

Bond Case Briefs

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Citigroup Likes Illinois's Fundamentals, Dislikes Its Politics.

- **The state's G.O. bonds offer attractive spreads for HY buyers**
- **Build Illinois Bonds (BIBs) 'somewhat on par with GOs'**

Illinois general-obligation debt may be attractive for high yield investors as the state contends with a two-year budget impasse that has its rating on the verge of junk, according to Citigroup's municipal research team led by Vikram Rai.

General-obligation bonds are trading from 1.55 percentage point to 2.05 percentage points more than securities with the lowest investment-grade ratings, though large-scale, forced selling in the event of a downgrade to junk is unlikely, the analysts stated in a note. Investors should show a preference to the 5- to 7-year part of the curve, they said.

The analysts also note:

- Build Illinois Bonds (BIBs) are "somewhat on par with GOs" as state law provides for irrevocable and continuing appropriation in much the same manner seen for the GOs and sales-tax revenue bonds. In addition, the amount outstanding is low and payment is backed by a first lien on the state's share of sales tax revenue.
- The state's appropriated debt (Metropolitan Pier & Exposition Authority) have already been downgraded to junk and have outperformed GOs of late; this may continue as the notional amount is just about \$3.6 billion and is backed by dedicated sales tax revenues.
- Taxable pension obligation bonds have limited upside.
- Expect Illinois bonds to rally only after a budget passes; even a stopgap measure should lead to some price improvement.
- The state "has the ability to continue to pay for most debt service and pension contributions" whether or not a budget is passed. State law mandates a monthly set aside for debt service on GOs and sales-tax revenue bonds and this mandate has not been breached.

The state's budget impasse shows little sign of resolution by the end of the week. Republican Governor Bruce Rauner, who called a special session to breach the stalemate between the Democratic-led legislature, called the first few days of talks "a waste of time."

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