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Chicago Sales Tax Bonds Fetch Wider Spreads in Second Sale.

CHICAGO, Jan 23 (Reuters) – Weaker demand resulted in wider spreads on Tuesday for the sale of highly rated bonds Chicago pulled from the U.S. municipal market last week in order to restructure the deal.

The pricing of nearly $376.3 million of the city's Sales Tax Securitization Corporation tax-exempt bonds resulted in spreads of 53 to 60 basis points over Municipal Market Data's (MMD) benchmark triple-A yield scale.

Spreads over the MMD scale for $174 million of tax-exempt bonds the corporation sold in its first-ever deal in December ranged from 23 to 38 basis points, although the bonds are trading at wider spreads in the secondary market.

"The original deal came at a time when every primary issue was being snapped up. Certainly not the same type of demand this time around," said MMD analyst Greg Saulnier.

The city, which postponed an $898 million tax-exempt bond issue by the corporation scheduled to price last week, downsized and restructured the deal to include about $300 million of taxable bonds.

There was no immediate comment from Chicago regarding Tuesday's bond pricing and the status of the taxable bonds.

Chicago created the sales tax securitization corporation last year to refinance up to $3 billion of its sales tax revenue and GO bonds, and produce an initial $94 million in savings for the city's fiscal 2018 budget.

A chronic structural budget deficit, as well as a huge unfunded pension liability that totaled $35.76 billion at the end of 2016, have led to low credit ratings and increased borrowing costs for the nation's third-largest city.

The corporation is pledging Chicago's state-collected sales tax revenue to pay off the new bonds. Investors will get a statutory lien shielding the debt from municipal bankruptcy, which is not allowed under Illinois law.

The bonds are rated AAA by Fitch Ratings and AA by S&P Global Ratings, both of which are several notches higher than the city's GO ratings of BBB-minus by Fitch and BBB-plus by S&P.

Reuters Staff

(Reporting by Karen Pierog; Editing by Matthew Lewis)

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