Chicago Board of Education beefs up offering documents; moves forward with USD 875m bond sale
By Gunjan Banerji
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Chicago Board of Education (CBOE) returns to the bond market today to restore the financial stability of the district, said CBOE CEO Forrest Claypool in a media statement yesterday.

The underwriters plan to price the USD 875m in bonds later today, said three market sources. The deal is likely coming with more yield than last week, and at a greater dollar price discount, said two of the sources. **Barclays** declined to comment. **JPMorgan** did not immediately respond to request for comment.

After putting its bond offering on a day-to-day schedule last week, **Illinois**' largest school system released a supplement to its offering documents last night. The addendum details Illinois lawmakers' new state oversight and bankruptcy bills as well as bondholder security in any potential Chapter 9 bankruptcy. Illinois does not yet authorize municipal bankruptcy.

The deal last week failed to lure investors even with tax-exempt yields as high as 8%. One hedge fund analyst stated that the bonds needed yields higher than 10% to attract alternative investors in the event traditional municipal bond investors balk, as reported.

In his statement, Claypool sounded encouraged. “We have good momentum with investors,” he said.

CBOE has faced a slew of downgrades prior to and during its entry to the primary market. Moody's Investors Service downgraded CBOE's USD 6bn in debt deeper into junk to B2/negative from B1. Standard & Poor's rates the school district B+/creditwatch with negative implications, while Fitch has a B+/negative rating. Kroll Bond Rating Agency has a BBB-/negative rating on the district.

A USD 175.6m tranche of Series 2011A bonds maturing in 2041 last traded on 2 February 2016 at 73.24 yielding 7.3%, according to *Electronic Municipal Market Access*.

Emphasis on security

The supplement states that pledged taxes backing the bonds constitute “special revenues” according to United States bankruptcy code. The taxes would “remain subject to the lien of the series indentures and could not lawfully be used by the board other than in compliance with the series indentures.”

The board does not opine on the treatment of pledged state aid revenues in a potential bankruptcy proceeding. Most of CBOE's bonds are backed by state aid revenues and taxes, as reported.

Regardless of any security features that the documents promise, the fact that talk of a restructuring surrounds CBOE in the first place is meaningful, said market participants.

Republican lawmakers revealed three new bills late in January: HB 4498, HB 4499, and HB 4500. HB 4498 allows the state superintendent of education to remove members of the school board of any district. The other two pertain to bankruptcy for all Illinois municipalities and Chicago entities in particular, as reported.

Governor Bruce Rauner (R) supports the state takeover and bankruptcy bills, said his office, while Chicago's mayor opposes any plan for bankruptcy and state takeover for CBOE, said Chicago CFO Carole Brown. A local news report cites Rauner as stating that he's preparing for such a takeover, and has told State Board of Education members to start looking for an interim superintendent for the distressed district.

Illinois Representative Ron Sandack said in an interview with *Debtwire Municipals* that the restructuring legislation could be accelerated if there's an emergency circumstance, while Democratic Senator Heather Steans does not envision the state passing a bankruptcy bill in a time in which Illinois has not even passed its own budget, she said in an interview with *Debtwire Municipals*.

"Instead of becoming adequately prepared, CBOE is now seeking another pension payment holiday or state bailout," Republican-backed HB 4498 states. "Similarly the City of Chicago has not fully planned for its anticipated increase in pension contributions and now wants to significantly reduce its short-term pension contribution requirements."

Under HB 4499 Chicago or CBOE could trigger the ability to declare bankruptcy by unilaterally choosing not to negotiate in good faith during the neutral evaluation process, said Clark Hill's John Schomberg .

"The local public entity and all interested parties participating in the neutral evaluation process shall negotiate in good faith. Failure to do so is grounds for ending the neutral evaluation process and satisfying the eligibility requirements," the bill states.

Pension parity still debated

In addition to bankruptcy authorization in Illinois, state Democrats and Republicans disagree on issues such as pension parity for CBOE, as reported.

Neither a state takeover nor a bankruptcy would address the fundamental financial challenges resulting from inequitable state funding, Brown said.

"If the Governor wants to constructively address [CBOE's] finances and support Chicago students, he should focus on actually passing a state budget that meaningfully funds education and treats Chicago's children and taxpayers fairly," Brown said in a statement to *Debtwire Municipals*.

One selling point of the bankruptcy legislation could be that declaring bankruptcy or neutral evaluation is in CBOE or Chicago's hands, Schomberg said.

However, if both the state takeover bill and the bankruptcy legislation passed—hypothetically, the Illinois State Board of Education (ISBE) could direct the ISBE Superintendent to remove the CBOE board members, appoint an independent authority, which could step into the shoes of the previous board members and prompt a neutral evaluation or bankruptcy process, Schomberg said.