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New Type of Chicago School Debt Gets Investment-Grade Rating.

A new type of debt for the Chicago Public Schools (CPS) earned an investment-grade rating of A from Fitch Ratings on Thursday, based on the bonds' ability to withstand a potential bankruptcy filing by the financially struggling district.

The A rating on \$500 million of capital improvement tax bonds is eight steps above the junk rating of B-plus with a negative outlook Fitch has assigned the school system's \$6.8 billion of outstanding general obligation bonds.

Fitch attributed the difference to its assessment "that the pledged revenues meet the definition of 'special revenues' under the U.S. Bankruptcy Code and therefore, bondholders are legally insulated from any operating risk of the board."

The United States' third-largest public school system 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. The fiscal woes have pushed its GO credit ratings deep into the junk category and led investors to demand fat yields for its debt.

The \$500 million of bonds will be secured solely by a capital improvement property tax approved by the Chicago City Council last year and not by the district's GO pledge. The property tax revenue, initially totaling \$45 million, can only be used to fund capital projects and not operations, and is subject to an intercept mechanism that will send the funds directly to the bond trustee.

CPS cannot currently file for municipal bankruptcy in Illinois, although there have been proposals to change state law to allow such a move.

Fitch said legal opinions for the new bonds "provide a reasonable basis for concluding that the tax revenues levied to repay the bonds would be considered 'pledged special revenues.'" The opinions on a "hypothetical bankruptcy" by CPS concluded that payments on the new bonds would not be automatically stopped by a federal bankruptcy court and that bondholders would retain a lien on the tax revenue.

Reuters

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(Reporting By Karen Pierog; Editing by Jonathan Oatis)