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Muni Issuance to Hit \$8.77 bln Next Week Includes Both Chicago, Illinois.

Issuance in the U.S. municipal bond market will hit \$8.77 billion next week with both fiscally troubled Chicago and Illinois seeking to tap investors.

It will be the first time the state of Illinois has issued bonds for 20 months.

Governor Bruce Rauner's administration is downplaying Illinois' ongoing budget battle ahead of a \$480 million bond sale. An impasse between the Republican governor and Democratic lawmakers has left the fifth-largest U.S. state without a budget for the fiscal year that began July 1.

The disclosure document for the general obligation bonds indicates the absence of a budget is expected to increase significantly Illinois' chronic backlog of unpaid bills, a gauge of the state's structural budget deficit. It also points to last year's rollback of temporarily increased income tax rates, which is expected to reduce revenue by as much as \$5 billion annually.

Illinois' 10-year general obligation bonds trade in the secondary market muni bond market with a 1.72 percentage point spread over top-rated municipal bonds, up from 1.40 percentage points a year ago.

Overall issuance will include \$6.4 billion of negotiated deals and \$2.18 billion of competitive deal.

Chicago will head to the municipal bond market next week with a \$500 million bond issue amid uncertain pension funding requirements and political turmoil.

The general obligation refunding bonds are scheduled to be priced through Citigroup on Tuesday, according to bond sale documents. The sale comes as state legislative fixes to address Chicago's \$20 billion unfunded pension liability are uncertain.

Standard & Poor's warned last week that Chicago's BBB-plus bond rating could fall "multiple notches" if the city fails "to successfully implement contingency plans in a timely manner to fully meet its pension obligations with an identifiable and reliable revenue source." Moody's Investors Service already rates the city's bonds at the "junk" level.

Reuters

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(Reporting by Edward Krudy; Editing by Leslie Adler)