
Chicago's Met Pier Pays the Price of Illinois Fiscal Stalemate.

Chicago's Metropolitan Pier and Exposition Authority, which runs the nation's largest convention center, is discovering the price of Illinois's political paralysis.

The authority sold about $220 million of federally tax-exempt securities Wednesday for yields of as much as 6 percent, according to preliminary data compiled by Bloomberg. Thirty-year bonds are being offered at 4.87 percent, about 1.6 percentage points more than top-rated securities.

It's the agency's first offering since skipping a July payment into its debt-service fund because lawmakers and Governor Bruce Rauner didn't appropriate the money amid a deadlock over the budget. As a result, Standard & Poor's slashed the authority's rating by seven steps from AAA to BBB+, three grades above junk.

The lapse highlighted the risk to investors from bonds with debt bills that depend upon the approval of lawmakers. While Rauner signed a bill last month to free up tax money for Met Pier, the agency's bonds haven't rebounded from the rout that followed the missed deposit.

"The downgrade, which resulted from the budget impasse, hurt them in terms of interest costs," said Alan Schankel, a managing director at Janney Montgomery Scott LLC in Philadelphia. "Investors realize probably it's a lot better than a BBB credit, but because of what's happened and because of the appropriation nature, it's a BBB and not much you can do."

Met Pier is among borrowers most affected by the impasse between the Republican governor and the Democrat-led legislature that's left Illinois without a budget for more than two months. The failure had led investors to push the difference between Illinois bond yields and top-rated debt near a record high.

Met Pier bonds maturing in 2050, its most actively exchanged securities, traded for an average of 100 cents on the dollar Wednesday, down from $1.02 on Aug. 4, the day before the rating cut. That's pushed the yield up about half a percentage point to 5 percent.

The securities offering is the authority's first since 2012, according to data compiled by Bloomberg, and illustrated how it's being penalized by investors. In 2012, its 30-year bonds were sold for yields as low as of 4.15 percent, about a percentage point more than top-rated debt at the time. That gap swelled to 1.6 percentage point Wednesday.

The proceeds will help pay for the construction of a 40-story hotel and refinance debt, bond documents show. The securities included zero-coupon bonds, which were offered at a top yield of 6 percent for those maturing in 2052.

"This transaction will lock up the financing" for the authority's projects, said Richard Oldshue, Met Pier's chief financial officer. He declined to comment on what kind of reception he's expecting for the deal.

Fitch Ratings gave the bonds a BBB+ rating, three steps above junk, with a negative outlook. The company said Met Pier's ability to make "full and timely" debt service depends on the Illinois General Assembly to appropriate the revenue, which ties the authority's credit to Illinois, the worst-rated state in the nation.

Met Pier never missed any interest or principal payments to investors and the agency now has the authority to tap tax money to cover its debts. The bonds are backed by authority taxes and state sales taxes. The authority taxes, which includes levies on hotels, reached $140.2 million in 2015, up 42 percent from 2010, bond documents show.

"This is still a solid credit backed by the economic activity in the city of Chicago in terms of sales taxes and hotel taxes — and all our indications are that business is booming in Chicago," said Paul Mansour, head of municipal research in Hartford, Connecticut, at Conning, which oversees $11 billion in state and local-government securities, including those sold by Met Pier. "It creates a buying opportunity for people willing to take the longer view."

Bloomberg News

by Elizabeth Campbell

September 16, 2015 — 12:00 AM PDT Updated on September 16, 2015 — 1:55 PM PDT