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Yields Hit 5.63 pct in Chicago Schools Bond Sale.

(Reuters) – The Chicago Board of Education paid a stiff penalty for its fiscal woes on Tuesday as investors demanded fat yields for its $295.7 million general obligation bond sale.

The deal was slightly oversubscribed, but not enough to warrant a repricing, according to a market source. That left yields at their initially priced levels, which topped out at 5.63 percent for bonds due in 2039 with a 5.25 percent coupon, according to a pricing scale obtained by Reuters. That yield was 283 basis points over Municipal Market Data's benchmark triple-A scale.

Municipal bonds carrying the same ratings as the Chicago school system, A-minus by Standard & Poor's and BBB-minus by Fitch Ratings, would normally trade only 85 to 100 basis points over the scale, said MMD analyst Randy Smolik.

The 283 basis-point spread was also wider than the 250 to 255 basis points over the scale the board's bonds were fetching in secondary municipal market trading just last week.

There was no immediate comment from the Chicago Public Schools (CPS).

The nation's third-largest public school system is struggling with a huge pension liability and is projecting a $1.1 billion budget deficit in its upcoming fiscal year. Those fiscal woes factored in to credit rating downgrades by Moody's Investors Service and Fitch last month to one notch above the junk level.

The downgrades triggered the termination of interest-rate hedges on variable-rate debt that unless renegotiated could cost the district about $228 million in payments to banks.

Illinois Governor Bruce Rauner raised the possibility that CPS could be headed for bankruptcy, according to local media reports, although such a move is not currently allowed under state law.

Meanwhile, the district's chief executive officer, Barbara Byrd-Bennett, took a leave of absence pending the outcome of a federal probe into a contract the district awarded to a company that had previously employed her, CPS officials said on Friday.

(Reporting by Karen Pierog; editing by Matthew Lewis)

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