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Chicago Touts New Debt Structure Aimed at Saving Money.

CHICAGO (Reuters) – Under a plan announced on Wednesday by the mayor's office, Chicago would create a new entity to issue bonds backed by city's share of Illinois sales tax collections in an effort to reduce its borrowing costs.

Mayor Rahm Emanuel unveiled the plan at the city's annual investors conference, saying it will be "much more financially viable" for Chicago.

A chronic structural budget deficit and a huge unfunded pension liability that totaled $35.76 billion at the end of 2016 have pushed the city's general obligation (GO) credit ratings from the low end of investment grade to junk levels.

As a result, investors have demanded higher interest rates for the city's debt.

Illinois' fiscal 2018 Illinois budget, which was enacted last month, included a provision allowing home-rule local governments like Chicago to assign their state revenue to an entity for the purpose of issuing debt.

Carole Brown, Chicago's chief financial officer, said the state sales tax dollars would flow first through the new entity to meet debt service and other requirements before any of the revenue is released to the city's general fund.

The state law also creates a statutory lien that would shield the bonds from a bankruptcy filing, which Illinois local governments are currently not allowed to pursue.

"It's one of the reasons that we expect the market will view (the new debt) favorably, why it will get higher ratings and why we think the cost differential with our (GO bonds) will be so great," Brown said.

An ordinance creating the program will be introduced in the city council this fall, according to Brown. If passed, Chicago would initially refund some of its "more expensive" GO debt and outstanding sales tax revenue bonds, she said, noting that New York, Philadelphia and Washington have similarly structured debt programs.

"From a credit standpoint, it's a positive," said Richard Ciccarone, who heads Merritt Research Services, which provides research and data related to municipal bonds. He added that from a public policy standpoint, the move could tie up revenue the city may need for operations.

In a report last month, Fitch Ratings said debt issued under this new structure could attain a rating higher than the city's current GO rating.

Chicago's $9.8 billion of outstanding GO bonds are rated BBB-plus by Standard & Poor's, BBB-minus by Fitch and Ba1 by Moody's Investors Service.

REUTERS

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(Reporting by Karen Pierog, editing by G Crosse)