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Troubled Chicago School System Sells $500 Million Bonds at High Rates.

CHICAGO — The financially troubled Chicago public school system will pay hefty interest rates for a general obligation bond issue that was doubled in size on Monday to $500 million, up from the $250 million that the district announced last week.

The refunding portion of the deal was increased on Monday to $215 million from the previous $50 million, while the new money portion was raised to $285 million from $200 million, according to a preliminary pricing scale.

Underwriters led by J.P. Morgan priced the unrated general obligation bonds targeted at “qualified institutional buyers,” with a final 7.65 percent yield and 7 percent coupon for new bonds due in 2046, according to the district. The bonds were initially priced to yield 7.75 percent.

The repricing of refunding bonds due in 2042 dropped the yield 5 basis points to 7.55 percent with a 7 percent coupon. The yield on refunding bonds due in 2030 with a 6.75 percent coupon remained at 7.25 percent.

Escalating pension payments have led to drained reserves, debt dependency and junk bond ratings for Chicago Public Schools (CPS), the nation’s third-largest public school system.

“CPS successfully completed the issuance of its GO bond offering, with more than $1 billion in orders for $500 million in bonds,” Ron DeNard, the district’s senior vice president of finance, said in a statement.

The bonds’ spreads over Municipal Market Data’s benchmark triple-A yield scale ranged from 474 basis points to 489 basis points, indicating the U.S. municipal market was demanding fat yields for the debt. Those so-called credit spreads were narrower than spreads in the district’s February 2016 bond sale, in which yields topped out at a massive 8.5 percent.

The refunding will restructure outstanding bonds in a “scoop and toss” that pushes out payments on the bonds. The prospectus included nine pages of potential risks for buyers.

By REUTERS

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(Reporting By Karen Pierog; editing by Diane Craft)