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BlackRock Says Illinois Should Lose Access to Debt Markets.

The Land of Lincoln should be forced to log-off from the muni bond market, one influential Wall Street firm said Wednesday.

BlackRock, the world's biggest asset manager, said the debt-drunk state, with the worst pension shortfalls in the land, should lose its access to the \$3.7 trillion municipal debt markets.

"They're a state without a budget, they refuse to pass a budget, they have the lowest funded ratio on their pension of any state, and yet they're going to come to market and borrow money," Peter Hayes, who oversees the firm's \$119 billion in muni bonds, said on Wednesday.

President Obama's home state, the least credit-worthy in the country, according to Moody's Investors Service, is also planning its second general obligation bond offering this year, for \$550 million.

The state's legislature has been mired in a standstill over its budget — and hasn't passed one in more than 11 months. There is also no budget for the fiscal year that begins on July 1.

As it stands, the state has more than \$7.2 billion in unpaid bills and more: Its pension has a shortfall of more than \$111 billion.

Its GO bonds were downgraded by Moody's earlier this year — to Baa1 — two steps above junk.

Facing such a calamitous future, Hayes is blowing the whistle.

Wall Street "should really be penalizing in some way, by almost not giving them any access to the market," Hayes said at a media event.

BlackRock is a giant.

It has about \$4.6 trillion in assets — more than six times Illinois' gross domestic product of \$736 billion, according to the latest figures from the Federal Reserve Bank of St. Louis.

While certainly an outlier, Illinois, with \$148.2 billion in debt, isn't the only entity pretty far out on the debt limb.

Puerto Rico is \$72 billion in debt, and has already technically defaulted on some of it. Congress is trying to pass a bill that would create a committee to oversee the island territory's finances and restructure their debt.

A spokeswoman for Illinois Gov. Bruce Rauner declined to comment on Hayes' comments. A spokeswoman for BlackRock declined to elaborate.

Despite being so drunk on debt, most believe Wall Street will keep on serving up more.

“Despite its lack of a budget, [Illinois] is still a state, and state GO bonds haven’t defaulted in modern history,” Matt Fabian, partner at Municipal Market Analytics, told The Post. “So it is impossible to think that it will not be able to place the new bonds, and probably at yields that aren’t too far off from where they sold them the last time around.”

Illinois bonds floated in May, before the Moody’s downgrade, paid 3.62 percent — roughly 1.83 percentage points over AAA-rated munis, according to Bloomberg.

Still, Fabian added, “BlackRock is one of the largest investors in municipal bonds, so their words (and their lack of interest in buying IL right now) carry more weight than you might think.”

Things are so bad in Illinois that the deadbeat state is late in paying \$3 million to the FBI for processing fingerprints, the AP reported.

The debt is so old that it could be turned over to Washington’s collection agency, the Treasury Department, for collection.

The New York Post

By Kevin Dugan

June 8, 2016 | 11:59pm