
Illinois Delays $1.2 Billion Debt Sale After Penalty Soars.

- **$2.2 billion in short- and long-term bonds were slated in May**
- **State's yields surge to record high over benchmark securities**

Illinois delayed the planned auction of $1.2 billion of short-term debt as it faces record-high penalties to borrow on Wall Street because of the deep financial hit the state is being dealt by the coronavirus shutdown.

The worst-rated state had planned to sell about $1.2 billion of short-term tax-exempt general-obligation debt on Wednesday, its first borrowing during the pandemic, to ease the revenue shortfall in the last two months of the fiscal year. The deal has been moved to "day-to-day status," meaning it will be sold if market conditions warrant.

With the economic slowdown raising the risk of Illinois having its bonds cut to junk, investors have driven the yields on its two-year debt to nearly 4 percentage points above benchmark, far exceeding every other U.S. state.

"Their spreads had already widened out dramatically on covid impact, on forecasted budgetary deficits for the next few years, obvious revenue declines," John Miller, head of municipals at Nuveen, said in a telephone interview on Tuesday. Coming to market now "would be more expensive than it has to be."

The sale would have marked a major test of whether struggling American governments will be able to borrow easily to cover temporary shortfalls in their budgets as tax revenue disappears. The concern that market access could dry up — or become prohibitively expensive — has prompted the Federal Reserve to roll out plans to lend as much as $500 billion if needed, though the program has yet to extend any loans.

"The state of Illinois has developed its plan and is positioned to enter the market very soon if needed, but with the flexibility to assess the market as it returns from unprecedented dislocation," Carol Knowles, a state spokesperson, said in an emailed statement. "Like many issuers, we are going day to day and assessing conditions to determine the best time to enter the market."

The size, timing and structure of the state's expected deals this month are subject to market conditions, she added. In response to a question about whether the state would consider tapping the Fed facility, Knowles said "Illinois' short term borrowing law requires competitive bidding."

"We fully intend to do both the short-term and the long-term borrowing," she said. "The timing is fluid."

Even before the global crisis, Illinois was deemed among the least prepared of states for a downturn with its $7 billion in unpaid bills, $137 billion in pension debt and almost no rainy day fund. Now the economic fallout from the virus is pushing states toward their worst fiscal crisis in decades, and Illinois has been singled out by some Republicans as undeserving of federal budget relief.

Illinois isn't the only cash-strapped borrower testing the municipal market this week. On Tuesday, New York's Metropolitan Transportation Authority increased the size of its revenue-bond sale to $1.1 billion from $705 million in its first long-term borrowing since the coronavirus pandemic, according to a source familiar with the transaction. The MTA lowered initial yields, offering bonds ranging from 2045 to 2055 with various coupons and a top yield of 5.23%, according to the source.

While states nationwide are facing massive deficits because of the economic shutdowns, Illinois has been singled out for its fiscal challenges. Last month, Senate Majority Leader Mitch McConnell said on a radio show that he's open to states filing for bankruptcy in response to a question about those with unfunded pension liabilities like Illinois, and President Donald Trump questioned in a tweet why taxpayers should bail out "poorly run" states such a Illinois.

Illinois, which has among the highest number of Covid-19 cases in the U.S., has received $3.5 billion from the $150 billion of federal pandemic aid, which is intended to cover virus response costs not budget gaps. States are seeking $500 billion of federal aid to help make up for lost revenue as social distancing to curb infections shut down large swaths of the economy.

The delay "could prove to be a positive," said Nuveen's Miller, whose firm is typically involved in longer-term fixed-rate Illinois bonds as part of its $180 billion in municipal assets under management. Postponing could relieve the technical pressure in the market given the state also has said it is planning another $1 billion long-term bond issue next week, Miller said.

"That's a lot of bonds that have to be absorbed," he said.

The timing of Wednesday's proposed sale was a little "strange" because there are a lot of short-term unknowns with state finances, said Daniel Solender, head of municipals at Lord Abbett & Co., which owns Illinois debt as part of its $27 billion in municipal assets under management.

"It's not a complete surprise they delayed it," he said. "There is the Fed program which hasn't really been set up yet and states are still waiting on what Congress is going to do."

Illinois's 10-year penalty over benchmark securities reached a record of 4.4% on Monday, according to data compiled by Bloomberg. Given the relatively high volume of Illinois bonds being offered, analysts said the state would have had to pay a larger premium to float new debt.

"They are in a tough financial spot," Lord Abbett's Solender said.

Bloomberg Markets

By Shruti Singh and Danielle Moran

May 5, 2020, 9:52 AM PDT Updated on May 5, 2020, 4:20 PM PDT