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[Chicago Schools in Fiscal Limbo as Turmoil Delays Bond Sale.](#)

Chicago's public schools delayed an $875 million bond sale after a clash between the state's top Republicans and the city's Democratic mayor escalated, adding to the pressure on the nation's third-largest district as it struggles to avert insolvency.

The Chicago Board of Education postponed the deal Wednesday after offering yields of as much as 7.75 percent, about 5 percentage points more than top-rated tax-exempt bonds. The planned debt issuance came a week after Republican Governor Bruce Rauner called for the state to take over the district and potentially authorize bankruptcy. That idea was immediately rejected by Democrats in control of the legislature and Chicago Mayor Rahm Emanuel, who have unsuccessfully pushed for an influx of state aid.

The offering, one of the lowest-rated municipal sales in recent history, would have refinanced debt and allowed the district to put off interest payments. The strain has been building on the school system, with Moody's Investors Service, Standard & Poor's and Fitch Ratings cutting their grades on its $6 billion of debt deeper into junk, the teachers union threatening to strike and a deficit that's projected to reach $1 billion a year through 2020.

The district said in a statement that it moved the deal to day-to-day status, indicating that it will be issued when conditions warrant. Officials said they still expect the deal to go through in the next few days, and noted that the district won't miss any obligations because of the delay.

"There definitely is uncertainty now about how they proceed from here," said Dan Solender, head of municipals at in Jersey City, New Jersey for Lord Abbett & Co., which manages $17 billion of the debt, including Illinois bonds. "Maybe this can help them feel some pressure to reach some agreements so that they can try to bring a deal with a better credit situation."

Chicago's schools are running out of cash after years of raiding reserves and shortchanging its pensions, which caused its annual payment to soar. An effort to rescue the schools has been caught in the financial and political crosscurrents of the city and Illinois, both of which are contending with their own fiscal strains.

Rauner, who is locked in an impasse with legislative Democrats that's left the state without a budget since the year started in July, has said he'll only help if Emanuel supports changes that the governor is pushing for, such as limits on unions. Emanuel has said Rauner's holding the schools hostage to the budget stalemate.

The sale of $796 million of tax-exempt securities and $79 million of taxable debt was to fund capital projects, refinance variable-rate debt and pay off short-term loans used to cover fees on derivative trades that banks had the right to cancel after the district's credit rating tumbled.

Some investors have said they're still weighing how to value the bonds and had asked for more time, Carole Brown, Chicago's chief financial officer, and Ron DeNard, the schools' head of finance, told reporters during a conference call. Brown said the decision was made Wednesday morning.

"We thought it was in the best interest of CPS and in the best interest of the deal to do that," Brown said. "There's been no fail. We didn't pull the deal. CPS is still on course to issue its bonds."

Making Commitments

The board doesn't expect to "materially change" the closing date, DeNard said.
"We do expect to make all of our cash flow commitments," he said.

The district has suffered a slew of downgrades from Wall Street credit-rating companies. Moody's cut the district on Dec. 21 to B1, four steps below investment grade, because of its dwindling cash. S&P dropped it to an equivalent B+ on Jan. 15. Four days later, Fitch lowered it to the same rank.

Strained finances aren't new for the schools. In 1980, lawmakers created the Chicago School Finance Authority to promote "the financial integrity" of the system, according to the Civic Federation. The Chicago mayor and Illinois governor appointed the board, and it could issue bonds and levy property tax for debt service. The state gave the Chicago mayor control of the schools in 1995, and the board was officially dissolved in 2010.

Forrest Claypool, the board's chief executive officer, has faulted what he calls an inequitable school-funding system that's helped push the district to the "financial breaking point." While Illinois contributes about $2,266 per student to teacher pensions in districts outside of Chicago, the city gets only $31 per student, bond documents show. Chicago's pension system was only 52 percent funded as of June 30.

Before the Wednesday offering, investors had already been penalizing the district by demanding high yields to to buy its securities. When it sold $65 million of 3-month notes last month, it paid 3.25 percent, more than 10 times what's demanded of top-rated borrowers.

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