
Chicago School Board Approves $1 Bln Bonds for Junk-Rated District.

CHICAGO — The Chicago Board of Education gave final approval on Wednesday to the sale of up to $1 billion of new and refunding bonds for the junk-rated district.

The third-largest public school system in the United States will sell up to $840 million of general obligation bonds through Barclays and JP Morgan Securities to fund capital improvements using a $45 million property tax hike approved by the Chicago City Council last year. The district will also restructure up to $160 million of variable-rate bonds into a fixed-rate mode through a yet-to--e-announced underwriting team.

Emily Bittner, a Chicago Public Schools (CPS) spokeswoman, said earlier this week that market conditions will dictate when the deals will be priced.

CPS is struggling with pension payments that will jump to about $720 million this fiscal year from $676 million in fiscal 2016, as well as drained reserves and debt dependency. As a result, the district's credit ratings have fallen deeper into the junk category, most recently with a downgrade from Moody's Investors Service.

The muni market has demanded fat yields for CPS debt. Even a private sale of $150 million of 30-year GO bonds by CPS in July to J.P. Morgan came at a 7.25 percent yield, which was 513 basis points over the yield for AAA-rated bonds on Municipal Market Data's (MMD) benchmark scale.

Meanwhile, uncertainties lurk for CPS. A proposed four-year contract that averted a teachers' strike earlier this month is scheduled for a ratification vote by Chicago Teachers Union members next week. New money for classrooms under the tentative deal will flow from a nonrecurring revenue source – surplus property taxes generated by city economic development districts.

The school district's $5.46 billion operating budget includes a one-time, $215 million state of Illinois pension contribution that is contingent on the legislature's passage of major state-wide pension reforms by January.

By REUTERS

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