
Chicago Schools' New Debt Deal Tops U.S. Muni Sales Next Week.

CHICAGO/NEW YORK — The financially struggling Chicago Board of Education next week will sell a new type of debt, armed with an investment grade rating from Fitch Ratings based on the bonds' ability to withstand a bankruptcy filing.

The $500 million of capital improvement tax bonds slated to price through Barclays Capital are secured by a new property tax levy earmarked exclusively for capital spending and not by the school district's junk-rated general obligation pledge.

That money would be considered special revenue in a "hypothetical" municipal bankruptcy by the district, allowing debt service payments to continue as bondholders retain a lien on the tax collections, according to the debt issue's legal opinions. The Chicago Public Schools cannot file for bankruptcy under Illinois law.

Fitch assigned the bonds an A rating, eight steps above the district's B-plus junk rating with a negative outlook.

Alan Schankel, a municipal bond strategist at Janney Capital Markets, said the new bonds should fetch lower yields than the district's February GO bond sale, when yields hit a whopping 8.5 percent.

"I suspect pricing will still be well into high yield territory given lack of Moody's and S&P ratings as well as relative novelty of Fitch's rating approach," he said.

Earlier this week some of the school system's longer-dated GO bonds yielded as much as 380 basis points over Municipal Market Data's benchmark triple-A scale, according to MMD.

The deal is the largest of the $4.3 billion of U.S. muni bond and note sales scheduled next week.

The light issuance could help stabilize the market near term, especially with December redemptions on track to be the largest in 25 years, Barclays analysts wrote on Friday.

Munis suffered in the wake of the presidential election, with the 30-year yield jumping 82 basis points to 3.35 percent between Nov. 7, the day before the election, and Dec. 1.

Yields have since dropped, closing at 3.12 percent on Friday.

"This week's massive rally is at the very least a little puzzling to us and feels artificial," Barclays wrote.

The rally is "too far, too fast" because concerns remain about how munis would be affected by changes to tax policies and the Affordable Care Act under President-elect Donald Trump.

Barclays said fund outflows are the biggest threat to the market. Investors drained $9.5 billion from muni funds over the last four consecutive weeks, according to data from Thomson Reuters' Lipper service.

By REUTERS

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