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Emanuel Forging Ahead with $805 Million Refinancing Despite Higher Cost Tied to Junk Bond Status.

Mayor Rahm Emanuel is forging ahead with a massive refinancing to convert $805 million in variable-rate debt to fixed-interest rates, even though the price will be higher now that Chicago's bond rating has been reduced to junk status.

The refinancing is at the center of Emanuel's plan to move away from risky financial practices that former Mayor Richard M. Daley used to "mask" the true cost of city government.

It will now be completed in two phases: $382.6 million in variable-rate debt will be converted to fixed-interest rates on May 29 and $422.8 million will be refinanced on June 8.

Chicago taxpayers will have to wait until the bonds are priced Wednesday to find out how much the $30 billion pension crisis that prompted Moody's Investors Service to drop the city's bond rating to junk status will increase city borrowing costs.

"We will pay a modestly higher price, but we won't know how high that price is until we price the bonds next Wednesday," said departing Chief Financial Officer Lois Scott.

"What we'll see is that investors have their own view about what our value is. Investors are taking the Moody's rating into consideration. But they also look at many other factors, including the opinion of three other rating agencies. Most investors also have their own analyses. They rate that more heavily" than the Moody's rating.

In an affidavit filed in the state pension case, Scott warned that any further downgrade in the city's bond rating would cost the city hundreds of millions of dollars in penalties and interest costs, "crowding out" funding available for other vital city programs.

On Thursday, Scott said she foresees no circumstance under which the price of the Moody's double-downgrade would be so high that the massive refinancing would be called off. She noted that "interest rates in general are at some of the lowest levels in history."

"Our spread for credit has widened. . . . [But] we made a decision to move out of variable debt. We are just executing on that plan. We believe the market will be reasonable. There's nothing on the horizon" that would suggest pulling back, she said.

Earlier this week, municipal finance expert Matt Fabian said Chicago is "paying Detroit's bills" when it comes to the hundreds of millions of dollars in penalties and higher interest rates it will pay, now that its bond rating is no longer investment-grade.

"Detroit fractured trust between borrowers and lenders in the municipal bond market. That has created an extra cost for Chicago. Now, trying to assure those same investors that it is not going the same way" will cost more, Fabian said.

“If the city had changed course five years ago, four years ago or three years, they wouldn’t be in this position now. Interest rates for the city’s debt wouldn’t have risen by one- or two-hundred basis points in the last few days.”

The Illinois Supreme Court’s decision to overturn state pension reforms has placed Emanuel’s plan to save two of four city employee pension funds in similar jeopardy.

That triggered a downward spiral of events that saw Moody’s downgrade Chicago’s bond rating to junk status and do the same at the Chicago Public Schools and Chicago Park District. Standard & Poor’s and Fitch announced lesser drops.

Unless the General Assembly lifts the hammer, Emanuel and the new City Council must decide by December how to meet a state-mandated, $550 million payment to shore up police and fire pension funds.

The Chicago Public Schools is on the brink of bankruptcy with a $9.5 billion pension crisis, a $1.1 billion budget deficit and a federal investigation that has forced Schools CEO Barbara Byrd-Bennett to take a paid leave of absence.

In the so-called “preliminary re-offering circular,” the city talks about, what Emanuel has described as “good discussions” with police and fire unions about giving the city more time to ramp up to 90 percent funding levels.

“The city is currently in discussions with unions . . . concerning amendments that, if enacted by the General Assembly, could materially impact the contributions required to be made by the city . . . [and] reduce the city’s required payment in the initial years to allow for a more gradual phase-in of the requirement,” the circular states.

“The General Assembly may also consider other proposed legislation that could effect the city’s payment obligations and/or funding sources for those obligations, including a city-owned casino. The city makes no presentation whether or when any such legislation would be enacted.”

Emanuel said earlier this week he wants to wait to see how the frenzied final days of the spring session play out before asking the new City Council to begin the search for new revenue to solve the pension crisis.

The circular makes the same claim.

“The city expects the City Council will consider options for addressing its pension funding requirement, including improvements in operating efficiencies and incremental revenues, after the Illinois General Assembly concludes its spring session,” the filing states.

If a property tax increase was the “sole source” of the payment to shore up police and fire pensions, the $549 million increase would have to be filed “no later than the last Tuesday in December,” the circular states.

The increase — in an overall property tax levy of $4.2 billion including other units of local government — would be collected in two installments in the spring and fall of 2016.

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