Sales Tax Securitization Corporation (STSC)

Issuer: Sales Tax Securitization Corporation (STSC)		
Affirmed	**Rating**	**Outlook**
Sales Tax Securitization Bonds	AAA	Stable

Methodology:

U.S. Special Tax Revenue Bond Rating Methodology

ABS: Global General Rating Methodology for Asset-Backed Securities

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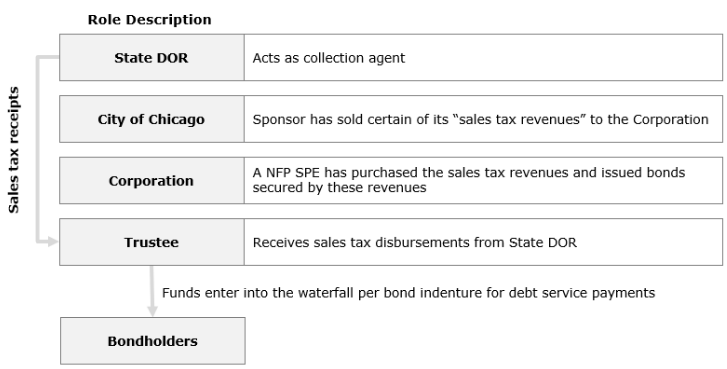
Transaction Overview



Rating Summary: The Sales Tax Securitization Bonds (the "Bonds") are secured by a senior lien on the pledged sales tax revenues which have been previously sold by the City of Chicago to the Corporation, a bankruptcy remote special purpose entity (SPE), pursuant to State law (the "Act") and a Sale Agreement.

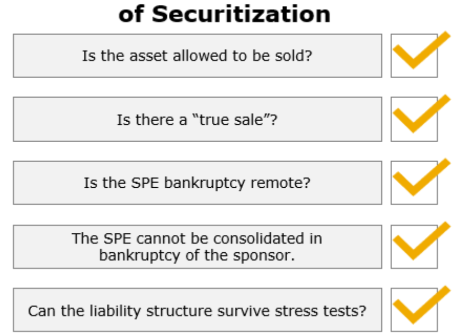
The Corporation has authorization to issue approximately $3 billion of senior lien bonds or to an amount equivalent to the senior lien debt's 4x ABT. Approximately $2.64 billion of the senior lien bonds are currently outstanding with MADS coverage of 4.17x.

The Corporation plans to introduce a second lien bond structure in early 2020. This new lien will expand the Corporation's debt issuing capacity and facilitate the City's plans to refinance more of its higher cost general obligation debt. The second lien had been contemplated in the Master Trust Indenture and will not affect KBRA's ratings on the existing senior lien bonds.

The senior lien Bonds enjoy exceptionally strong legal and structural protections that separate the pledged sales tax revenues from ongoing operating and financial risk of the City, and KBRA believes these protections apply even in the unlikely event of an insolvency or bankruptcy of the City. The Act and the City's home rule powers provided the legal mechanisms by which the City: created the Corporation; assigned and effectively accomplished a "true sale" of the pledged sales tax revenues; and irrevocably directed the State to distribute the pledged revenues directly to an account of the Trustee for the Corporation's bonds. Further, the Act provides covenants by the State to refrain from impairing these mechanisms or altering the basis upon which the City's share of transferred revenues is derived. The Act also provides that Bonds issued by the Corporation are secured by a "statutory lien" on those transferred revenues, providing additional protection to bondholders in the unlikely event of a City bankruptcy.

The pledged sales tax revenues are derived from various categories of taxes imposed on a very broad range of goods and services. The pledged sales tax revenues have a long history of smooth collection and distribution mechanics managed by the State. Only a small portion of the pledged sales tax revenues are subject to state annual appropriation and KBRA cash flow models demonstrate that the failure to appropriate this portion of the revenues does not materially impact the ability of the pledged revenues to support the senior lien debt service requirements. The overall sales tax rate in the City is now among the highest in the country, and this may weaken future growth of the pledged revenues. Nevertheless, with the broad nature of the sales tax, strong collection mechanics, and very limited appropriation risk, the pledged revenues provide a very strong source of cash flow for the Bonds.

Important Features of Securitization



KBRA performed various stress cases to examine the ability of the pledged revenues to meet debt service requirements even in long periods of severe economic stress. The results of these stress scenarios support KBRA's rating on the Corporation's senior lien bonds. Namely, among other things, the pledged revenues can experience 30 years of successive 2% declines and still be able to pay combined debt service. Further, the pledged revenues could experience two periods of decline (double dip) equivalents to that of the Great Recession and the Great Depression, and still remain sufficient to cover debt service.

KBRA believes the City's deep, diverse economic base provides a very strong foundation for the pledged sales tax revenues. The City's role as a regional center of commerce, culture, higher education, and transportation support strong retail activity. The City's employment and income levels now exceed prior peaks and continue to grow at healthy rates, and pledged revenues substantially exceed pre-recessionary levels.

Pledged sales tax revenues grew by a healthy 4.3% in 2018, and through November, have grown 3.9% in 2019 compared to the same period a year ago. The State's decision to expand online retail sales tax collections as a result of the U.S. Supreme Court Wayfair decision is expected to generate additional sales tax revenues to the STSC cash flow starting in 2018 but the amount cannot be quantified currently.

The Stable Outlook reflects KBRA's expectation that even under severe economic downturns and other stressful scenarios, the pledged sales tax revenues will remain more than sufficient to meet timely principal and interest requirements on the Corporation's debt. Further, even in the unlikely event of City insolvency or bankruptcy, KBRA believes the assets of the Corporation, including the right to the pledged revenues, will not be consolidated with the City's assets and the cash flow supporting the Corporation's debt will not be disrupted.

Key Rating Strengths

- The combination of the Act, the bankruptcy remoteness of the Corporation, the Sale Agreement, and the Indenture provide the Bonds with a strong legal framework that KBRA believes will insulate the pledged sales tax revenues and the Corporation from the operating and credit conditions of the City;
- The broad base of goods and services included in the pledged revenues combined with a long track record of collection and distribution mechanics provide for strong underlying asset characteristics;
- ABT of 4x prevents the Corporation from diluting the substantial cushion provided by the pledged revenues;
- Chicago's deep, diverse, and resilient underlying economic base supports substantial residential and tourist retail activity;
- Strong projected coverage of monthly deposit and annual debt service requirements that withstand KBRA's stress scenarios.

Key Rating Concerns

- The high overall sales tax rate in the City may weaken growth of the pledged sales tax revenues.

Drivers for Rating Change

• N/A	+
• Significant erosion of pledged sales tax revenues resulting in material decline in debt service coverage ratios.	-

Key Ratios

($ in 000s)	Total Pledged Sales Tax[1]	Senior DS	Senior DSCR
2016	$658,746	-	-
2017	$659,150	-	-
2018	$687,177	$57,101	12.03x
2019	$711,392	$118,672	5.99x
2020*	$711,392	$120,970	5.88x
2021*	$711,392	$165,268	4.30x
2022*	$711,392	$170,348	4.18x
2023*	$711,392	$170,350	4.18x
2024*	$711,392	$170,349	4.18x
2025*	$711,392	$170,350	4.18x
2030*	$711,392	$170,347	4.18x
2040*	$711,392	$170,688	4.17x
2047*	$711,392	$170,686	4.17x
MADS		**$170,689**	**4.17x**

[1] Pledged sales tax revenues equal the 12 months collection from Dec 2018-Nov 2019, minus an administrative fee of $250K for the Corporation's operating expenses. Such operating expenses are capped at $250K per year; however, in our stress scenarios KBRA assumes the operating expenses to increase by 2% annually to adjust for inflation.

*Pledged sales tax revenues are KBRA's projections

Rating Determinants (RD)	
1. Legal Framework	AAA
2. Nature of Special Tax Revenues	AAA
3. Economic Base and Demographics	AA
4. Revenue Analysis	AAA
5. Coverage and Bond Structure	AAA

Please refer to the **KBRA report** published on December 12, 2018 for detailed discussion of each of the rating determinants.