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New Chicago Debt Structure Wins Initial Approval.

CHICAGO — A proposal by Chicago Mayor Rahm Emanuel to lower borrowing costs through a new debt structure aimed at insulating investors from the city's financial problems won approval on Thursday from the city council's finance committee.

A chronic structural budget deficit and a huge unfunded pension liability that totaled $35.76 billion at the end of 2016 have lowered the city's general obligation (GO) credit ratings and raised its borrowing costs.

Emanuel's proposal calls for refunding up to $3 billion of outstanding bonds, including all $700 million of the city's sales tax revenue bonds and about $2.3 billion of its $9.8 billion of GO bonds, through a new corporation. That entity would be assigned all of the city's sale tax revenue collected by the state of Illinois, which totaled $661 million in fiscal 2016, and would pledge that money to pay off the bonds. Revenue not needed for debt service would eventually flow back into city coffers.

If passed by the full city council next week, the first of four deals using the structure would be issued in late November, according to Carole Brown, Chicago's chief financial officer. That deal would total $600 million to $700 million.

Brown said the structure, which was authorized for home-rule Illinois governments like Chicago by the state legislature in July and used in a few other major cities, gives bond investors a statutory lien to shield the debt from municipal bankruptcy, which is currently not allowed under state law.

She added that the debt issued through the corporation should result in higher credit ratings and could lower the city's borrowing costs by 2 percentage points.

"The goal is to reduce the amount of funds going to debt service," Brown told the finance committee.

Any savings would help Chicago plug its lingering budget gap, which has been shrinking since hitting a high of $654.7 million in fiscal 2011.

The nation's third-largest city is projecting a $114.2 million shortfall in fiscal 2018, which begins on Jan. 1. The mayor is scheduled to release his spending plan on Oct. 18.

Fitch Ratings has said debt issued under the new structure could be rated higher than Chicago's current GO rating of BBB-minus, which is one notch above junk.

Chicago is also rated BBB-plus by S&P Global Ratings and has a junk rating of Ba1 from Moody's Investors Service.

By REUTERS

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(Reporting by Karen Pierog; Editing by Matthew Lewis)