# Bond Case Briefs

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## Illinois Budget Impasse Hits $550 Million Bond Sale.

Illinois' long-running budget impasse stung the state on Thursday in the U.S. municipal market where buyers of its $550 million bond issue demanded bigger yields over the market benchmark.

The pricing was "surprisingly soft," considering a strong rally in muni bonds on Thursday, said Greg Saulnier, a Municipal Market Data analyst. The results demonstrate that the market is increasing its penalty due to the state's worsening fiscal and political problems, leaving Illinois unable to take full advantage of the historically low borrowing rates.

Bank of America Merrill Lynch won the tax-exempt general obligation deal in competitive bidding, pricing bonds due in 2026 with a 5 percent coupon to yield 3.32 percent, which is 185 basis points over MMD's triple-A yield scale. The spread was 175 basis points ahead of the bond sale, according to MMD, a unit of Thomson Reuters.

It was also wider than the 154 basis-point spread in 10 years for Illinois' $480 million GO bond sale in January.

Illinois is poised to be the only U.S. state since at least the 1930s to end a fiscal year without a complete budget.

Its Republican governor and Democratic-controlled legislature have so far failed to reach a deal on fiscal 2016 or 2017 spending plans. That leaves unaddressed the growing structural budget deficit and huge $111 billion unfunded pension liability in the fifth-biggest U.S. state.

The bond issue itself was seen as a weapon in the political war to pressure Democrats to cave in to Governor Bruce Rauner's demands, while losing money for the cash-strapped state.

ILLINOIS SELLS INTO MARKET RALLY

Muni yields have been hitting new record lows on MMD's scale in recent days, driven by cash-heavy investors chasing low supply of debt.

Rauner's office said the true interest cost for the bonds, which carry maturities from 2017 to 2041, was 3.74 percent, down from 3.99 percent in the January sale, and the lowest ever for similar general obligation bonds issued by the state.

"It's clear from today's bond sale that investors realize Illinois now has a governor that is trying to turn the state around and right its fiscal ship," Rauner spokeswoman Catherine Kelly said in a statement.

Some market participants thought Illinois' so-called credit spread should be even wider.

"It's odd to me," said Nicholos Venditti, a portfolio manager at Thornburg Investment Management. "Illinois has proven time and time again they can't get anything done."

Heading into the deal, Illinois' credit ratings, which were already the lowest among the states, were downgraded by Moody's Investor Service and Standard & Poor's.

The governor's office also revealed on Wednesday that the state lacks appropriations to actually spend all the proceeds earmarked mainly for road construction and mass transit projects due to the impasse.

State Treasurer Michael Frerichs, a first-term Democrat, predicted the bond issue could be a net money-loser for Illinois if the borrowed funds go unspent and must be invested short-term.

"We'll make far less in interest than we'll be paying in interest to the bondholders," Frerichs said in an interview. "I think we need to make these investments in infrastructure, but we're going about it in the wrong order. It seems backwards issuing the bonds and hoping they get an appropriation to spend them."

On Wednesday, Rauner administration officials warned of the imminent shutdown of transportation projects and the loss of 25,000 construction jobs without a budget deal.

Spokesmen for House Speaker Michael Madigan and Senate President John Cullerton, both Democrats, declined to speculate on the chances of either legislative chamber granting the Rauner administration the spending authority it needs to fully tap the bond issue.

REUTERS

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