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Illinois to Sell \$850 million of Bonds as Investors Brace for Junk Status.

CHICAGO (Reuters) - Illinois is scheduled to sell \$850 million of bonds on Tuesday as investors demand fatter yields for the state's debt due to increased worries over its deep financial woes, which were exacerbated by the coronavirus pandemic.

Ahead of the competitive sale of general obligation bonds due over the next 25 years, the spread for Illinois 10-year bonds over Municipal Market Data's benchmark triple-A yield scale has widened by 10 basis points to 281 basis points since Oct. 1.

Howard Cure, director of municipal bond research at Evercore Wealth Management, pointed to "a legitimate fear that the state could go into junk status - although not default on its debt."

"The state continues to delay tough decisions with a number of speculative revenues as part of its current budget, including additional federal aid, voter approval for a progressive income tax, and more Municipal Liquidity Facility (MLF) debt," he said, referring to the possibility Illinois, which took out a \$1.2 billion cash-flow loan in June from the Federal Reserve's MLF, could borrow more.

Illinois is the lowest-rated state at a notch above junk due to its huge unfunded pension liability and chronic structural budget deficit. All three major credit rating agencies assigned negative outlooks to their ratings in the wake of the pandemic.

Earlier this month, a Citi research report said Illinois is "almost guaranteed" a credit rating downgrade to junk if a constitutional amendment to replace its flat income tax rate with graduated rates fails to pass on Nov. 3. The ability to tax high earners more would increase revenue by an estimated \$3.1 billion annually.

In addition to uncertainty over congressional passage of unrestricted federal virus aid to states, Andrew Richman, senior fixed income strategist at Sterling Capital Management, said Illinois was experiencing a surge in virus cases ahead of its sizeable bond sale. The state reported its highest one-day total of 4,554 cases on Friday.

"Illinois had problems before the pandemic," Richman said. "Things are getting worse not better."

Still, John Mousseau, president and CEO of Cumberland Advisors, said the high yields will attract buyers.

"People will buy it. They are yield-starved," he said.

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OCTOBER 19, 2020

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