S&P Global
Ratings

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Summary:

Sales Tax Securitization Corporation of Chicago; Sales Tax

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Credit Profile		
Sales Tax Securitization Corporation of Chicago (BAM)		
Unenhanced Rating	AA-(SPUR)/Negative	Outlook Revised

Rating Action

S&P Global Ratings has revised its rating outlook on the Sales Tax Securitization Corp. of Chicago's (STSC) first- and second-lien bonds to negative from stable. At the same time, S&P Global Ratings affirmed its 'AA-' rating on the bonds. The outlook revision mirrors that taken on the City of Chicago (see "Chicago Outlook Revised To Negative From Stable On Economic Stress Arising From Recession; 'BBB+' GO Rating Affirmed," published April 24, 2020, on RatingsDirect).

Credit overview

The rating on the STSC bonds is based on the 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]). Thus, the outlook revision on the GO debt rating on Chicago results in the same outlook revision on the STSC bond rating.

Coverage on the first- and second-lien bonds remains good at 2.72x all-in and 4.18x for the senior-lien debt based on 2019 revenues. However, given economic pressures related to COVID-19 and the resulting recession, we expect coverage will decline over the next year. Because there is a lag between collections and receipt of the money, the amount of change in March 2020 sales taxes won't be available until June. In our view, the STSC can withstand a drop of about 45% in revenues, down to $393 million annually, and remain above 1.5x all-in coverage. Chicago's sales tax collections have exceeded that amount since 2004, including through the Great Recession. We will continue to watch both Chicago's trajectory as well as coverage on the first- and second-lien bonds in order to assess any weaknesses brought on by the recession.

Negative Outlook

While our outlook horizon extends for up to two years, we believe the risks facing the city over the next year will be key to future rating direction. The STSC bonds could be downgraded if there is a downgrade on the OC (our rating on Chicago's GO debt), or if there is notable deterioration in coverage provided by the sales taxes pledged to the bonds. We could revise the outlook to stable if we revise the outlook on Chicago's GO debt back to stable, and the taxes pledged to the bonds remain steady enough to preclude concerns about a sizable drop in coverage.

For additional information, see the analysis on STSC published Nov. 26, 2019.

Ratings Detail (As Of April 24, 2020)		
Sales Tax Securitization Corporation of Chicago sales tax		
Long Term Rating	AA-/Negative	Outlook Revised
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Sales Tax Securitization Corporation of Chicago sales tax (BAM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Negative	Outlook Revised
Sales Tax Securitization Corporation of Chicago sales tax (BAM) (SEC MKT)		
Unenhanced Rating	AA-(SPUR)/Negative	Outlook Revised
Sales Tax Securitization Corporation of Chicago sales tax (BAM) (SEC MKT)		
Unenhanced Rating	AA-(SPUR)/Negative	Outlook Revised
Sales Tax Securitization Corporation of Chicago second lien sales tax securitization bnds (forward delivery) ser 2020A due 01/01/2034		
Long Term Rating	AA-/Negative	Outlook Revised
Sales Tax Securitization Corporation of Chicago (BAM) (SEC MKT)		
Unenhanced Rating	AA-(SPUR)/Negative	Outlook Revised
Sales Tax Securitization Corp sales tax (BAM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Negative	Outlook Revised

Many issues are enhanced by bond insurance.

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 criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.