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Illinois' $1.3 Billion Bonds Fetch Hefty Yields.

With Illinois' political and fiscal problems showing no sign of abating, investors on Thursday demanded fat yields for the low-rated state's $1.3 billion of general obligation refunding bonds.

The state's so-called credit spread over Municipal Market Data's benchmark triple-A yield scale widened from 162 basis points before the sale to 200 basis points for bonds due in 10 years, according to MMD, a unit of Thomson Reuters.

The wider spread indicates growing investor unease over Illinois' ability to pass a balanced budget and address its huge unfunded pension liability.

Dan Heckman, national investment consultant at US Bank, which did not purchase any of the bonds, said the municipal market is telling Illinois, "You need to get your act together."

"This is a very large deal and the market to a degree is running out of patience," he said, adding that the pricing signals it is time for Illinois "to get past the stand-still on the budget."

Illinois, the lowest-rated U.S. state, is limping through its second straight year without a complete budget. A political impasse, along with a $111 billion unfunded pension liability and a growing pile of unpaid bills, have pounded Illinois' credit ratings into the low investment-grade level of triple-B.

Republican Governor Bruce Rauner told reporters in Springfield, Illinois, on Thursday that he was "cautiously optimistic" the Democrat-controlled legislature would take up key issues such as pensions after the Nov. 8 election.

The refunding of outstanding bonds to take advantage of lower market rates resulted in a present value savings of $106 million, according to Rauner's office.

"Today's bond sale shows public finance investors continue to see long-term potential in Illinois," said Rauner spokeswoman Catherine Kelly in a statement.

Despite a repricing by underwriters led by Bank of America Merrill Lynch, yields in most maturities of the bond issue did not budge from preliminary pricing levels. Bonds due in 2026 were priced to yield 3.63 percent with a 5 percent coupon.

The deal's longest maturities – 2030 through 2032 – were insured by municipal bond insurer AGM, which is rated A2 by Moody's Investors Service and AA by S&P.

Ahead of the sale, Illinois warned potential bond buyers that the state's ongoing cash crunch could delay pension payments. It also reported progress in reducing risks related to $600 million of variable-rate bonds.

REUTERS

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(Reporting by Karen Pierog; Editing by Matthew Lewis)