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Illinois and MTA Bonds Rally on Bet That Democrats Win Senate.

- **States and borrowers may get more federal help with Democrats**
- **New York MTA is already set to receive \$4 billion of fed funds**

Municipal-bonds investors are buying up debt from New York's Metropolitan Transportation Authority and Illinois, but they have Georgia on their minds.

Some bonds sold by the MTA, the largest U.S. mass-transit system, and Illinois are trading up in price Wednesday as Democrats' chances of taking back the U.S. Senate increased after Tuesday's runoff elections in Georgia. Illinois and the MTA are two well-known, financially-stressed governments that would benefit if Democrats control both chambers of Congress as they are more likely to aid states and municipalities, said Matt Dalton, chief executive officer of Belle Haven Investments, which oversees \$14 billion of municipal debt.

"MTA is probably the most visible entity out there right now that's in need of cash," Dalton said. "A lot of the focus within our industry is 'OK, MTA is probably going to benefit on the back of the Blue Wave.' So that's going to be the real power behind seeing MTA spreads tighten."

Illinois, the lowest-rated state, and the MTA are the only two borrowers that tapped the Federal Reserve's emergency lending program, which ended on Dec. 31, as low interest rates in the \$3.9 trillion municipal-bond market kept the Fed program attractive only to the most fiscally-challenged.

MTA debt maturing in 2031 traded Wednesday at an average price of 121.1 cents on the dollar, up from an average 112 cents during the prior three months, according to data compiled by Bloomberg.

An Illinois bond maturing in 2030 traded at an average price of 128.3 cents on the dollar, up from 124.8 cents at the end of 2020, Bloomberg data show.

The MTA's near-term finances got a boost last month as Congress approved \$4 billion of additional federal aid to help close the agency's 2021 budget deficit as ridership has plummeted. That infusion of cash allows the MTA to avoid drastic service cuts and laying off thousands of employees.

Even with the federal help, the MTA faces an \$8 billion budget deficit through 2024. The MTA was seeking \$12 billion of federal aid as ridership may not return to pre-pandemic levels until 2024.

While federal stimulus won't help Illinois' long underfunded pension systems, it could help with other losses connected to the pandemic that are contributing to back-to-back budget gaps.

Illinois is facing a \$3.9 billion deficit in fiscal 2021 and has only \$1.85 million in its rainy day fund. It borrowed \$1.2 billion in June from the Federal Reserve Municipal Liquidity Facility to close a gap in fiscal 2020 and then another \$2 billion in December for fiscal 2021.

"Illinois has more to gain from potential stimulus out of Congress and more ground to make up,"

said Daniel Solender, director of the municipal bond group for Lord, Abbett & Co., which owns Illinois debt as part of \$31 billion in muni assets under management. “The reason it has more to gain is the state and local funding is potentially a direct source of funding for them.”

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