Struggling Chicago Schools Increase Size of Bond Deal by 46 Percent.

NEW YORK — Chicago's financially struggling public school system boosted the amount of its planned bond sale on Thursday by 46 percent to $729.6 million, taking advantage of a new type of debt that priced at lower interest rates than its existing bonds.

Strong investor demand allowed the Chicago Board of Education to increase the capital improvement tax bonds deal that was originally set for $500 million.

Bonds maturing in 2046 with a 6 percent coupon priced at a 6.25 percent yield, according to a pricing sheet obtained by Reuters.

That is 243 basis points higher than similarly rated debt and 309 basis points over triple-A rated benchmark debt. It is lower, however, than where the district's outstanding debt has been trading, which recently has been at a spread of 375 to 390 basis points over top-rated bonds, according to Municipal Market Data.

"For an untested tax stream that's brand new for them, it was obviously well-received," said Eric Kazatsky, a municipal credit analyst at Janney Montgomery Scott in Philadelphia. "They were able to lower their borrowing costs at the end of the day."

The deal likely drew some investors who do not typically buy the district's debt, he said.

Forty-five investors participated in the deal, which also priced 200 basis points tighter than the district's February general obligation sale, Senior Vice President of Finance at Chicago Public Schools Ronald DeNard said in a statement.

The proceeds will be used only to fund "much-needed capital investments like relieving overcrowding, modernizing schools and making critical repairs," DeNard said.

The deal received an investment grade rating of A from Fitch Ratings because of the bonds' ability to withstand a hypothetical bankruptcy filing.

The district's new debt calls for the bonds to be secured solely with a capital improvement property tax that can, if needed, be intercepted and sent directly to the bond trustee.

Fitch's A rating is eight steps above the district's overall junk rating of B-plus with a negative outlook. The school system has $6.8 billion of outstanding general obligation bonds.

The deal had an investment-grade BBB rating from Kroll Bond Rating Agency and was not rated by Moody's Investors Service or S&P Global Ratings.

By REUTERS

DEC. 15, 2016, 4:03 P.M. E.S.T.

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