
Chicago's Poor Credit Rating Boosts Taxpayer Tab for Borrowing by Tens of Millions.

Chicago taxpayers are on the hook for tens of millions of dollars in additional borrowing costs over the next two decades, after interest rates on nearly $1.2 billion in city bonds Thursday came in several percentage points higher than comparable issues in cities with solid credit ratings.

The interest rates on the bulk of the bonds — $887.5 million in tax-exempt borrowing — ranged from 5.8 percent to 6.2 percent, municipal bond analysts said. That's more than 3 percentage points higher than rates typically paid by cities with benchmark AAA ratings, they said.

Interest rates came in even higher on about $275 million in taxable bonds also priced Thursday. Experts said those rates were more than 4 percentage points above those on Treasury notes, which is the benchmark used because cities rarely use that type of borrowing.

The so-called spread between what the city will pay to borrow and ideal market rates was greater than many analysts expected, said Matt Fabian, a partner at Concord, Mass.-based Municipal Market Analytics. Part of the reason is that interest rates on municipal bonds have risen in the past six months, but investors also are worried about a number of financial uncertainties in the city's future, he said.

"I think that in general the market sees the city as on the right track, but there still is a lot of work to do," Fabian said. "The city still has problems."

In recent years, Emanuel and the City Council have approved a series of substantial tax increases, including a record-high property tax hike, to increase contributions to the long-neglected city worker pension systems. Nevertheless, in the early to mid-2020s the city will have to come up with hundreds of millions of more dollars a year to meet the mayor's goal of making sure those systems are 90 percent funded in 40 years.

Investors also are concerned about even more troubled finances at Chicago Public Schools and how that affects City Hall, as well as the state's partisan budget stalemate. Meanwhile, in its latest round of borrowing that was priced Thursday, the city is taking out hundreds of millions of dollars in new debt to pay off old debt, borrowing money to pay legal settlements and judgments, and taking out loans to pay initial interest costs — all of which push city debt out into the future at a higher cost.

As a result, "the market is still skeptical about Chicago bonds," said Richard Ciccarone, president and CEO of Merritt Research Services. Although the city in recent years has taken steps to address its financial woes, "they're not finished," Ciccarone said.

The spreads on the interest rates were about a percentage point higher than they were a year ago, when the city issued $500 million in bonds. That was before a pair of Wall Street ratings agencies further downgraded Chicago city creditworthiness. The lower ratings typically result in higher borrowing costs.

In response to the pricing Thursday, Emanuel administration officials reiterated the mayor’s pledge that the city will not again issue bonds to pay off old bonds or cover routine legal settlements and judgments. “The city continues to address our financial challenges and work to end bad financial practices of the past,” city Chief Financial Officer Carole Brown said in a statement.

The bond deals priced Thursday are expected to close Feb. 1. After that, the city doesn’t plan to issue further bonds until 2019, officials said.

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