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Chicago Schools Now Paying 9% on Adjustable Rate Bonds.

- **Distict pays penalty yields after choosing not to remarket**
- **Rising variable-rate debt costs recall 2008 credit crisis**

Chicago's school system is paying bond-market penalties similar to those seen during last decade's credit crisis.

The junk-rated district, reeling from escalating pension costs and fallout from the Illinois budget gridlock, has been stuck paying punitive interest rates on \$167.5 million of adjustable-rate bonds after choosing not to attempt to remarket the bonds. The rate on the bonds, which are supposed to stay extremely low because investors can resell them to banks periodically, jumped to a maximum 9 percent on March 1 from 4.64 percent the week before and has stayed there ever since, according to data compiled by Bloomberg.

The spiraling interest bills are reminiscent of the chaos that erupted in the wake of the Lehman Brothers Holdings Inc.'s bankruptcy in 2008, when state and local governments were stung by soaring costs after investors sold the variable-rate securities en masse just as banks were scrambling to raise cash. In Chicago's case, though, it reflects how skittish investors have become about holding the debt of the cash-strapped school system.

"Chicago Public Schools has been unable to create a fiscally responsible budget and it relies on outside sources that, as we see, sometimes comes through and sometimes don't," said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which manages \$6 billion of municipal bonds, including about \$3 million of insured Chicago school debt. "That's unsettling investors."

The school district agreed this week to pay a rate of 6.39 percent — subject to adjustment — for a short-term \$275 million loan from JPMorgan Chase & Co. to help make a pension payment and cover the cost of staying open through the end of the school year. The schools didn't receive \$215 million more in state aid to make the retirement-fund contribution after a measure was vetoed by Governor Bruce Rauner. Illinois has failed to pass a budget for more than two years as the Republican governor and Democrat-led legislature battle over how to close the state's chronic budget deficits.

Michael Passman, a spokesman for Chicago's schools, wrote in an email that the district is waiting for "a more opportune time" to remarket the bonds.

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By Martin Z Braun

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Bloomberg clients: We'll be doing a TOPLive Q&A on Thursday, June 22 at noon ET, moderated by Martin Z. Braun, in which you can ask Joe Mysak questions about the latest with Connecticut, its debt downgrades, budget deficit and more. You can watch it here. If you want to ask a question,

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