Sales Tax Securitization Corp. of Chicago, IL's 2019A&B, 2020A Bonds Assigned 'AA-' Ratings

November 26, 2019

PRIMARY CREDIT ANALYST

Jane H Ridley
Centennial
(1) 303-721-4487
jane.ridley
@spglobal.com

SECONDARY CONTACT

Scott Nees
Chicago
(1) 312-233-7064
scott.nees
@spglobal.com

CENTENNIAL (S&P Global Ratings) Nov. 26, 2019--S&P Global Ratings has assigned its 'AA-' long-term rating to the Sales Tax Securitization Corp. of Chicago (STSC or the corporation), Ill.'s second-lien tax-exempt series 2019A and forward delivery series 2020A bonds, and taxable series 2019B sales tax securitization bonds issued for the City of Chicago. S&P Global Ratings also affirmed its 'AA-' long-term rating on the corporation's first-lien bonds outstanding. The outlook on both the first- and second-lien bonds is stable.

The rating reflects our application of our "Priority Lien" criteria (published Oct. 22, 2018), which factors in both the strength and stability of the pledged revenues, as well as the general credit quality of the municipality where taxes are distributed and/or collected (the obligor's creditworthiness [OC]). The priority-lien rating on the first-lien bonds is limited by our view of Chicago's creditworthiness (BBB+/Stable) and is constrained from going higher unless there is an improvement in the OC. We believe risk of non-payment is more tied to the city's fiscal condition than the state's. Although the debt service coverage (DSC) levels and additional bonds test (ABT) are different on the first and second-lien bonds, the two lien ratings are on parity given the four notch limitation above the OC in our priority-lien criteria.

"The stable outlook reflects the likelihood that coverage will remain very strong," said S&P Global Ratings credit analyst Jane Ridley. The broad nature of the pledged receipts and the deep, diverse tax base will likely continue to support long-term revenue growth. The outlook also reflects our expectation that Chicago's budgetary pressures will not significantly worsen over the two-year outlook horizon given the city's recent measures to address its pension liabilities and achieve structural balance by 2022. The outlook additionally reflects the state's near-term fiscal stability, which, in our view, strengthens the adequacy of its resources to reliably cover its priority obligations.

Should the city's budgetary pressures worsen in such a way that we believe weakens its OC, we could lower the ratings. In addition, a significant decline in sales tax revenues or weaker economic trends could lead us to lower the rating. We could also take a rating action if the state's fiscal position weakens, creating additional risk that Illinois may withhold sales tax distributions to local governments.

An upgrade to the bonds would likely hinge on improvement in Chicago's OC, which is currently a limiting factor. An upgrade would also likely depend on no significant further deterioration of the state's liquidity position, which, in our view, would lessen the risk that the state could disrupt pledged revenues.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such