
Chicago School Board Approves Revised Budget With $215 Million Hole.

CHICAGO — The Chicago Board of Education on Wednesday approved a revised fiscal 2017 budget that accommodates a new teachers' contract, but contains a $215 million funding gap for pensions.

The spending plan for the fiscal year that began on July 1 was increased by $55 million to $5.5 billion to reflect an additional contribution of surplus tax increment financing money from the city of Chicago. That money will cover higher costs from a new four-year contract with the Chicago Teachers Union that the board ratified on Wednesday.

Chicago Public Schools (CPS), the nation's 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 credit ratings on the district's $6.8 billion of general obligation bonds deep into the junk category and led investors to demand fat yields for its debt.

Illinois Governor Bruce Rauner last week vetoed a bill to give CPS a one-time $215 million state payment to help cover pension costs.

CPS officials on Wednesday blasted Rauner's action, while contending there is still time to pressure the governor and state lawmakers to restore the money.

"We will not allow Chicago students, most of them poor and minority, to be held hostage," said CPS Chief Executive Officer Forrest Claypool.

If the effort fails, School Board President Frank Clark said the district was prepared to deal with the budget gap in January.

The board also reaffirmed its approval for issuing up to $840 million of bonds backed by a new $45 million a year property tax levy earmarked solely for capital expenses.

On Tuesday, CPS released a preliminary prospectus for a $500 million bond sale secured by that revenue stream and not the district's junk-rated general obligation pledge. A CPS spokeswoman said the timing for the bonds' pricing is subject to market conditions.

Richard Ciccarone, president and CEO of Merritt Research Services, an independent municipal bond research and data provider, said the new type of CPS credit could attract investors who have avoided the district's GO bonds.

"The buyers are still going to demand a higher rate," Ciccarone said.

By REUTERS

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(Reporting by Karen Pierog; Editing by Matthew Lewis)