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Bond Market's Dip Didn't Hit $4.5 Billion Illinois Sale.

- **Deal has yields comparable to last week's sale despite drop**
- **Proceeds will pay down bill backlog left from record impasse**

The bond-market drop didn't diminish demand in Illinois's biggest debt sale in more than a decade.

As the state marketed $4.5 billion of bonds Wednesday, securities due November 2028 sold at a preliminary yield of 3.77 percent, according to two people with knowledge of the pricing who requested anonymity because the yields aren't final. That is repriced from the 3.74 percent offered earlier and is slightly lower than the 3.78 percent yield for the November 2029 portion of last week's $1.5 billion deal, even though bond prices have slid since then.

Investors said the yields are alluring, with benchmark 11-year tax-exempt debt paying about 2.1 percent.

"The issuer still offers a tremendous amount of yield in a pretty yield-starved environment," said Gabriel Diederich, fixed income portfolio manager at Wells Fargo Asset Management, which holds $41 billion in municipal bonds, including those issued by Illinois. "Outside of this little supply hump here with this deal, there really hasn't been much muni issuance before this or likely in the weeks ahead."

The deal comes after Illinois avoided becoming the first junk-rated state because lawmakers overrode Governor Bruce Rauner's veto of tax hikes to end a two-year budget impasse in July. The proceeds from Wednesday's deal, as well as the borrowing last week, will pay down $16.6 billion of unpaid bills that piled up during the budget stalemate.

The offering is the state's biggest since 2003 and the largest offering of municipal bonds since 2009, according to data compiled by Bloomberg.

Last week's Illinois offering is already showing signs of tightening. Bonds with a 5 percent coupon due in November 2029 traded at an average spread of 1.7 percentage points on Wednesday, compared to 1.8 percentage points when it sold on Oct. 17, according to data compiled by Bloomberg.

The securities are rated Baa3 by Moody's Investors Service and BBB- by S&P Global Ratings, which are both one level above junk, while Fitch Ratings grades the securities BBB, two levels above junk.

"Clearly the passage of a budget, the performance of the revenue enhancements with the income-tax, paired with the ability to refinance high-cost payables at much lower levels, is positive for the state," Diederich said. "But the need for expense and pension reform remains and will be a limiter on this name trading substantially tighter."

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