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Chicago Board of Education Faces Possible Swap Termination Payment but GO Debt Rating is Unaffected for Now.

CHICAGO (Standard & Poor's) March 23, 2015–Standard & Poor's Ratings Services is closely monitoring the reaction of the Chicago Board of Education (CBOE; A-/Negative) to possible swap termination payments in excess of $200 million following the downgrade of its general obligation (GO) debt to below 'BBB' by another rating agency. While we view the possible trigger payments as pressuring the district's budget, we do not view these payments as likely to cause a liquidity crisis at present. For now, there is no change in our long-term and underlying ratings on CBOE's debt. We believe that CBOE has several avenues to address the potential cash payments associated with swap terminations. First, we understand the board is actively negotiating with the swap counterparties to amend the swaps to avoid having to make the termination payments. However, Standard & Poor's cannot be certain that the board will be able to avoid termination payments through its negotiations. If CBOE is unsuccessful in its negotiations and is forced to immediately make the termination payments, we believe that the board would be able to handle the payments given that it currently holds $174 million in cash in its debt service stabilization fund (as of March 10, 2015), which can be used to cover the swap termination payments, and has access to cash in other funds. The board's general operating fund held $70.8 million of unrestricted cash as of June 30, 2014, and is currently at a high liquidity point in the fiscal year following the receipt of property taxes in February from the county's first tax bills of 2015. The board also has access to $500 million in bank lines of credit, which management reports would be available to help pay swap termination payments. Over the remaining three months of the current fiscal year and next fiscal year, the possible loss of so much of cash and operating reserves to cover swap termination payments would put even greater pressure on the board as it structures its fiscal 2016 budget in the face of a budget gap of $1 billion. Given operating reserves that we consider strong as of fiscal year-end June 30, 2014 (10.1% of expenditures), but are projected by management to drop in fiscal 2015 due to a general fund shortfall of up to $916 million, accommodating the termination payment would mean that the board will have to cut costs even more or identify additional revenue sources, to maintain at least adequate reserves, which is a course of action we view as challenging. As reflected in our negative outlook, maintenance of the rating at the current level is conditioned upon the board's ability to retain at least adequate unrestricted reserves. CBOE hedged most of its variable-rate debt with eight floating-to-fixed interest-rate swaps. According to management, as of March 19, 2015, the value of the board's swaps for which termination payments may be due because of the lowered ratings was negative $228 million. The swaps were structured without any collateral requirements on the part of the board, but they could be terminated by the counterparties if two of rating agencies currently rating the board's GO debt lower their ratings to below Standard & Poor's equivalent of 'BBB'. We lowered our ratings on CBOE's GO debt two notches to 'A-', with a negative outlook, on March 18, 2015, because of the board's current and projected fiscal imbalances. For more information, see our report published March 18, 2015, on RatingsDirect.

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or

CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

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