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S&P Pushes Credit Rating for Chicago Schools Deeper Into Junk.

CHICAGO — S&P Global Ratings on Wednesday dropped its credit rating for the cash-strapped Chicago Public Schools (CPS) deeper into junk ahead of the district's planned \$426.3 million bond sale.

The rating fell one notch to B with a negative outlook, putting it just two notches above the substantially risky triple-C level.

"The rating action reflects our view of the district's continued weak liquidity in its most recent cash flow forecast and reliance on cash flow borrowing, combined with the increased expenditures in the district's new labor contract that exacerbate the district's structural imbalance challenges," S&P analyst Jennifer Boyd said in a statement.

S&P warned that the rating stands at least a one in three chance of falling further over the next year. The credit rating agency has raised concerns over the school system's ability to obtain cash flow financing and a one-time \$215 million pension funding boost from the state of Illinois. That money is contingent on the long-shot passage of state-wide pension reform by the legislature this year.

The nation's third-largest public school system is struggling with pension payments that will jump to about \$720 million this fiscal year from \$676 million in fiscal 2016, as well as drained reserves and debt dependency.

As CPS's ratings have fallen into the junk level, the municipal bond market has demanded fat yields for its debt. Even a private sale of \$150 million of 30-year GO bonds by CPS in July to J.P. Morgan came at a 7.25 percent yield, which was 513 basis points over the yield for AAA-rated bonds on Municipal Market Data's (MMD) benchmark scale.

CPS heads to the bond market in the wake of approval by the Chicago Teachers Union last week of a four-year contract with a retroactive start date of July 1, 2015.

The district plans to refund \$160 million of outstanding general obligation bonds and sell new debt through JP Morgan Securities and Loop Capital Markets. A pricing date was not immediately available from a CPS spokeswoman.

Fitch Ratings on Monday affirmed a B-plus rating and negative outlook on the district's \$7.1 billion of outstanding bonds.

By REUTERS

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(Reporting by Karen Pierog; Editing by Leslie Adler)

