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Cash-Strapped Chicago Borrows at Rates Approaching 8 Percent.

Mayor Rahm Emanuel's decision to borrow for costs such as debt payments, bank fees and penalty payments on old deals gone bad — the kind of bills cities typically pay with operating funds — will cost Chicago more than $500 million in interest over the next three decades.

Data released Thursday show the city is paying rates that approach 8 percent on the $743 million in taxable debt sold Wednesday. Chicago's borrowing costs have risen dramatically relative to other borrowers as its credit rating has deteriorated.

The high interest costs — calculated by the Tribune using the value of today's dollars — are "punitive," said Richard Ciccarone, president and CEO of Merritt Research Services.

"The weight of the city's problems are clearly reflected in the pricing," he said.

The deal represents the largest taxable bond issue the city has ever sold. Totaling $1.1 billion, it also contains $347 million in tax-exempt debt.

Taxable debt is by nature costly because the federal government discourages borrowing for short-lived expenditures by collecting taxes on the interest investors earn. But Chicago has little room in its operating budget to cover its wide range of bills — many of them racked up before Emanuel took office — and the mayor has so far chosen not to raise property taxes.

Expenditures the city will pay with taxable bonds, which the city detailed for the first time Thursday in connection with the bond sale, include costs related to former Mayor Richard M. Daley's lease of the city's parking meters and his failed Olympic bid, as well as some debt payments coming due on old debt.

Emanuel is adding to the debt burden by borrowing $136 million at taxable rates in order to set aside interest payments for the first two years the bonds are outstanding, a maneuver called capitalized interest. That means the city is borrowing more than $100 million extra so that it doesn't have to pay interest on the bonds until 2017.

Thursday's bond issue was the final step in Emanuel's plan to protect the city against sudden burdensome demands from banks. More than half of the costs the bonds financed were outstanding on the city's line of short-term credit, akin to a city credit card. Some of those credit agreements allowed banks to demand repayment immediately if the city received a junk status rating. Moody's Investors Service rated the city at Ba1 — junk status — in May.

About $140 million remains outstanding on the city's credit card. Officials said those are short-term projects with dedicated revenue sources.

Costs covered by the smaller tax-exempt bond issue included about $150 million to pay back credit used to cash out of variable-rate bonds and interest rate swaps taken on by Daley, liabilities that also exposed the city to possible penalty payments from banks.

Investors settled for slightly lower rates on that debt than they demanded on the city's last tax-exempt bond issue in May, a sign that the city's credit could be improving slightly.

"It's a little bit less lousy," said Matt Fabian, a partner at the municipal bond research firm Municipal Market Analytics. "The city has miles to go and it's only advanced a couple feet."

Indeed, the overall cost the city pays for tax-exempt borrowing — a crucial source of funds for maintaining and improving infrastructure — remains high compared with other major cities and the rates Chicago has paid in the past.

Daniel Berger, an analyst with Thomson Reuters, noted that the interest rates the city is paying for tax-exempt borrowing have increased by a full 2 percentage points since 2010. "That's kind of dramatic," he said.

By Heather Gillers and Hal Dardick

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