

Bond Case Briefs

Municipal Finance Law Since 1971

Illinois' \$750 mln Bonds Won by BofA with Still Hefty Yields.

CHICAGO, Nov 29 (Reuters) – Bank of America Merrill Lynch won \$750 million of Illinois bonds in competitive bidding on Wednesday as the state faced a lingering market penalty for its fiscal and political woes.

Spreads for the general obligation bonds over Municipal Market Data's benchmark triple-A yield scale tightened by about 2 to 5 basis points for 10-year and longer bonds in the deal, but widened by 4 to 10 basis points for some shorter-dated bonds, according to Randy Smolik, MMD's chief market analyst.

That indicated good performance for Illinois bonds mainly in the 10-year range compared with where they had been trading in the secondary market, he added.

Market conditions were tough for the two-part bond deal from Illinois, the lowest-rated U.S. state, as the muni market was hit with a sixth-straight session of falling prices and higher yields.

For Illinois bonds due in 2042 with a 5 percent coupon and priced with a 4.42 percent yield, the spread was 165 basis points over the benchmark scale's 2.77 percent yield for top-rated bonds, according to MMD, a unit of Thomson Reuters.

"It's the widest spread for a state GO bond by far," Smolik said.

An impasse between Illinois' Republican governor and Democrats who control the legislature left the state without a complete budget for an unprecedented two fiscal years. Lawmakers enacted a fiscal 2018 budget and income tax rate hikes in July over Governor Bruce Rauner's vetoes.

The stalemate ballooned the state's backlog of bills from vendors and service providers to an all-time high of nearly \$16.4 billion, which was deflated to \$9.1 billion as of Wednesday with the help of proceeds from Illinois' \$6 billion GO bond sale in October.

BofA was the winning bidder on Wednesday with an overall 4.33 percent interest cost for \$655 million of bonds with maturities from 2018 through 2042 to fund capital projects. The bank also won \$95 million of bonds due in 2018 through 2027 to finance information technology with a 3.71 percent interest cost.

Bank of America Merrill Lynch is the corporate and investment banking division of Bank of America Corp.

(Reporting by Karen Pierog; Editing by Matthew Lewis)