Chicago Shrinks Yields on $368 Million Water Bonds on Demand.

Chicago issued about $368 million of tax-exempt water bonds today, lowering yields from initial levels in the city's first such offering since 2012.

The deal includes a portion maturing in November 2044 that priced to yield 4.01 percent, down from an initial 4.13 percent, according to data compiled by Bloomberg. The yield is about 0.9 percentage point above benchmark 30-year municipal bonds. By comparison, an index of A rated revenue bonds due in three decades yields about 0.8 percentage point more than AAA munis, Bloomberg data show.

The pricing confirmed investors' expectations that the affiliation with Chicago, which bears the biggest pension burden among the most-indebted U.S. localities, would boost yields on the offering. Yet with interest rates in the $3.7 trillion municipal market close to generational lows, bond buyers are also seeking extra yield with riskier securities.

Yields on some maturities fell as much as 0.17 percentage point from preliminary levels. The second-lien debt has a Standard & Poor's grade of AA-, fourth-highest, while Moody's Investors Service rates it three steps lower, at A3.

Today's sale will pay for work on pumping stations and the replacement of water mains, some of which are more than a century old, according to bond documents and the city.

By Brian Chappatta and Elizabeth Campbell Sep 10, 2014 12:00 PM PT

To contact the reporters on this story: Brian Chappatta in New York at bchappatta1@bloomberg.net; Elizabeth Campbell in Chicago at ecampbell14@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum