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Puerto Rico's Bankruptcy Case Casts a Shadow on Billions in Municipal Bonds.

It might come as a surprise that about 10% of the Chicago Board of Education's long-term debt is rated investment grade, just two years after a budget shortfall threatened to close schools early.

Yet the school district has three series of bonds that are rated 'A' by Fitch—for now, at least. That is 7 notches above its other debt, which is solidly junk-rated at BB-. The investment-grade debt was issued in the form of special-revenue bonds, which are structured to provide bondholders with more security and higher recoveries in case of a bankruptcy.

Now those bonds' ratings are being reviewed for a potential downgrade, after a recent appellate court decision raised questions about the special status of special-revenue bonds. And at least two credit-ratings firms are considering downgrading billions of dollars in debt because of the court ruling, which is the first time an appellate court has addressed the issue.

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Barron's

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