Chicago's Downgrade to Junk Makes Timing for Bond Deal Uncertain.

Less than a week after Chicago's credit rating was cut to junk by Moody's Investors Service, the timing on the biggest piece of a $383 million bond deal has been cast into doubt.

A $201 million offering managed by Ramirez & Co. and initially planned for Tuesday has been shifted to day-to-day status, according to data compiled by Bloomberg. The sale is part of an effort to refinance floating-rate debt that exposed the city to penalties after Moody's cut Chicago to junk on May 12. Standard & Poor's and Fitch Ratings also lowered the city last week, while giving it an investment grade.

The potential shift in the sale's schedule is a setback for Mayor Rahm Emanuel, who began his second term Monday, as he moves to end some swaps and convert variable-rate debt to fixed-rate to bolster the city's finances. The downgrades threaten to raise the city's borrowing costs, as investors are demanding higher yields on its securities.

"If the market fails to do these deals, then of course market access becomes a front-and-center type of risk," said Richard Ciccarone, Chicago-based chief executive officer of Merritt Research Services LLC, which analyzes municipal finance. Selling bonds would show "that the markets are still giving the city time to work out its problems."

Kelley Quinn, a city spokeswoman, didn't immediately respond to e-mail and phone messages seeking comment on the deal's timing. Phillip Culpepper at Ramirez in Chicago didn't respond to a voicemail seeking comment.

Tuesday Timing

A segment of about $182 million is still scheduled to price Tuesday, data compiled by Bloomberg show.
Federally tax-exempt Chicago bonds maturing in January 2033 traded May 15 at yields as high as 6.16 percent, the most since their issuance three years ago, Bloomberg data show. The spread of 3.28 percentage points over benchmark municipal bonds was the widest yet. They were the most-traded Chicago bonds on May 14-15, combined.

The Moody's cut to Ba1, one step below investment grade, means Chicago may have to pay banks as much as $2.2 billion. The reduction allows banks to demand that the city repay debt early and exposes Chicago to fees to end swaps contracts.

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