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Chicago 'Social Bond' Issue Deemed a Success with Big and Small Investors.

The $160 million offering will fund neighborhood projects that include vacant-lot cleanups, affordable housing expansion and tree planting.

Chicago's first effort in years to market its municipal bonds to everyday buyers instead of financial institutions was a success, resulting in lower interest rates for the city and strong investor support for community projects, officials said Tuesday.

Last week, the city went to market with $160 million in what it called "social bonds" to fund sundry work, including construction of affordable housing, cleanup of vacant lots and the promised planting of 75,000 trees over five years.

The offering was structured to give first crack at the bonds to individual investors, especially Chicago residents. Municipal bonds typically are gobbled up by institutions.

As a result, 8% of the bond sales went to Chicago residents and 24% went to Illinois investors, said Jennie Huang Bennett, the city's chief financial officer. She said the city generally sees only about 0.3% of bond sales going directly to individuals.

The bonds had high overall demand, she said. The greater the demand, the lower the interest the city must pay.

Bennett said the yields on bonds not subject to federal tax ranged from 2.56% to 3.86%, depending on maturities that ranged from 2026 to 2044. Also issued were taxable bonds that produced yields of 4.408% to 5.293%, depending on maturities from 2026 to 2041.

While participation by individuals was emphasized, large investors also gravitated to the bonds. Bennett said the city saw substantial activity from investment funds focused on environmental, social and governance standards, known as ESG.

She said 11 ESG-focused investment funds acquired $88 million worth of bonds.

Bennett called the offering "a unique social bond which allowed Chicagoans to invest in historic investments in their own community."

Bond sales to individuals were encouraged in the city's marketing, as well as by a decision to reduce the minimum investment to $1,000 from the standard $5,000. Individuals were given a one-day head start in purchasing the bonds before they were made available to institutions.

In addition, 43 participating banks and brokerages cooperated on streamlined procedures for taking individual orders.

Jack Brofman, the city's deputy chief financial officer, said the last time the city took a direct-to-te-people approach with a bond sale was in 2005-06.

Bennett said recent improvements in the city's bond ratings by outside firms reduced the overall interest it must pay. Higher bond ratings give investors more assurance they will be paid. The bonds were issued by the Sales Tax Securitization Corp., which is connected to the city but doesn't have its pension debt. It repays bondholders from sales taxes.

Other programs the social bonds will fund include the city's purchase of electric vehicles for its fleet and grants to rehabilitate vacant buildings along neighborhood commercial streets.

The Chicago Sun-Times

By David Roeder

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