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CPS Borrows $725 Million at Extraordinarily High Interest Rate.

After putting a long-expected bond sale on hold last week, Chicago Public Schools managed to borrow $725 million Wednesday by promising investors extraordinarily high interest rates.

Bonds issued by taxing bodies like CPS are normally considered sound investments, but that's not the case with a school district weighed down by debt, labor uncertainty and political tumult, one market analyst said.

"This is not a typical municipal bond," said Matt Fabian, a partner at Concord, Mass.-based Municipal Market Analytics. "You can't go into it assuming that you know what's going to happen or that you will almost surely get your money back. There is a large degree of speculation."

Documents released early Wednesday afternoon show CPS sold 28-year bonds at yields of 8.5 percent. Before the district pulled its bond issue last week, it was offering 25-year bonds at 7.75 percent. By comparison, when the state of Illinois sold bonds earlier this month, yields were 4.27 percent for 25-year bonds

Bond issues are made up of individual bonds that mature at different times. Borrowers pay higher rates on bonds that mature in later years.

The district's bond rating has been dropping for months, with Moody's Investors Service lowering it again last week to four levels below junk status. Historically, 12 percent of municipal borrowers with CPS' current rating from Moody's have defaulted within five years, according to an analysis by the ratings agency.

Outside of Puerto Rico, no U.S. municipality in recent history has sold a bond issue as large as the district did Wednesday with such low marks from the major debt rating agencies, according to an analysis by New York City-based Interactive Data, a firm that evaluates municipal bonds.

CPS says it needs the bond money to cover existing debt payments and cover construction and repair projects that are deemed critical. The district's statement said it would put off some other planned uses for the bond money, such as converting variable-rate debt to a fixed rate.

"Along with the tough cuts announced yesterday and earlier this year, the sale of these bonds will produce sufficient proceeds to mitigate our cash flow challenges through the end of the fiscal year," CPS Senior Vice President of Finance Ron DeNard said in a statement.

The size of the CPS deal has dropped as the district has searched for investors to buy the bonds. CPS had originally planned to issue close to $1.2 billion in bonds, then last month shrunk the deal to $875 million.

In addition to ongoing contract talks with the Chicago Teachers Union, CPS is in the middle of a statewide political battle. Gov. Bruce Rauner and Republican leaders want to give CPS the authority to declare bankruptcy, although leaders of the Democrat-controlled General Assembly have said Democrats would block such a proposal.

Nonetheless, to reassure investors ahead of the proposed sale, the district late Tuesday filed a disclosure statement aimed at ensuring investors they could get paid even in the event of bankruptcy.

The district is also trying to push cost-cutting moves. On Tuesday, the district announced a round of cutbacks to school budgets totaling $75 million for this fiscal year, and also declared it would stop picking up the bulk of teachers' employee pension contributions.

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by Heather Gillers

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