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Chicago City Council Approves Mayor's \$1.1 bln Bond Plan.

The Chicago City Council on Wednesday approved with no debate Mayor Rahm Emanuel's proposal to sell \$1.1 billion of bonds to continue restructuring outstanding debt and pay other obligations.

"This is a step that is necessary to refund existing debt and begin to take steps to claw out of the financial condition we are in at the present time," said Alderman Ed Burke, chairman of the council's finance committee, which approved the bond plan on Monday.

The city is repairing damage from Moody's Investors Service's downgrade of its credit rating to junk last month, even as it braces for a possible further drop in the rating as pension payment pressures mount.

Chicago will use the authorization to convert short-term commercial paper into long-term fixed-rate bonds and complete the refinancing of interest rate swap agreements. The bond deal will free up \$170 million for the city's coffers by pushing payments on outstanding bonds into future years.

Proceeds will also be used to cover obligations, including \$75 million in retroactive police pay.

The general obligation (GO) bonds will be priced through senior underwriter Morgan Stanley this summer.

Moody's downgrade of Chicago's GO bond rating to Ba1 triggered \$2.2 billion in accelerated debt and fee payments by the city.

Forbearance agreements with banks that provided letters of credit backing the variable-rate debt or swaps used to hedge interest-rate risk on it gave the city time to convert \$918 million of variable-rate debt into fixed-rate bonds so far. Those debt conversions attracted many yield-hungry investors, but still left Chicago with hefty interest costs compared to higher-rated issuers in the U.S. municipal bond market.

The city, the third largest in the United States by population, is struggling with a projected \$300 million structural budget deficit and a looming \$550 million contribution increase to its public safety workers' retirement funds.

A bill passed by the Illinois Legislature last month would reduce the pension payment, but Governor Bruce Rauner, who has criticized the legislation, may not sign it into law.

With hope fading, the mayor is moving up the process for the city's next budget that normally starts in October.

"I think it's important for the city of Chicago to seize the moment and as best it can determine its own future and not have it held somewhat by (the state government) and their inaction," Emanuel told reporters after the city council meeting.

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(Reporting by Karen Pierog; Editing by James Dagleish and Jeffrey Benkoe)

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