Chicago Sets $500 Million Bond Sale Amid Pension Uncertainty.

CHICAGO — Chicago will head to the municipal bond market next week with a $500 million bond issue amid uncertain pension funding requirements and political turmoil.

The general obligation refunding bonds are scheduled to be priced through Citigroup on Jan. 12, according to bond sale documents released late on Tuesday. The sale comes as state legislative fixes to address Chicago's $20 billion unfunded pension liability remain up in the air and Mayor Rahm Emanuel struggles with political fallout from controversial police shootings, including calls for his resignation.

Chicago's current budget relies on a bill passed by the Illinois House and Senate that would reduce city payments to its pension funds covering police and fire fighters. The bill has not been sent to Governor Bruce Rauner, who has been critical of the measure.

A record $543 million phased-in property tax increase approved by the city council in October exclusively for public safety worker pensions would still leave Chicago with a funding gap of about $200 million if that bill is not enacted.

Standard & Poor's warned last week that Chicago's BBB-plus bond rating could fall "multiple notches" if the city fails "to successfully implement contingency plans in a timely manner to fully meet its pension obligations with an identifiable and reliable revenue source." The city's bond rating with Moody's Investors Service is already in the "junk" level.

In a presale presentation, Chicago finance officials said the city has about $510 million remaining from a new $750 million credit line with three banks "to meet unforeseen financial obligations."

Meanwhile, a 2014 Illinois law mandating higher city contributions and lower benefits for its municipal and laborers' retirement funds is before the Illinois Supreme Court, which is expected to rule soon on the law's constitutionality.

The bond sale will continue the practice, which the city is phasing out, of restructuring debt service payments on outstanding bonds to free up revenue. The sale will be followed by a $480 million GO bond offering on Jan. 14 by Illinois, which is also mired in a financial crisis. Chicago pays a heftier penalty in the bond market than the state. The city's so-called credit spread over Municipal Market Data's benchmark triple-A scale hovered around 250 basis points for 20-year bonds, while the spread for Illinois bonds was 171 basis points.

By REUTERS

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