Investors Demand Premium for Chicago School Debt.

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Chicago's public schools closed a critical bond offering Wednesday, but the district was forced to pay rates rarely seen in the municipal bond market in recent years.

Pricing data show a majority of the $725 million bond offering priced to yield 8.5%, nearly a 6-percentage-point premium over what states and cities with top-rated credit pay. The offering is smaller than the $875 million deal school officials planned. The deal had been delayed by the district last week as school officials looked to woo wary investors.

The nation's third-largest school district faces a mounting liquidity crunch. Illinois Gov. Bruce Rauner recently called for a state takeover and state legislation that would give the district the option to file for bankruptcy. The district also saw its contract offer to the Chicago Teachers Union shot down earlier this week, raising concerns of a strike later this year.

"Though some wanted our efforts to fail, (the schools) needed to move forward in order to keep our doors open," said Ron DeNard, senior vice president for finance for the school district.

Money raised from the bond sale is expected to be used to replenish operating funds as the district looks to have enough cash to make it through the end of the school year.

"The sale of these bonds will produce sufficient proceeds to mitigate our cash flow challenges through the end of the fiscal year," Mr. DeNard said.

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