
Chicago City Council Committee Advances $600 Million Bonds.

A Chicago City Council committee on Monday approved the issuance of up to $600 million of new general obligation bonds as well as a proposed ordinance to subject future debt issues to greater scrutiny.

The council's finance committee agreed to send the bond issue to the full city council, which meets on Wednesday. If approved, the bonds would be priced through Goldman, Sachs & Co in the third quarter or sooner depending on market conditions and other factors, according to Chicago Chief Financial Officer Carole Brown.

Chicago's sinking credit ratings due to budget and pension woes have led investors to demand hefty yields for the city's debt.

Brown said the implementation of Mayor Rahm Emanuel's plan to reform the city's debt practices and the passage of a big property tax increase last year to help fund pensions have tightened the city's so-called credit spread over Municipal Market Data's benchmark triple-A yield scale.

"I think the market has responded to a lot of the hard choices that this council and the mayor have made related to our finances," Brown said.

She estimated Chicago would continue to have spreads over MMD's scale in the 200 basis-point range. The finance committee lowered the interest rate cap for the new bond sale to 10 percent from 18 percent.

Brown said the municipal bond market is awaiting the fate of legislation sitting on the desk of Illinois Governor Bruce Rauner's desk, which would allow the city to spread out payments to two public safety pension funds. Nearly two months after the state supreme court threw out cost-saving reforms to Chicago's other two pension funds, the mayor has yet to release a detailed plan B.

Proceeds from the bond sale would fund equipment purchases and capital improvements, with $100 million earmaked for legal settlements in 2016 and 2017.

The finance committee also advanced a Debt Transactions Accountability Ordinance that would require reports detailing the risks, benefits and costs of a debt issue prior to sale.

Participants in a bond issuance would not be indemnified by the city from "gross negligence, illegal acts, fraud, bad faith breach or willful misconduct."

The proposed ordinance also sets out timelines for city council deliberations and public hearings on bond sales and requires annual post-sale financial performance reports by the city's CFO.

Reuters

Mon May 16, 2016 3:36pm EDT

(Reporting by Karen Pierog; Editing by Matthew Lewis)