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Yields Top Out at 4.67 pct for Chicago Revenue Bonds.

(Reuters) - Chicago's \$111.7 mln of sales tax revenue refunding bonds were initially priced on Wednesday with a top yield of 4.67 percent for bonds due in 2034 with a 5 percent coupon, according to a pricing scale obtained by Reuters.

The issue is part of the city's plan to convert certain variable-rate debt into fixed-rate bonds to end bank letters of credit and interest-rate swaps.

The spread over Municipal Market Data's benchmark triple-A scale for the U.S. municipal bond market was much tighter for the revenue bonds than it was for \$674 million of general obligation bonds Chicago converted to fixed rate last week, about 170 basis points versus 264 basis points.

The sales tax bonds were rated AAA by Standard & Poor's, AA-plus by Kroll Bond Rating Agency and BBB-plus by Fitch Ratings. Moody's Investors Service dropped its rating on Chicago's GO and sales tax bonds to the junk level of Ba1 last month, but Moody's was not asked by the city to rate the bond conversions.

The Moody's downgrade triggered \$2.2 billion in accelerated debt and fee payments by Chicago. However, the city entered forbearance agreements with banks that provided letters of credit backing the variable-rate debt or swaps used to hedge interest-rate risk on it to allow time for the bond conversions, according to city bond offering documents.

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(Reporting By Karen Pierog; Editing by Chizu Nomiyama)