfortable with the risks, the Village concluded that POBs offered a unique opportunity to achieve historically low interest rates and generate expected savings. With the help of Baird and its municipal advisor, Speer, the Village implemented a conservative, comprehensive long-term financial strategy to address its increasing annual pension costs which included:

- Lowering the actuarial rate from 7.375% to 6.75%;
- Lowering its payroll growth assumption from 5.50% to 3.50%;
- Structuring the POBs with level annual debt service to resolve the upward ramp up in UAAL amortization payments;
- Funding a budget stabilization fund with $13.6 million in bond proceeds;
- Identifying existing property tax levies, its municipal utility taxes, and a portion of its home rule sales taxes as revenue streams to pay debt service on the POBs; and
- Approving a Pension Obligation Bond Policy that acknowledged and attempted to mitigate the risks of POBs.

The Village had an outstanding "Aa2" Moody's rating and "AA+" Fitch rating. In our RFP response, we offered our deep understanding of each rating agency's view of POBs and recommended applying for a Fitch rating and an inaugural S&P rating for the Bonds. We have found that Moody's, while claiming to be neutral on the use of POBs if conservatively structured, has recently developed a more pronounced negative lean toward the concept. Baird assisted the Village and Speer in the development of a rating agency strategy and drafted the rating presentation for the Village's meetings with S&P and Fitch. The presentation addressed the potential benefits, risks, mitigation strategies and structure of the POBs. This was well received by both rating agencies as Fitch affirmed the "AA+" rating and S&P provided an inaugural rating of "AA".

In the weeks before pricing, the municipal bond market experienced its "worst annual start since 2001" and the Treasury market experienced increasing interest rates because of concerns that the Federal Reserve will hike interest rates to fight inflation. Baird and the underwriting team worked to price the POBs quickly in a relatively stable market environment before the Fed's meeting at the end of January. Baird led extensive premarketing efforts which included creating a Syndicate Sales Memo to share with the underwriting team, developing a collaborative list of potential investors from national POB issuances and initiating spread talk with investors two days prior to running a formal order period.

As a result of our efforts, the POBs were very well received with **over $645 million in orders (4.3x the par amount)** and oversubscriptions in all maturities by as much as 14x. **Baird alone brought in $565 million in orders (87.5% of orders received)**. We were able to lower spreads 15 basis points in 2022, 8 basis points 2023 through 2029 and 5 basis points in 2032 and 2040. The POBs achieved a bond rate of 2.98% and all-in true interest cost of 3.01%, well below the 6.75% it was paying on its UAALs. Assuming the Pension Plans achieve an average rate of return of 6.75% over the life of the POBs, the Village could achieve expected gross savings of $65.2 million. The present value of that amount is **$52.8 million (38.9% of the UAAL funded).** As a result, the Village **lowered future year UAAL payments by as much as $14.9 million** with a level debt service structure.

Baird is proud of its service as senior managing underwriter and the successful results it generated for the Village on this important financing.

Baird Public Finance

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