

Bond Case Briefs

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Illinois' Municipal Market Penalty Eases in \$750 Million Bond Sale.

CHICAGO (Reuters) - Illinois paid a smaller penalty for its financial woes on Wednesday, selling \$750 million of general obligation (GO) bonds at tighter, but still hefty spreads.

The deal benefited from aggressive bidding by investment banks and yield-hungry investors, according to Daniel Berger, senior market strategist at Municipal Market Data (MMD).

The spread for Illinois bonds due in 10 years over MMD's benchmark triple-A yield scale fell 11 basis points to 150 basis points.

"The penalty eased, but it's still a big penalty," Berger said, noting that Illinois spreads remain the widest among the states.

Illinois also has the lowest credit ratings compared to other states due to its \$133.5 billion unfunded pension liability and chronic structural budget deficit.

Bank of America Merrill Lynch won \$450 million of the bonds in competitive bidding, while Barclays Capital won the remaining \$300 million.

"We were pleased to have entered the market near historic low interest rates and with solid investor demand, and the results reflect a low all-in interest cost that benefits Illinois taxpayers," said Paul Chatalas, Illinois' capital markets director, in a statement.

Proceeds are earmarked in part for a six-year, \$45 billion Rebuild Illinois infrastructure program passed earlier this year by the legislature, which also approved new funding from higher fees and taxes and a gambling expansion that includes additional casinos and sports betting.

The bond sale is Illinois' first since a constitutional challenge to some of its outstanding GO bonds was filed in a state court in July. The case is on appeal after it was dismissed in August.

Last month, the governor's budget office released a five-year forecast that showed the state's general fund deficit reaching \$3.2 billion by fiscal 2025 along with an unpaid bill backlog that balloons to \$19.2 billion. The forecast pointed to the state's "unsustainable" tax structure as a culprit. Governor J.B. Pritzker hopes voters will make a major change to the structure next year by adopting a constitutional amendment for graduated income tax rates.

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