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Philadelphia Schools Deal Tops $3.1 bln U.S. Muni Bond Sales Next Week.

NEW YORK, March 16 (Reuters) – The Philadelphia School District plans to price $251.8 million of tax-exempt general obligation bonds on Thursday, the first time the fiscally strained district in Pennsylvania will issue debt since a decision to return it to mayoral control.

The deal is the largest negotiated offering of the $3.1 billion of U.S. municipal bond and note sales planned for next week.

The state-formed oversight commission that ran the district for the past 16 years began dissolving at the end of last year. Mayor Jim Kenney is selecting a nine-member school board to be in place by July 1.

Financially, the shift could benefit the district but hurt the city. Moody's Investors Service said in December that its negative outlook on the city, rated A2, in part reflects possible challenges in fiscal 2019 in funding the district.

Moody's assigned to the district's forthcoming bonds an underlying rating of Ba2 with a positive outlook and an enhanced rating of A2 with a stable outlook.

Kenney's recent city budget proposals would allocate permanent tax increases to schools, Moody's noted. A Pennsylvania intercept program that funnels state aid to bondholders if the district cannot meet debt service payments lifted the enhanced rating.

Proceeds of the sale will fund capital projects, with the district returning to invest in classrooms "after years of austerity operations," Moody's said.

For the past few years, the district has been trying to stem its fiscal crisis, leading to protests by teachers who were tired of seeing their schools shuttered, colleagues laid off and supplies cut.

But the district has also secured at least $58 million from the state annually from a cigarette tax that was made permanent and $2 million of new revenues from ridesharing fees, according to a presentation for prospective bondholders.

It has also refunded more than $1 billion of high-interest debt to save $100 million over the next 20 years, leading to Moody's upgrade by one notch to Ba2 in September.

The bonds have serial maturities through 2038 and term bonds due 2043. The lead manager is Bank of America Merrill Lynch.

Next week's largest muni deals are both competitive. Maryland's Anne Arundel County is expected to sell $263.7 million of bonds for general improvements and water and sewer projects, and the city and county of San Francisco, California will price $251.3 million of debt for parks and road projects.

(Reporting by Hilary Russ in New York; Editing by Richard Chang)

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