Chicago Transit to Sell Debt Backed by Higher Online-Sales Taxes.

- **CTA scheduled to sell $344.6 million in bonds on March 23**
- **Buyers must be lured with higher yields: Lord Abbett**

The Chicago Transit Authority is returning to the $4 trillion municipal-bond market after nearly a year to sell debt as yields climb higher amid market volatility.

Why It's Noteworthy

The second-largest transportation system in the U.S. is scheduled to sell $344.58 million of tax-exempt second lien bonds, backed by sales taxes in a negotiated deal on Wednesday, according to bond documents. The proceeds will be used for capital projects and to refund draws on its credit line.

The agency's deal size may increase to $350 million, according to preliminary pricing on Tuesday viewed by Bloomberg News. The spread over benchmark muni AAA securities ranged from 94 basis points above the MMD curve on debt maturing in 2046 with a 5% coupon to 125 basis points on debt maturing in 2057 with a 4% coupon, according to the preliminary pricing.

The transit system in Chicago relies on sales taxes to service both first- and second-lien loans before tapping general funds. Total 2021 sales taxes of more than $866 million were nearly 27% above 2020 and almost 16% higher than in 2019, according to the CTA.

Higher collections from recreational cannabis sales and a new tax levy on online retailers, which came into effect in January 2021, helped bolster revenue despite ridership taking a hit during the pandemic, budget documents show.

Outlook

S&P Global Ratings on March 10 assigned an A+ rating to the bonds with a stable outlook.

"A strong and swift economic recovery, along with increased tax collections driven by statutory changes that increased online sales tax collections, led to an extraordinary increase in pledged revenue for fiscal 2021," Andrew Bredeson, an analyst for S&P, said in the report.

Market View

The transit authority last came to market in mid-2021, selling nearly $121 million in bonds with a top spread of 33 basis points and a 5% coupon on debt maturing in 2028. Market technicals last year were marked by record inflows, with investor demand outpacing the supply of bonds issued.

In contrast, investors this year are seeking defensive positions amid rising interest rates, inflation and a war in Ukraine.

“Every deal is a little more challenged for its pricing just because of the outflows,” said Daniel Solender, director of tax-free fixed income for Lord, Abbett & Co.

Issuers from Chicago and Illinois may also need to provide more incentives — such as higher yield — to attract buyers, given the strains on the credit quality of the city and state, Solender said. Illinois has the lowest rating among U.S. states, and that may add pressure to CTA’s deal, he added.

Concerns including crime and uncertainty around when workers will fully return to offices may also impact both ridership and the economic rebound of the region. While ridership is expected to rise to 251.2 million in 2022 from 196 million in 2021, it is still muted compared to 455.7 million in 2019, the bond documents show. The city is increasing the number of officers, security guards on trains, buses and stations to reduce crime and make passengers feel safer, Chicago Mayor Lori Lightfoot said on March 9.

“The challenge is that everything in the Chicago region has to have a little more yield than the rest of the market given all the issues they are working through,” Solender said.

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