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Chicago School Bonds Top Next Week's $9.84 bln Muni Bond Sales.

CHICAGO, Nov 10 (Reuters) – The junk-rated Chicago Board of Education will sell $922 million of bonds next week in the wake of a new Illinois education funding formula that allocates more money to the cash-strapped district.

The two-part bond sale, pricing through J.P. Morgan on Wednesday and Thursday, tops the $9.84 billion of bonds and notes selling in the municipal market in the coming week, according to Thomson Reuters estimates on Friday.

Escalating pension payments have led to drained reserves and debt dependency for Chicago Public Schools (CPS), the nation's third-largest public school system.

The state funding formula enacted in August allocates an additional $450 million to CPS in the current fiscal year from new state money for operations and pensions and a local property tax increase.

"CPS is a different credit than it was just a few months ago," Ronald DeNard, the district's senior vice president of finance, said in an investor presentation.

But the district's general obligation ratings remain in junk with major credit rating agencies. Ahead of the deal, Fitch Ratings upgraded the district to BB-minus with a stable outlook from B-plus, citing the additional state aid. It also noted a continued high dependence on cash-flow borrowing. CPS has said it will decrease its reliance on tax anticipation notes to $1.3 billion in fiscal 2018 from $1.55 billion the prior year.

S&P rated the GO bonds B with a stable outlook, noting the district's "extremely weak liquidity and its vulnerability to unexpected variances in its cash-flow forecast."

CPS will sell $632.5 million of GO refunding bonds and nearly $225 million of new GO bonds, as well as $64.9 million of dedicated capital improvement tax bonds that are rated at the investment-grade level of A by Fitch.

The biggest chunk of the GO bond deal, $441.7 million, will restructure 9 percent floating-rate debt that CPS sold in 2011, 2013, and 2015 into a fixed-rate mode.

Another low-rated Illinois issuer, the Metropolitan Pier and Exposition Authority, which owns Chicago's McCormick Place convention center, will sell $475 million of new and refunding expansion project bonds through Citigroup on Tuesday. The bonds are rated BB-plus by S&P and BBB-minus by Fitch.

Meanwhile, U.S. municipal bond fund flows turned positive in the latest week, according to Lipper, a Thomson Reuters unit. Funds reported net inflows of $463 million in the week ended Nov. 8 compared to net outflows of $655 million in the prior week.

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