Bond Case Briefs

Municipal Finance Law Since 1971

Illinois Hit with Fat Yields in $800 million Bond Sale.

CHICAGO, May 13 (Reuters) – Illinois paid a stiff penalty for its financial woes on Wednesday with yields in the state's sale of $800 million of bonds topping out at a hefty 5.85%.

While investor demand lowered yields on the tax-exempt, general obligation bonds in a repricing, they remained at extremely wide spreads over the U.S. municipal market's benchmark scale.

Illinois is the lowest-rated U.S. state at just a notch above junk due to its huge unfunded pension liability and chronic structural budget deficits. With its revenue sinking due to the economic fallout from the COVID-19 pandemic, the state risks eventually slipping below investment grade.

The state brought the bonds to market after initially signaling it would first sell $1.2 billion of one-year, cash-flow certificates, which remain on hold. There was no immediate comment from Illinois officials.

At 5.65%, the yield on 10-year bonds was 452 basis points over the Municipal Market Data (MMD) triple-A scale's 1.13%, and the 5.85% yield for 25-year bonds was 396 basis points over the scale's 1.89%. By contrast, New York State's 10-year bond spread was just 13 basis points.

Greg Saulnier, MMD's managing analyst, said the market is continuing to charge a big penalty for Illinois bonds, noting that the bond sale included coupons above the typical 5% level, ranging from 5.125% to 5.75%.

"(Illinois is) pretty much trading like it's in junk category. That's why you saw the bigger coupons. I think anybody who's going to buy this stuff is demanding the bigger coupon payments just for some sort of peace of mind," he said.

Still, Daniel Solender, director of the municipal bond group at Lord Abbett, said, "Illinois should be happy."

"Given where bonds have been trading in the secondary (market) in recent weeks, these yields are good for them and they have proved that they have market access, which is important," he said.

The deal had originally included $300 million of taxable GO bonds. That debt, which was expected to attract overseas investors, was not priced.

Proceeds from Wednesday's bond sale will fund summer construction projects.

Reporting by Karen Pierog in Chicago Editing by Matthew Lewis