

Bond Case Briefs

Municipal Finance Law Since 1971

Illinois Bonds Hit Hard After U.S. Judge's Medicaid Ruling.

CHICAGO — Illinois general obligation bond prices plummeted and yields soared in the U.S. municipal market on Thursday, a day after a federal judge ordered the cash-strapped state to find more money to pay Medicaid providers.

Yields on bonds due in 2024 climbed to 5.15 percent in secondary market trading where the yield on a top-rated bond maturing that same year was only 1.42 percent, according to Municipal Market Data.

“It’s a real meltdown today,” MMD analyst Randy Smolik said.

Illinois already had the widest so-called credit spreads among the 50 states over MMD’s benchmark triple-A yield scale. The spread on its 10-year bonds widened to a record 335 basis points at the end of trading on Thursday from 280 basis points on Wednesday, MMD reported.

For 20-year bonds, the spread widened to a record 290 basis points from 256 basis points. This signals even higher borrowing costs for the nation’s fifth-largest state.

“This drop today should be a wake-up call,” said John Mousseau, director of fixed-income at Cumberland Advisors, adding that the market appears to be reaching a tipping point on bad news about Illinois.

Late on Wednesday, U.S. District Court Judge Joan Lefkow said Illinois’ action to make only minimal payments to healthcare providers in the Medicaid program for the poor and disabled due to an ongoing budget impasse does not comply with existing federal consent decrees.

While the judge did not specifically push Medicaid payments ahead of other state priorities like debt service on bonds and pensions, she set a June 20 deadline for Illinois and healthcare advocates to reach a deal resulting in “substantial compliance” with the decrees that stem from federal court cases filed in 1992.

That could be tough given the state’s nearly \$14.8 billion unpaid bill pile as of Wednesday and \$1.85 billion of monthly priority payments that flow to bonds, pensions, schools, payroll and other mandated areas that consume 90 percent of Illinois’ monthly revenue.

Illinois is limping toward the June 30 end of a second-straight fiscal year without a complete spending plan due to a political stalemate between its Republican governor and Democrats who control the legislature.

Lawmakers ended their spring session on May 31 without a fiscal 2018 budget deal, triggering downgrades that pushed Illinois’ credit ratings from S&P and Moody’s Investors Service to a step above junk.

By REUTERS

JUNE 8, 2017, 3:57 P.M. E.D.T.

(Editing by Chizu Nomiya and Matthew Lewis)

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com