CORRECTION: FITCH RATES SALES TAX SECURITIZATION CORP., IL'S $1.3B SALES TAX SEC. BONDS 'AAA'

Link to Fitch Ratings' Report: Chicago Sales Tax Securitization Corporation, Illinois
https://www.fitchratings.com/site/re/936671

Fitch Ratings-New York-26 October 2018: This is a correction of a release published Oct. 10, 2018. It updates the par amount of the series C and adds the series 2018D.

Fitch Ratings has assigned a 'AAA' rating to the following Chicago Sales Tax Securitization Corporation (the corporation) bonds:

--$917.6 million sales tax securitization bonds series 2018C;
--$338.6 million sales tax securitization bonds, taxable series 2018D.

Fitch also affirms the 'AAA' ratings on the corporation's outstanding sales tax securitization bonds.

Net bond proceeds will be conveyed by the corporation to the city pursuant to the sales agreement and used by the city to refund certain outstanding general obligation bonds of the city. The bonds are expected to sell via negotiation the week of October 29.

The Rating Outlook is Stable.

SECURITY

The sales tax securitization bonds have a first lien on the state-collected portion of the city's home rule sales and use taxes, and the local share of the state-wide sales and use taxes, net of an administrative fee imposed by the state.

ANALYTICAL CONCLUSION

Strong Legal Framework: The bankruptcy-remote, statutorily defined nature of the issuer and a bond structure involving a perfected first lien security interest in the sales tax revenues are key credit strengths that lead Fitch to consider the corporation's credit quality as distinct from the city of Chicago (Issuer Default Rating [IDR] BBB-/Stable Outlook).

KEY RATING DRIVERS

Solid Growth Prospects: Sales tax revenues have grown at a solid rate, above the rate of inflation and have kept pace with U.S. GDP growth. While area-wide tax increases may pressure revenue growth in the near term, Fitch expects solid growth over the medium to long term.

Superior Financial Resilience: The revenue stream is highly resilient to anticipated declines in an economic downturn scenario, and able to tolerate a 71% decline before reaching 1x coverage of maximum allowable leverage.

Sound Economic Resource Base: Chicago serves as the economic and cultural center for the Midwestern region of the United States. Socioeconomic indicators are mixed with elevated individual poverty rates but above average per capita income levels and strong educational attainment levels.

RATING SENSITIVITIES

Material Decline in Coverage: Fitch's dedicated tax analysis demonstrates that the bond structure, including a conservative additional bonds test, provides for superior financial resilience relative to revenue declines envisioned in a normal economic downturn as well as the largest historical decline. While not expected, severe declines of a scale beyond Fitch's expectations could pressure the rating.

CREDIT PROFILE

Economic Resource Base

Chicago acts as the economic engine for the Midwestern region of the United States. The city's population totaled 2.7 million in 2017, up 1% from the 2010 census, and accounts for 21% of the state's population. The city's residents have abundant employment opportunities within this deep and diverse regional economy. The city also benefits from an extensive infrastructure network, including a vast rail system, which supports continued growth. The employment base is represented by all major sectors with concentrations in the wholesale trade, professional and business services and financial sectors. Socioeconomic indicators are mixed as is typical for an urbanized area, with above-average per capita income and educational levels but also elevated individual poverty rates.

Strong Legal Framework

The 'AAA' rating is based on the very strong legal structure which supports a true sale of the revenues and, in Fitch's opinion, insulates bondholders from any operating risk of the city of Chicago. As the structure is a securitization specifically authorized by state law, the rating is not limited by the city's 'BBB-' IDR.

The city has sold all right, title and interest in the pledged revenues to the corporation, a limited purpose entity. The state directs all pledged sales tax revenues to the trustee for benefit of corporation bondholders and the residual flows to the city for any lawful purpose.

Pledged revenues include the portions of the city's home rule sales taxes that are collected by the state as well as its local share of state sales taxes, some of which are subject to state appropriation. Fitch excludes the taxes that are subject to appropriation in its analysis because their value is limited to one notch below the state's 'BBB' IDR, while recognizing that the 4x additional bonds test includes all pledged revenues, including those subject to appropriation.

The pledged home rule sales and use taxes comprise three separate taxes: a 1.25% Home Rule Municipal Retailers' Occupation Tax on most non-titled tangible personal property, a 1.25% Home Rule Municipal Service Occupation Tax on tangible personal property purchased from a service provider, and a 1.25% Home Rule Municipal Use Tax on Titled Personal Property. There is no legal limit to the rate the city may impose for these. Some of the pledged revenues collected by the state are net of a 2% administrative fee imposed by the state.

The pledged local share sales tax revenues comprise four separate taxes. They include: the Illinois Retailers' Occupation Tax (city portion is currently equivalent to 1% of sales within the city); Illinois Service Occupation Tax (city portion is currently equivalent to 1% of sales within the city); Illinois Use Tax (city receives 4% of net receipts of a 6.25% tax on most non-titled personal property purchased outside of the state and 20% of a statewide 1% tax on grocery food, drugs and medical appliances purchased out of state); and the Illinois Service Use Tax (city receives 4% of net receipts of a statewide 6.25% tax on most tangible personal property purchased from a service provider and 20% of a statewide 1% tax on grocery food, drugs and medical appliances purchased from a service provider). Any changes to the tax rates or allocation of local share sales tax revenues would require action by the Illinois General Assembly. The Illinois Use Tax and

Illinois Service Use Tax are both subject to appropriation by the Illinois General Assembly and together represent about 12% of pledged revenues; the Illinois Retailers' Occupation Tax and the Illinois Service Occupation Tax are not subject to appropriation.

The authorizing act assures that the state "will not limit or alter the basis on which transferred receipts are to be paid to the issuing entity as provided in this Article, or the use of such funds, so as to impair the terms of any such contract."

Pledged Revenue Growth Prospects
Pledged revenues have grown at a solid rate, with a 10-year CAGR around the same as growth in U.S. GDP. The city's sales tax rates have been very stable, with the most recent rate increase recorded in 2005. Several overlapping units of government also levy sales taxes.
An increase by Cook County may have affected demand and contributed to a slowdown in the city's receipts in 2016 and imposition of state fees may have affected 2017 results. Year to date 2018 collections of pledged revenues are 3.6% ahead of 2017, as of September 30. The state began extending its use tax to online sales on October 1, as a result of the Wayfair decision allowing such collections.

Revenue Stream Sensitivity and Resilience
To evaluate the sensitivity of the dedicated revenue stream to cyclical decline, Fitch considers both revenue sensitivity results (using a 1% decline in national GDP scenario) and the largest decline in revenues over the period covered by the revenue sensitivity analysis. Based on the historical performance of pledged sales tax revenues, net of those subject to appropriation that are excluded from the analysis, Fitch's Analytical Sensitivity Tool (FAST) generates a moderate 3.6% scenario decline. The largest cumulative decline was an 11.2% decline between 2007 and 2009.

Assuming the revenue stream is leveraged to the maximum amount allowed under the 4x additional bonds test, non-appropriated pledged revenues could withstand a 71% decline before they were insufficient to fully cover debt service. This is 6.3x the largest actual historical cumulative decline, or 19.7x the recessionary impact estimated in Fitch's FAST scenario. Recent and potential future tax rate increases by Chicago area governments could negatively affect demand, and thus the pledged sales tax receipts; but even so, Fitch believes sales tax revenue performance will benefit from economic growth and inflation and continue to support superior financial resilience.

For more information on the legal analysis underlying this rating, see "What Investors Want to Know: Chicago Sales Tax Securitization" (November 2017).

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

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Additional information is available on www.fitchratings.com

Applicable Criteria
U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)
https://www.fitchratings.com/site/re/10024656