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Illinois's Cost of Debt Falls as Chicago Preps New Bond Sales.

- **State's credit ratings rise with federal aid, higher revenue**
- **Drop in Treasuries helping muni deals this week: Lord Abbett**

Illinois's $400 million municipal bond sale Wednesday is the first in a string of sales from issuers in the Land of Lincoln this month as the state's cost to tap the $4 trillion market has shrunk following an improved outlook on increased revenue and billions in federal aid.

"Illinois was able to get much improved spreads in rates compared to where they were a year ago based upon their more positive outlook and the strong demand for incremental yield in the market right now," said Dan Solender, director of tax free fixed income investments for Lord, Abbett & Co., which holds $36 billion in muni assets including Illinois debt. Deals this week also are benefiting from a drop in Treasuries, he said.

The state sold $400 million in tax-exempt bonds through a competitive deal and saw the penalties over benchmark municipal securities drop sharply from a year ago, according to data compiled by Bloomberg. Morgan Stanley purchased one $200 million series with spreads ranging from 17 basis points for debt maturing next year to 52 basis points for bonds due in 2031 with 5% coupons. Barclays bought the remaining bonds with spreads ranging from 54 basis points for debt with a 5% coupon maturing in 2032 to 116 basis points for bond due in 2041 with a 3% coupon.

Around this time last year Illinois paid much more to borrow from the muni market. In October 202O, a competitive tax-exempt sale by the state drew spreads ranging from 97 to 294 basis points. At that time, Illinois was feeling pressures from the pandemic layered on top of years of self-inflicted financial woes.

Illinois was the only state to borrow from the Federal Reserve's Municipal Liquidity Facility last year and did so twice as its costs in the muni market surged. It was facing the threat of its credit rating falling to junk after voters rejected a shift from its flat income tax rate to a graduated levy. Long-term problems included almost no money in its rainy day fund, a roughly $140 billion unfunded pension liability and billions more in unpaid bills.

Illinois has seen a vast improvement in its financial outlook over the last year. The state expects a bigger surplus this fiscal year and smaller gaps in the next four annual budgets thanks to a quicker than expected recovery in revenues and billions in federal aid. In mid 2021, Illinois also received upgrades from S&P Global Ratings and Moody's Investors Service, the first in more than 20 years, while Fitch Ratings boosted its outlook to positive from negative. The state also has paid off $2.3 billion of the total $3.2 billion it borrowed from the Fed.

"The results of today's sale really reflect the improving credit story for the state as well as the supply demand mismatch as we round out the year," said Dora Lee, director of research for Belle Haven Investments, which holds $15.7 billion in muni assets. "We expect the Chicago deals next week to benefit from the credit improvements at the state level since the two are so interconnected."

Amid strong demand from investors, other issuers from Illinois are also expected to come to market this month. The planned sales include a $600 million deal Thursday from the Illinois State Toll Highway Authority and $270 million from the city of Chicago next week, according to bond documents. Chicago's Sales Tax Securitization Corp. also is slated to sell about $981.5 million in second lien bonds as well, according to filings.

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