Bond Case Briefs

Municipal Finance Law Since 1971

Privately Sold Junk-Rated Chicago School Bonds Could Go Public.

Municipal bond investors may get a shot at $150 million of junk-rated bonds issued by the Chicago Board of Education if the bank that purchased the bonds in July decides to launch a public offering amid financial uncertainties for the school district.

Brian Marchiony, a spokesman for J.P. Morgan Securities, which acquired the bonds in a private placement, declined to comment on Tuesday beyond the disclosure in an official statement released by the school board on Friday that the bank may sell the bonds.

The 30-year general obligation bonds were sold with a 6.5 percent coupon and 7.25 percent initial yield, which was 513 basis points over Municipal Market Data's benchmark triple-A scale. The wide spread was indicative of the big market penalty paid by the cash-strapped Chicago Public Schools (CPS) to sell debt.

The bonds' official statement showed that the nation's third-largest public school system, which began its new school year on Tuesday, remains under fiscal stress, projecting to end fiscal 2017 on June 30 with a slim cash balance of $30.5 million.

That balance takes into account that the district's $5.46 billion operating budget will include $215 million from Illinois that is tied to the uncertain enactment of state-wide pension reforms. It also relies on $31 million in savings if the Chicago Teachers Union (CTU) reverses its opposition to a CPS plan to have teachers pay more toward their pensions.

The district is struggling with escalating pension payments that will jump to $720.2 million this fiscal year from $676 million in fiscal 2016, as well as drained reserves and debt dependency.

CPS expects to begin short-term cash flow borrowing of about $325 million this week, followed by $150 million in early October, according to the official statement. The board of education in August approved up to $1.55 billion of short-term debt in fiscal 2017.

The document also warns of a possible teachers' strike that could affect state aid revenue if the school year is shortened.

CTU President Karen Lewis said in her back-to-school message on Monday that teachers will not work another year without a contract and that negotiations are a priority. The union's contract expired on June 30 of last year. Its last prolonged strike occurred in 2012.

REUTERS

Tue Sep 6, 2016 12:46pm EDT

(Reporting by Karen Pierog; Editing by Matthew Lewis)