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Illinois to Sell Bonds After First Ratings Increase in Decades.

- **State plans to offer $500 million in debt over next two months**
- **First batch, $130 million in tax-exempt bonds, slated Aug. 24**

Illinois is returning to the $4 trillion municipal bond market after winning credit rating upgrades for the first time in more than two decades.

Why It's Noteworthy

The state, which still has the lowest credit designation in the nation, plans to sell $130 million in junior obligation tax-exempt securities through a competitive auction for its Build Illinois program on Aug. 24. The bonds will help fund construction projects and are backed by Illinois sales tax revenue. The state's share of sales tax increased 13% to $10.4 billion in fiscal 2021, according to bond documents.

The offering scheduled for next week is the first of three issues slated for over the next two months. The state plans to sell $210 million taxable debt and $160 million tax-exempt refunding bonds through negotiated sales in mid-September, according to a statement.

Illinois last came to market in March. That was before the economy began reopening from the Covid pandemic shutdown and when investors were still grasping the impact of President Joe Biden's American Rescue Plan Act, which funnels $350 billion to state and local governments. Illinois is getting about $8.1 billion from the latest stimulus package.

Outlook

While S&P Global Ratings and Fitch Ratings have assigned BBB+ ratings to the $130 million sales tax bonds to be sold next week, Illinois's overall credit picture has brightened noticeably in the last six months. That's largely given higher-than-projected revenue, billions more in federal aid and some fiscal discipline shown by the state government.

After raising their outlooks on the state in March to stable from negative, both S&P and Moody's Investors Service lifted their ratings. Moody's raised its designation to Baa2 from Baa3 on June 29 and S&P boosted to BBB from BBB- on July 8. Both increases were the first for the state in more than 20 years.

Fitch raised its outlook to positive from negative on June 23, but maintained its BBB- rating, which is still one notch above non-investment grade. The state remains the lowest rated, largely because of its heavy unpaid pension liability — which currently stands at about $144 billion, lack of a meaningful rainy day fund and ongoing structural deficits.

It had faced a string of outlook and rating cuts resulting from the budget impasse from 2015 through 2017 between the Democrat-controlled Illinois General Assembly and then Governor Bruce Rauner, a Republican. Plunging revenue in 2020 due to pandemic-spurred business closures had added to the pressure and put the state on the brink of a junk rating.

Now, S&P's stable outlook for the Build Illinois bonds reflects sales tax resilience, liquidity strength and continued economic recovery, Geoff Buswick, an analyst for S&P, said in a report Aug. 13.

Market's View

"For the first time in a long time the state is coming to market with the momentum of positive rating actions," said Dora Lee, director of research for Belle Haven Investments, which holds $15 billion in muni assets including Illinois debt. "It really shows what the state is capable of with a bit of financial discipline and a supportive federal aid environment."

The state's yield spreads are still wider than other states but are historically low, said Dennis Derby, a portfolio manager for Wells Fargo Asset Management, which holds Illinois as part of $35 billion muni assets. The sales tax bonds are also "one of the strongest financing mechanisms for Illinois" and using them for capital projects makes sense, he said.

Illinois pays 70.8 basis points more to borrow than 10-year AAA benchmark securities, according to data compiled by Bloomberg. While that is slightly more than earlier this summer, it's far less than the 4.4% in May 2020 at the height of investors' anxiety about financial repercussion from the pandemic.

"Illinois continues to ride positive market momentum and improved ratings outlooks," Derby said.

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