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Chicago Schools to Pay Hefty 6.41 Percent Rate on Second Note Tranche.

CHICAGO — The Chicago Public Schools finalized the second and last part of a short-term loan, placing $112 million of notes with J.P. Morgan at a huge initial interest rate of 6.41 percent, the cash-strapped district reported on Monday.

The rate on the grant anticipation notes is even higher than the 6.39 percent initial rate on $275 million of similar variable-rate notes CPS placed with the bank earlier this month. All of the notes mature on March 30, 2018.

By contrast, top-rated debt due next March was yielding just 0.92 percent on Municipal Market Data's short-term debt scale on Monday, indicating the junk-rated district is paying a big penalty due to its financial woes.

The Chicago Board of Education approved the note sale last month as a way to avoid ending the current school year early and to help make a $721 million pension payment due to its teachers' retirement system on Friday, the end of the district's fiscal year.

Escalating pension payments have led to drained reserves, debt dependency and junk bond ratings for the nation's third-largest public school system.

The notes are backed by delayed grant funding owed the district by the state of Illinois, which is struggling through a second-straight fiscal year without a complete budget. As a result, the state has been forced to delay payments to vendors and others, ballooning its unpaid bill pile to about $15 billion.

"Governor (Bruce) Rauner's total failure to fully fund education in a timely way means that hundreds of districts around the state including Chicago are scrambling to make up for the state's funding shortfall," CPS spokeswoman Emily Bittner said in a statement.

The Republican governor's veto of a bill giving CPS $215 million in one-time state money to help make its pension payment punched a hole in the district's $5.41 billion fiscal 2017 budget. The hole grew bigger with delayed state grants, totaling about $467 million to cover items such as transportation and special education.The initial rates on the notes will expire next week and will be reset monthly at 70 percent of the LIBOR rate plus 550 basis points.

By REUTERS

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(Reporting by Karen Pierog; Editing by Matthew Lewis)