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CITY OF DANBURY

155 DEER HILL AVENUE
DANBURY, CONNECTICUT 06810-7769

DAVID ST. HILAIRE
DIRECTOR OF FINANCE

(203) 797-4652
FAX: (203) 796-1526

MEMORANDUM

TO: Mayor Mark D. Boughton via the City Council

FROM: David St. Hilaire, Director of Finance
Through Dan Garrick, Assistant Director of Finance DG

DATE: July 28, 2014

SUBJECT: Pension Obligation Bonds

The City maintains six separate single employer defined benefit pension plans that, when combined ($305 million), are very well funded at 84%. In the current low interest rate environment and given the City's high quality credit rating, an opportunity exists to refinance the current $45 million unfunded liability (to be repaid in the next 20 years) from a cost of 7.25% down to 3.60%*. By issuing Pension Obligation Bonds (POBs) to extinguish this unfunded liability, the potential expected savings to the City could be approximately $15 million* on a present value basis over the life of the transaction. There are several considerations when contemplating issuing POBs.

Evaluating the risks and benefits of POBs is considerably more involved than simply comparing the current 7.25% cost on the unfunded liability versus the 3.60%* cost on the POBs. POBs are issued to address very specific goals and situations. There is a host of complex underlying actuarial dynamics to be considered. Issuers of POBs need to have their eyes wide open and understand that "savings/benefits" are a long-term proposition until the final maturity of the POBs. Taking advantage of the capital markets and the mismatch between the cost of funding on POBs (3.60%*) and the cost of the unfunded liability (7.25%) to improve the funded status of the pension system can be financially beneficial.

Given the current market conditions and the potential for significant long-term savings, I respectively request that a committee be established to examine the overall benefits of issuing POBs and whether such financial tool is significantly advantageous for the City of Danbury.

*market rates as of July 17, 2014, may be subject to change.