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Illinois Penalized as It Ends Hiatus From Muni Bond Market.

Illinois, the worst-rated state in America, returned to the $3.7 trillion municipal-bond market for the first time in almost two years and paid a price for its financial turmoil.

The state, now in its seventh month without a budget, sold $480 million of general-obligation bonds to pay for transportation projects. The federally tax-exempt securities maturing in 2041 sold at a top yield of 4.27 percent, according to data compiled by Bloomberg. That's about 1.5 percentage points more than benchmark debt. When it last sold bonds in April 2014, that gap for debt due in 2039 was about 0.4 percentage point less.

"It's generally a good result in line with or better than expectations given the credit deterioration since the last sale," said Paul Mansour, the head of municipal research for Conning, which oversees $11 billion of state and local debt, including Illinois securities.

Since Illinois's 2014 sale, its credit rating has been cut and temporary tax increase have expired, leaving Republican Governor Bruce Rauner and Democratic lawmakers deadlocked in the longest budget impasse in the state's history. The state supreme court also threw out Illinois's plan to reduce pension costs and shrink a $111 billion retirement-fund deficit.

Bank of America Merrill Lynch submitted the winning bid at a true interest cost of 3.99 percent, said Catherine Kelly, a spokeswoman for Rauner. That is a better rate than the last four tax-exempt GO sales, she said. The true interest cost represents the total cash amount of the interest payments and the time of the interest and principal payments.

"The State experienced strong investor interest on the bonds," Kelly said in an e-mailed statement after the sale. "We are also pleased that we were able to borrow at less than 4 percent and continue to provide funding for essential Illinois construction projects."

Moody's Investors Service dropped Illinois to its lowest investment-grade tier in October as the political stalemate dragged on. Despite the fiscal troubles, municipal analysts say they aren't worried about an Illinois default.

"They have sufficient liquidity and cash flow to continue making their monthly set aside for monthly debt service," said Ty Schoback, a senior analyst in Minneapolis at Columbia Management Investment Advisers, which handles about $30 billion in municipal bonds.

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