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Chicago Board of Education to Issue Bonds as Finances Improve.

Plans $426 million in general obligation municipal bonds next week

The Chicago Board of Education is preparing to issue $426 million in general obligation municipal bonds next week, according to credit ratings firm Fitch Ratings.

The deal would be the first open market bond sale by the troubled school system since February, when it struggled to issue $725 million of bonds amid tepid investor demand.

The bonds are scheduled to be sold via negotiation in five tranches, according to Fitch, which will rate the deal B-plus with a negative outlook, reflecting the likelihood that the school district's costs will continue to outpace revenues amid acrimonious interaction with Chicago's teachers union. Proceeds of the bond sale will repay some of the school board's higher cost bonds, reimburse previously paid swap termination payments and fund capital improvements.

The transaction will be a litmus test of market sentiment toward Chicago public schools now that it has reached a contract agreement with the teachers union, narrowly averting a planned strike.

Many investors balked at buying the bonds issued in February out of fear that the school system might run out of cash.

When the board of education needed more money in July, it opted to issue $150 million of bonds directly to a single bank, J.P. Morgan Chase & Co., to avoid the risk that investors might shy away once again.

Investors grew more confident in ensuing months as the school district made more budget cuts, secured new state aid and tax revenues, and clinched a deal with its teachers. The price of the 7% bond due 2044 that issued in February has risen to around 105 cents on the dollar this week from 84 cents when it was originally sold, according to data from Electronic Municipal Market Access.

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By MATT WIRZ

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Write to Matt Wirz at matthieu.wirz@wsj.com