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Illinois GO, Hovering Above 'Junk' Credit, Among Prominent Deals Next Week.

NEW YORK (Reuters) – Financially beleaguered Illinois will come back to the U.S. municipal bond market with an offering rated one or two notches above “junk” grade in the most notable of more than $8 billion in debt offerings scheduled for next week.

The two-part competitive general obligation debt sale slated for Wednesday consists of $450 million of bonds with serial maturities in 2019 through 2043 and $50 million of bonds due in 2019 through 2028.

As the lowest-rated state, Illinois has had to pay a hefty penalty to sell debt to investors worried about its ongoing financial and political problems.

The state’s so-called credit spread over Municipal Market Data’s benchmark triple-A yield scale for 10-year bonds has widened from 177 basis points in January to 210 basis points on Thursday.

“Judging by the way the bonds are trading recently, the market is once again concerned about the state’s ability to pass a budget,” said Triet Nguyen, head of municipal credit at Triangle Park Capital Markets Data.

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

Legislators have since begun work on a budget for the fiscal year that begins July 1.

The state was the fourth-biggest issuer of debt in the muni market last year, according to Thomson Reuters data. It sold $6 billion of GO bonds in October to pay overdue bills and $750 million of GO bonds in November to fund capital projects.

Including Illinois, there is a total of $7.78 billion of bonds and $262.3 million of notes scheduled to hit the market next week.

In the week’s largest deal, the New York Transportation Development Corporation is set to issue $1.4 billion in negotiated special facility revenue bonds to help finance renovations at LaGuardia Airport. The redesign project is being led by Delta Air Lines (DAL.N).

New York’s bonds were given a Baa3 rating by Moody’s Investors Service and a BBB rating by Fitch Ratings.

Citi Group is scheduled to price the deal on Tuesday.

U.S. municipal bond funds reported $515.2 million of net outflows in the week ended April 18, marking a third-straight week of negative flows, according to Thomson Reuters’ Lipper division.

April outflows are typically attributed to investors cashing in muni investments to pay their taxes.

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