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Near-Junk Illinois Set to Sell Bonds With Stimulus as 'Tailwind.'

- **$1.26 billion tax-exempt bond deal expected on March 17**
- **S&P Tuesday revised Illinois outlook to stable from negative**

Illinois plans to tap the municipal-bond market next week, just days after passage of President Joe Biden's $1.9 trillion stimulus plan promises to help the lowest-rated state with some near-term financial stress.

The state is expected to sell $1.26 billion tax-exempt bonds on March 17. That follows S&P Global Ratings's decision to pull Illinois back from the brink of a junk rating by lifting the outlook on the state's BBB- rating to stable from negative on Tuesday, citing more federal aid and the start of an economic recovery. The proceeds from the sale will be for capital projects, accelerated pension payments and refunding.

The outlook change and revenue improvement should bolster Illinois's position when it comes to market, said Dennis Derby, a portfolio manager for Wells Fargo Asset Management, which holds Illinois debt as part of about $40 billion in muni assets.

"I expect they would do well given that they will have a substantial tailwind from the recent stimulus," Derby said.

Illinois is expected to get about $7.5 billion from the more than $350 billion in state and local government aid earmarked in Biden's American Rescue Plan, according to bond documents. The aid "could provide an immediate boost to the state's fiscal resilience," Fitch Ratings said in a report.

Illinois still faces significant self-inflicted fiscal challenges it had before the pandemic as the state tries to recover from the covid recession. Its unfunded pension liability, which has weighed on its credit rating, has grown to $141 billion.

"Federal aid is clearly providing a substantial buffer to help absorb the pandemic's fiscal effects, but the longterm pension funding challenges will remain in place," Moody's Investors Service said in a report on Monday.

Illinois also owes vendors $5.5 billion in unpaid bills, according to state data. Plus, it was the only state to tap the Federal Reserve's Municipal Liquidity Facility last year, taking out short-term loans in June and December totaling $3.2 billion.

When the pandemic first hit, yields on Illinois's 10-year bonds surged to above 6% in March 2020, more than twice as high as New York, another large borrower. On Wednesday, the rate was 2.4% for Illinois compared with 1.2% for New York.

"Federal government support is mitigating direct fiscal burdens, but the state also has relied on short-term deficit financing that increases its liabilities and near-term fixed costs," according to

Moody's, which Monday affirmed Illinois's Baa3 rating and negative outlook.

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