

Sales Tax Securitization Corporation

(A Component Unit of the City of Chicago, Illinois)

Basic Financial Statements as of and for the
Year Ended December 31, 2019, and
Independent Auditors' Report

SALES TAX SECURITIZATION CORPORATION
(A Component Unit of the City of Chicago, Illinois)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of the
Sales Tax Securitization Corporation
City of Chicago, Illinois:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Sales Tax Securitization Corporation (the "Corporation"), a component unit of the City of Chicago, Illinois (the "City"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Corporation, as of December 31, 2019, and the respective changes in financial position thereof for the year ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Deloitte & Touche LLP

July 28, 2020

SALES TAX SECURITIZATION CORPORATION
(A Component Unit of the City of Chicago, Illinois)

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts in thousands, except as otherwise noted)

The following is a narrative overview and analysis of the financial activities of the Sales Tax Securitization Corporation (the "STSC" or the "Corporation") as of and for the year ended December 31, 2019. It should be read in conjunction with the STSC's government-wide financial statements, governmental funds financial statements and the notes to the basic financial statements. This report is made up of three sections: (1) management's discussion and analysis (this section); (2) basic financial statements; and (3) the statistical section. The basic financial statements consist of three parts: (1) the government-wide financial statements; (2) the governmental funds financial statements; and (3) the notes to the basic financial statements.

The government-wide financial statements, which include the statement of net position and the statement of activities, are presented to display information about the Corporation as a whole, in accordance with accounting principles generally accepted in the United States of America ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"). This is to provide the reader with a broad overview of the STSC's finances. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The STSC's governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenue is recognized when it becomes susceptible to accrual; that is, when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are recognized when the related liability is incurred, except for principal and interest on bonds payable, which are recognized when due.

The reconciliations of the governmental funds balance sheet to the statement of net position and the reconciliations of the governmental funds statement of revenues, expenditures and changes in fund balances to the statement of activities are presented to assist the reader in understanding the differences between government-wide and governmental funds financial statements.

Financial Highlights and Overall Analysis—Government-Wide Financial Statements

In January 2019, the STSC issued its \$605.4 million Sales Tax Securitization Bonds, Taxable Series 2019A (the "2019 Bonds"). The 2019 Bonds were issued at interest rates between 4.64% and 4.79% with mandatory sinking funds or maturity dates between January 1, 2022 and January 1, 2048. Proceeds will be used to provide funds for the City to refund certain of the City's outstanding general obligation bonds and to pay costs of issuance.

The following summarizes the activities of the STSC for the year ended December 31, 2019 and for the year ended December 31, 2018:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Revenues—		
Sales tax revenue	<u>\$ 721,769</u>	<u>\$ 697,340</u>
 Total revenues	 721,769	 697,340
Expenses:		
Payment to the City of Chicago	615,744	608,221
Amortization of deferred outflows	114,838	70,809
Interest and other fiscal charges	111,054	57,902
Other	<u>238</u>	<u>255</u>
 Total expenses	 <u>841,874</u>	 <u>737,187</u>
 Change in net position	 (120,105)	 (39,847)
Net position — Beginning of period	<u>(18,472)</u>	<u>21,375</u>
 Net position — End of period	 <u>\$ (138,577)</u>	 <u>\$ (18,472)</u>

The STSC's revenues increased by 3.5% in fiscal year 2019 primarily as a result of increased economic activity. Expenses were primarily comprised of payments of residual Sales Tax Revenues to the City, amortization of deferred outflows and interest and other fiscal charges. Expenses increased for fiscal year 2019 primarily as a result of increases in amortization of deferred outflows and interest and other fiscal charges.

The following summarizes the STSC's assets, liabilities, and net position as of December 31, 2019 and 2018:

	2019	2018
Assets—		
Non-capital	\$ <u>257,292</u>	\$ <u>218,663</u>
Total Assets	257,292	218,663
Deferred outflows	<u>2,576,421</u>	<u>2,090,687</u>
Total Assets and Deferred Outflows	<u>2,833,713</u>	<u>2,309,350</u>
Liabilities—		
Current liabilities	211,685	160,387
Long-term liabilities	<u>2,760,605</u>	<u>2,167,435</u>
Total Liabilities	<u>2,972,290</u>	<u>2,327,822</u>
Net Position—		
Unrestricted	<u>(138,577)</u>	<u>(18,472)</u>
Total net position	\$ <u>(138,577)</u>	\$ <u>(18,472)</u>

As of December 31, 2019, the STSC's assets consisted primarily of Sales Tax Receivable from the State and deferred outflows. Assets increased by \$38.6 million (17.7%) due primarily to an increase in cash restricted for debt service.

The deferred outflows of resources represent the unamortized portion of bond proceeds sold by the City to the Corporation in exchange for the Sales Tax Revenue. The deferred outflows will be amortized over the life of the bonds. The deferred outflows increased by \$485.7 million (23.2%) which was due to the net bond proceeds of \$600.5 million during 2019 which has been netted with the current year amortization of \$114.8 million.

The STSC's liabilities are almost entirely composed of residual Sales Tax Revenues Payable to the City, bonds payable, and unamortized original issue premium. Liabilities increased by \$644.5 billion (27.7%) primarily due to the gross bond proceeds of \$605.4 million during 2019 net of the current period amortization of the bond premium of \$9.3 million. The remaining amount of \$48.4 million represents an increase in accrued interest and sales tax payable to the City.

Financial Highlights and Overall Analysis—Governmental Funds Financial Statements

The STSC reports governmental activity using two funds: (1) a general fund ("GF") and (2) a debt service fund ("DSF").

The following summarizes the changes in the GF fund balances for the years ended December 31, 2019 and 2018:

	2019	2018
General Fund		
Revenues:		
Sales tax revenue	\$ <u>615,993</u>	\$ <u>608,469</u>
Total revenues	<u>615,993</u>	<u>608,469</u>
Expenditures:		
General and administrative	238	256
Payments to City	<u>615,744</u>	<u>608,221</u>
Total expenditures	<u>615,982</u>	<u>608,477</u>
Net change in fund balances	11	(8)
Fund balances—Beginning of period	<u>232</u>	<u>240</u>
Fund balances—End of period	<u>\$ 243</u>	<u>\$ 232</u>

GF revenues were entirely composed of Sales Tax Revenues. Amounts not withheld for operations are returned to the City ("Payments to City").

The following summarizes the changes in the fund balances of the STSC's DSF for the years ended December 31, 2019 and 2018:

	2019	2018
Revenues:		
Sales Tax Revenue	\$ <u>105,776</u>	\$ <u>88,871</u>
Total Revenues	105,776	88,871
Expenditures:		
Principal Retirement	3,000	-
Interest and other fiscal charges	120,314	67,161
Amortization of deferred outflows	<u>114,838</u>	<u>70,809</u>
Total Expenditures	<u>238,152</u>	<u>137,970</u>
Other financing sources		
Bond proceeds	605,430	1,292,700
Premium on bonds	<u> </u>	<u>110,063</u>
Total other financing sources	<u>605,430</u>	<u>1,402,763</u>
Net change in fund balances	473,054	1,353,664
Fund balances—Beginning of year	<u>2,148,731</u>	<u>795,067</u>
Fund balances—End of year	<u>\$ 2,621,785</u>	<u>\$ 2,148,731</u>

DSF revenues were entirely composed of Sales Tax Revenues. Expenditures were composed of interest and other fiscal charges and amortization of the deferred outflows related to the issuance of bonds.

The following summarizes the GF assets, liabilities and fund balances as of December 31, 2019 and 2018:

	2019	2018
Assets:		
Cash equivalents and investments	\$ 3	\$ 7
Sales tax receivable	<u>149,940</u>	<u>129,203</u>
Total assets	<u>149,943</u>	<u>129,210</u>
Liabilities:		
Accounts payable	<u>149,700</u>	<u>128,978</u>
Total liabilities	<u>149,700</u>	<u>128,978</u>
Fund balances:		
Unassigned	<u>243</u>	<u>232</u>
Total fund balances	<u>243</u>	<u>232</u>
Total liabilities and fund balances	<u>\$ 149,943</u>	<u>\$ 129,210</u>

GF assets were composed primarily of Sales Tax Receivables from the State of Illinois. The GF assets at December 31, 2019 totaled approximately \$149.9 million which is an increase of \$20.7 million (16.0%) as compared to December 31, 2018. The increase in GF assets was primarily caused by a decrease of approximately \$13.0 million in Sales Tax Receivables being allocated to the DSF to fund debt service and an increase of approximately \$7.0 million in sales tax revenues accrued during October through December which are received from the State in January through March. Liabilities were composed primarily of residual Sales Tax Revenues not needed for operations or debt service and payable to the City. Liabilities increased by \$20.7 million (16.0%) caused by a decrease in Sales Tax Revenues needed for debt service during January through March 2020.

The following summarizes the STSC's DSF assets, liabilities, and fund balances as of December 31, 2019 and 2018:

	2019	2018
Assets:		
Restricted cash	\$ 62,433	\$ 31,749
Sales Tax Receivable and Other Assets	<u>44,916</u>	<u>57,704</u>
Total assets	<u>107,349</u>	<u>89,453</u>
Deferred outflows	<u>2,576,421</u>	<u>2,090,687</u>
Total assets and deferred outflows	<u>2,683,770</u>	<u>2,180,140</u>
Liabilities:		
Bonds payable	3,000	242
Accrued interest	<u>58,985</u>	<u>31,167</u>
Total liabilities	<u>61,985</u>	<u>31,409</u>
Fund balances:		
Nonspendable	2,576,421	2,090,687
Restricted for debt service	<u>45,364</u>	<u>58,044</u>
Total fund balances	<u>2,621,785</u>	<u>2,148,731</u>
Total liabilities and fund balances	<u>\$ 2,683,770</u>	<u>\$ 2,180,140</u>

At December 31, 2019, the STSC's DSF assets consisted of cash equivalents restricted for payment of cost of issuance related to the 2019 Bonds and Sales Tax Revenues receivable restricted for debt service payments. The Sales Tax Receivable restricted for debt service reflects the amount of bond interest due on July 1 of the following fiscal year. DSF assets increased by \$17.9 million (20.0%) due to an increase in restricted cash due to increased withholding for debt service payments. The deferred outflows of resources represent the unamortized portion of bond proceeds sold by the City to the Corporation in exchange for the Sales Tax Revenues. The deferred outflows will be amortized over the life of the bonds. The deferred outflows increased by \$485.7 billion (23.2%) due to the issuance of the net bond proceeds of \$600.5 million during 2019 which is netted with the current year amortization of deferred outflows of \$114.8 million.

At December 31, 2019, the STSC had credit ratings for its Sales Tax Securitization Bonds with three of the major rating agencies as follows:

	Fitch	Kroll	Standard & Poor's
Senior Lien	AAA	AAA	AA-
Second Lien			AA-

In November 2019, the City Council of the City and the Board of Directors of the STSC approved the issuance of a second lien on the Sales Tax Revenues. In December 2019, S&P gave an initial rating of AA- to the STSC Second Lien Bonds. During 2020 there were rating changes for the STSC Senior Lien Sales bonds and outlook changes for the STSC First and Second Lien Bonds. Additionally, Fitch and Kroll also rated the STSC Second Lien Bonds during fiscal year 2020. See Note 4 Subsequent Events.

The global COVID-19 pandemic will have a significant negative impact on economic conditions in 2020, and likely beyond. The Corporation anticipates that sales tax revenues will decline in FY20, however, the shortfall is not expected to impact the Corporation's ability to pay its debt service obligations. See Note 4 Subsequent Events footnote for further details.

This financial report is designed to provide a general overview of the STSC's finances. Questions concerning any of the information in this report or requests for additional financial information should be directed to the Sales Tax Securitization Corporation, 55 E Monroe Street, Suite 3800, Chicago, Illinois 60603.

SALES TAX SECURITIZATION CORPORATION
(A Component Unit of the City of Chicago, Illinois)

STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2019
(Amounts in thousands)

ASSETS:	
Unrestricted cash	\$ 3
Restricted cash	62,433
Sales tax receivable	<u>194,856</u>
Total assets	257,292
Deferred outflows	<u>2,576,421</u>
Total assets and deferred outflows	<u>2,833,713</u>
LIABILITIES:	
Accounts payable	9
Sales tax residual payable to the City	149,691
Accrued interest	58,985
Bonds payable—portion due within one year	3,000
Bonds payable—portion due after one year	<u>2,760,605</u>
Total liabilities	<u>2,972,290</u>
NET DEFICIT—Unrestricted	<u>(138,577)</u>
TOTAL NET DEFICIT	<u>\$ (138,577)</u>

See accompanying notes to basic financial statements.

SALES TAX SECURITIZATION CORPORATION
(A Component Unit of the City of Chicago, Illinois)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts in thousands)

REVENUES—Sales tax revenue	<u>\$ 721,769</u>
Total revenues	<u>721,769</u>
EXPENSES:	
Payment to City	615,744
Amortization of deferred outflow	114,838
Interest and other fiscal charges	111,054
General and administrative	<u>238</u>
Total expenses	<u>841,874</u>
CHANGE IN NET DEFICIT	(120,105)
NET DEFICIT—Beginning of period	<u>(18,472)</u>
NET DEFICIT—End of period	<u><u>\$(138,577)</u></u>

See accompanying notes to basic financial statements.

SALES TAX SECURITIZATION CORPORATION
(A Component Unit of the City of Chicago, Illinois)

GOVERNMENTAL FUNDS BALANCE SHEET
AS OF DECEMBER 31, 2019
(Amounts in thousands)

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS AND DEFERRED OUTFLOWS			
UNRESTRICTED CASH EQUIVALENTS	\$ 3	\$ -	\$ 3
RESTRICTED CASH EQUIVALENTS	-	62,433	62,433
SALES TAX RECEIVABLE	<u>149,940</u>	<u>44,916</u>	<u>194,856</u>
Total assets	149,943	107,349	257,292
DEFERRED OUTFLOWS	<u>-</u>	<u>2,576,421</u>	<u>2,576,421</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>149,943</u></u>	<u><u>2,683,770</u></u>	<u><u>2,833,713</u></u>
LIABILITIES AND FUND BALANCE			
ACCOUNTS PAYABLE	\$ 9	\$ -	\$ 9
SALES TAX RESIDUAL PAYABLE TO CITY	149,691	-	149,691
BONDS PAYABLE - CURRENT	-	3,000	3,000
ACCRUED INTEREST	<u>-</u>	<u>58,985</u>	<u>58,985</u>
Total liabilities	<u>149,700</u>	<u>61,985</u>	<u>211,685</u>
FUND BALANCE:			
Nonspendable	-	2,576,421	2,576,421
Restricted for debt service	-	45,364	45,364
Unassigned	<u>243</u>	<u>-</u>	<u>243</u>
Total fund balance	<u>243</u>	<u>2,621,785</u>	<u>2,622,028</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 149,943</u></u>	<u><u>\$ 2,683,770</u></u>	<u><u>\$ 2,833,713</u></u>

See accompanying notes to basic financial statements.

SALES TAX SECURITIZATION CORPORATION
(A Component Unit of the City of Chicago, Illinois)

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2019
(Amounts in thousands)**

TOTAL FUND BALANCES—Governmental Funds	\$ 2,622,028
AMOUNTS REPORTED IN THE STATEMENT OF NET POSITION ARE DIFFERENT BECAUSE:	
Bond premiums are reported as other financing sources in the governmental funds financial statements when received. However, in the statement of net position, bond premiums are reported as a component of bonds payable and amortized over the life of the bonds.	(121,740)
Some liabilities are not due and payable from currently available financial resources at year end and are therefore not reported in the governmental fund financial statements, but are reported in the statement of net position. Those liabilities consist of bonds payable due after one year.	<u>(2,638,865)</u>
NET DEFICIT OF GOVERNMENTAL ACTIVITIES	<u>\$ (138,577)</u>

See accompanying notes to basic financial statements.

SALES TAX SECURITIZATION CORPORATION
(A Component Unit of the City of Chicago, Illinois)

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES**
FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts in thousands)

	General Fund	Debt Service Fund	Total Governmental Fund
REVENUES—Sales tax revenue	\$ 615,993	\$ 105,776	\$ 721,769
Total revenues	<u>615,993</u>	<u>105,776</u>	<u>721,769</u>
EXPENDITURES:			
Principal Retirement	-	3,000	3,000
Interest and other fiscal charges	-	120,314	120,314
General and administrative	238	-	238
Payments to City	615,744	-	615,744
Amortization of deferred outflow	-	114,838	114,838
Total expenditures	<u>615,982</u>	<u>238,152</u>	<u>854,134</u>
OTHER FINANCING SOURCES:			
Bond proceeds	-	605,430	605,430
Total other financing sources	<u>-</u>	<u>605,430</u>	<u>605,430</u>
NET CHANGE IN FUND BALANCE	11	473,054	473,065
FUND BALANCE—Beginning of period	<u>232</u>	<u>2,148,731</u>	<u>2,148,963</u>
FUND BALANCE—End of period	<u>\$ 243</u>	<u>\$ 2,621,785</u>	<u>\$ 2,622,028</u>

See accompanying notes to the basic financial statements.

SALES TAX SECURITIZATION CORPORATION
(A Component Unit of the City of Chicago, Illinois)

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts in thousands)**

NET CHANGE IN FUND BALANCES—Total Governmental Funds	\$ 473,065
AMOUNTS REPORTED IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:	
Bond proceeds less principal retirement provide current financial resources to governmental funds, but bonds issued increase long-term liabilities in the statement of net position.	(602,430)
Governmental funds report bond premiums as other financing sources. However, in the statement of activities, premiums are amortized over the life of the debt.	<u>9,260</u>
CHANGE IN NET POSITION/(DEFICIT)—Governmental activities	<u>\$ (120,105)</u>

See accompanying notes to the basic financial statements.

SALES TAX SECURITIZATION CORPORATION
(A Component Unit of the City of Chicago, Illinois)

NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts in thousands, except as noted)

1. ORGANIZATION

The Corporation is a special purpose, not-for-profit corporation incorporated under the provisions of the General Not For Profit Corporation Act of 1986 of the State of Illinois (805 ILCS 105), as amended, and organized in accordance with an ordinance adopted by the City Council (the "City Council") of the City of Chicago (the "City") on October 11, 2017. The Corporation was organized for the limited purpose of purchasing the Sales Tax Revenue from the City and issuing bonds, notes, or other obligations for the benefit of the City. The Corporation is a non-stock corporation, has no members, and is governed by a board of directors (the "Board").

The Corporation has no employees. The Corporation and the City have entered into a services agreement pursuant to which the City provides administrative and support services to the Corporation. The STSC provides benefits exclusively to the City, and as a result, is presented as a blended component unit of the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements—The government-wide financial statements of STSC, which include the statement of net position and the statement of activities, are presented to display information about the reporting entity as a whole, in accordance with GAAP as prescribed by the GASB. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The STSC's governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenue is recognized when it becomes susceptible to accrual; that is, when it becomes both measurable and available to finance expenditures in the current fiscal period. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures are recognized when the related liability is incurred, except for principal and interest on bonds payable, which is recognized when due.

The STSC uses two governmental funds for reporting its activities: a debt service fund ("DSF"), and a general fund ("GF"). The DSF is used to account for the accumulation of resources for payment of principal and interest on debt and the GF is used to account for all financial resources and activities not accounted for in the DSF, which are STSC's administrative and operating expenditures. Revenues are recognized within the DSF for payment of principal and interest on debt due in the following fiscal year and the residual is then recognized within the GF.

Fund balances of the governmental funds are classified as either: 1) nonspendable, 2) restricted, 3) committed, 4) assigned, or 5) unassigned. Fund balance that cannot be spent because it is not in spendable form is defined as nonspendable. Resources constrained for debt service or redemption in accordance with STSC's Master Trust Indenture, dated December 1, 2017, as supplemented (the "Indenture") are classified as restricted on the statement of net position and the governmental funds balance sheet.

The Board constitutes the STSC's highest level of decision-making authority. If and when resolutions are adopted by the Board that constrain fund balances for a specific purpose, such resources are accounted for and reported as committed for such purpose; unless and until a subsequent resolution altering the commitment is adopted by the Board.

Fund balances which are constrained for use for a specific purpose based on the direction of any officer of the STSC who is duly authorized under the Indenture to direct the movement of such funds are accounted for and reported as assigned for such purpose unless and until a subsequent authorized action by the same, or another duly authorized officer, or by the Board, is taken which removes or changes the assignment. Resources that are not constrained are reported as unassigned in the governmental funds balance sheets and unrestricted in the statement of net position.

When both restricted and unrestricted resources are available for use for a specific purpose, it is the STSC's policy to use restricted resources first then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use for a specific purpose, it is the STSC's policy to use committed resources first, then assigned resources, and then unassigned resources as they are needed.

The nonspendable portion represents a deferred outflow from the acquisition of sales tax revenues that will be amortized into expenditures over the life of the related bonds.

Long-Term Obligations—Bond premiums are capitalized and amortized over the life of the related debt using the effective interest method in the government-wide financial statements. The amounts of unamortized bond premium at December 31, 2019 were \$121.7 million, which were net of accumulated amortization of \$22.2 million.

Bond issuance costs are recognized as an expense/expenditure in the period incurred on both government-wide and governmental funds financial statements.

The governmental funds financial statements recognize bond premiums and discounts during the period of the related bond issuance. The face amount of debt issued is reported as another financing source, as is the premium on debt issued. Principal payments are reported as expenditures in the period made.

Interest expense is recognized as it is incurred on the accrual basis in the government-wide financial statements. Interest expenditures are recognized when due in the governmental funds' financial statements.

Sale Agreement—Pursuant to a sale agreement authorized by Division 13 of Article 8 of the Illinois Municipal Code, in 2017 the STSC entered into an Assignment, Purchase and Sale Agreement ("Sale Agreement") with the City under which the City sold to the STSC its right, title and interest in and to certain sales tax revenues collected by the State of Illinois (the "Sales Tax Revenues"). The Sales Tax Revenues consist of (a) revenues resulting from collection of three separate taxes (collectively, the "Home Rule Sales Tax Revenues") imposed by the City pursuant to its home rule powers and authority granted by State of

Illinois statute; and (b) revenues resulting from the collection of four separate taxes (collectively, the "Local Share Sales Tax Revenues") imposed by the State of Illinois. In exchange for selling its right, title and interest in the Sales Tax Revenues, the City received a residual certificate which represents the City's ownership interest in excess Sales Tax Revenues to be received by the STSC to pay debt service requirements of any outstanding obligations and administrative costs during the term of the Sale Agreement. The Sale Agreement is effective until there are no secured obligations outstanding for the STSC.

Deferred Outflow—Represents bond proceeds paid to the City for the right, title and interest in the Sales Tax Revenues. The deferred outflow is amortized on a straight-line basis over the life of the related bond issuance.

Use of Estimates—The preparation of the basic financial statements in accordance with GAAP requires the STSC's management to make estimates and assumptions in determining the reported amounts of assets, deferred inflows of resources, liabilities, and deferred outflows of resources as of the date of the basic financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

3. BONDS PAYABLE

In connection with the City's sale of the Sales Tax Revenue to the STSC, the STSC issued the 2019A Bonds on January 30, 2019. The 2019 Bonds were issued at interest rates between 4.64% and 4.79% with mandatory sinking funds or maturity dates between January 1, 2022 and January 1, 2048. The bonds are secured by a pledge of the Sales Tax Revenues. Net proceeds of \$600.5 million were used to provide funds for the City to refund certain of the City's outstanding general obligation bonds and to pay costs of issuance.

A summary of changes in outstanding bonds during the year ended December 31, 2019 is as follows:

	Year Ended December 31, 2019			
	(figures in thousands of dollars)			
	Balance December 31, 2018	Additions	Reductions	Balance December 31, 2019
Series 2017A	\$ 172,065	\$ -	\$ -	\$ 172,065
Series 2017B	400,630	-	-	400,630
Series 2017C	171,040	-	-	171,040
Series 2018A	376,305	-	-	376,305
Series 2018B	303,975	-	-	303,975
Series 2018C	612,420	-	-	612,420
Series 2019A	<u>-</u>	<u>605,430</u>	<u>-</u>	<u>605,430</u>
Total before premium	2,036,435	605,430		2,641,865
Premium	<u>130,999</u>	<u>-</u>	<u>9,260</u>	<u>121,740</u>
Total bonds payable and premium	<u>\$ 2,167,434</u>	<u>\$ 605,430</u>	<u>\$ 9,260</u>	<u>\$ 2,763,605</u>
Due within one year				<u>\$ 3,000</u>

The amount due within one year of \$3 million is presented as an expense within the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and as current portion of bonds payable on the Governmental Funds Balance Sheet. The total bonds payable of \$2,763 million in the table above includes the current portion of \$3 million and long-term portion of \$2,760 million of bonds payable and agrees to the Statement of Net Position. The current portion of \$3 million was paid on January 1, 2020.

Debt service requirements listed below for each year include amounts payable January 1 of the following year. Bonds maturing and interest payable January 1, 2020 have been excluded because funds for their payment have been provided for. Debt service requirements, including principal and interest, at December 31, 2019, are as follows:

Year Ended December 31	Principal	Interest	Total
2020	\$ 3,150	\$ 117,820	\$ 120,970
2021	47,685	117,662	165,347
2022	54,760	115,588	170,348
2023	57,075	113,275	170,350
2024	59,510	110,839	170,349
2025 to 2029	338,880	512,861	851,741
2030 to 2034	422,935	428,802	851,737
2035 to 2039	528,200	323,884	852,084
2040 to 2044	657,445	195,989	853,434
2045 to 2048	469,225	42,836	512,061
Totals	<u>\$2,638,865</u>	<u>\$2,079,556</u>	<u>\$4,718,421</u>

4. SUBSEQUENT EVENTS

The Corporation has evaluated events occurring subsequent to December 31, 2019, and through July 28, 2020, the date the financial statements were available to be issued. The Corporation did not identify any subsequent events to be disclosed apart from those discussed below.

In January 2020, the Sales Tax Securitization Corporation ("STSC") sold its \$521,105,000 aggregate principal amount of Second Lien Sales Tax Securitization Bonds, Series 2020A (the "STSC Second Lien 2020A Bonds"), and its \$495,810,000 aggregate principal amount of Second Lien Sales Tax Securitization Bonds, Taxable Series (the "STSC Second Lien 2020B Bonds" and together with the STSC Second Lien Series 2020A Bonds, the STSC Second Lien Series 2020AB Bonds"). The STSC issued the STSC Second Lien Series 2020AB Bonds on January 30, 2020. The STSC Second Lien 2020A Bonds were issued at interest rates of 4.00% and 5.00% with maturity dates between January 1, 2025 and January 1, 2040. The STSC Second Lien 2020B Bonds were issued at interest rates of 2.128%, 2.225%, 2.325%, 2.857%, 2.957%, 3.007%, 3.057% and 3.107% with mandatory sinking fund or maturity dates between January 1, 2023 and January 1, 2043. Proceeds of the STSC Second Lien Series 2020AB Bonds were used to provide funds for the City to refund certain of the City's outstanding General Obligation bonds; repurchase and cancel certain outstanding general obligation bonds of the City by means of a tender offer; refund certain outstanding motor fuel tax revenue bonds of the City; provide for the

refunding of certain outstanding notes of the Chicago Infrastructure Trust Fund, an Illinois not-for-profit corporation and instrumentality of the City; fund capitalized interest on the STSC Second Lien Series 2020AB Bonds; and to pay costs of issuance for the STSC Second Lien Series 2020AB Bonds.

In January 2020, Fitch downgraded the ratings of the STSC Sales Tax Securitization Bonds from AAA to AA-, with a stable outlook due to a criteria change.

In January 2020, Kroll gave an initial rating of AA+ to the STSC Second Lien Bonds and Fitch gave an initial rating of AA- to the STSC Second Lien Bonds.

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic in the face of the global spread of the virus. The COVID-19 pandemic has dramatically altered the behavior of businesses and people in a manner that is having negative effects on global and local economies. Financial markets in the U.S. and globally, have seen significant declines and volatility attributed to concerns over COVID-19. These adverse impacts have intensified and continue to evolve within the United States.

The City of Chicago provides essential services to residents, businesses and visitors and continues to operate throughout this pandemic. The City continues to operate its normal course of business. In response to the pandemic, the City of Chicago issued a stay at home order in March 2020 that closed all non-essential businesses and travel. As a result, Sales Tax Revenue has seen a significant decline in the second quarter of 2020. In July 2020, the City began to ease the restrictions and gradually open the City's businesses back up. Total impact to sales tax revenue is currently not estimable. The Corporation does not expect the decline in sales tax revenue to impact the Corporation's ability to pay its debt service requirements.

In April 2020, S&P changed the outlook of the unenhanced underlying rating of the Corporation to negative in response to economic pressure caused by COVID-19.

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**STATISTICAL SECTION
(UNAUDITED)**

TABLE 1**Annual Sales Tax Revenues (Unaudited)**

The following table shows the historical annual Sales Tax Revenues on a cash basis from 2010 through 2019.

**Annual Sales Tax Revenues 2010–2019
(Dollars in thousands)**

Year Ended December 31,	Home Rule Sales Tax Revenues⁽¹⁾	Percent Change Over Prior Year	Local Share Sales Tax Revenues	Percent Change Over Prior Year	Total Sales Tax Revenues	Percent Change Over Prior Year
2010	\$219,295	2.8	\$258,666	1.3	\$477,961	2.0
2011	235,908	7.6	281,189	8.7	517,097	8.2
2012	251,055	6.4	295,912	5.2	546,967	5.8
2013	263,984	5.1	312,378	5.6	576,361	5.4
2014	276,192	4.6	327,379	4.8	603,571	4.7
2015	292,512	5.9	352,841	7.8	645,353	6.9
2016	295,299	1.0	363,448	3.0	658,746	2.1
2017	292,991	(0.8)	368,647	1.4	661,638	0.4
2018	301,275	2.8	386,152	4.7	687,427	3.9
2019	307,056	1.9	406,764	5.3	713,820	3.8

Source: City of Chicago

⁽¹⁾ Shown net of all past fees and will be net of all applicable fees going forward.

TABLE 2**Monthly Home Rule Sales Tax Revenues (Unaudited)**

The following table shows the historical monthly Home Rule Sales Tax Revenues on a cash basis from 2015 through 2019.

**Monthly Home Rule Sales Tax Revenues 2015–2019
(Dollars in thousands)**

Month	2015	2016	2017	2018	2019
January	\$ 24,223	\$ 25,571	\$ 25,379	\$ 24,723	\$ 26,520
February	23,170	23,447	24,036	23,926	24,795
March	26,741	27,727	27,607	27,585	28,139
April	19,616	19,930	20,064	20,774	19,720
May	20,043	21,338	20,301	20,721	20,592
June	24,079	24,345	24,033	25,433	25,751
July	23,867	23,015	23,935	23,918	25,011
August	25,413	25,242	25,163	26,888	27,206
September	26,724	27,256	26,535	27,942	28,124
October	25,915	25,831	25,205	25,902	26,972
November	26,876	25,842	25,206	27,205	27,536
December	<u>25,845</u>	<u>25,755</u>	<u>25,525</u>	<u>26,257</u>	<u>26,690</u>
	<u>\$292,512</u>	<u>\$295,299</u>	<u>\$292,991</u>	<u>\$301,275</u>	<u>\$307,056</u>

Source: City of Chicago

TABLE 3**Monthly Local Share Sales Tax Revenues (Unaudited)**

The following table shows the historical monthly Local Share Sales Tax Revenues on a cash basis from 2015 through 2019.

**Monthly Local Share Sales Tax Revenues 2015–2019
(Dollars in thousands)**

Month	2015	2016	2017	2018	2019
January	\$ 29,175	\$ 30,726	\$ 31,241	\$ 31,621	\$ 34,696
February	27,901	22,402	29,967	31,625	33,781
March	34,018	42,040	36,939	37,515	38,976
April	23,044	25,738	26,245	27,757	27,484
May	25,642	27,057	25,812	27,258	28,806
June	29,395	30,541	30,631	32,625	33,906
July	29,269	28,769	29,353	30,141	33,057
August	29,895	30,717	30,940	33,356	34,948
September	25,409	33,223	32,517	34,564	35,693
October	24,482	30,390	30,948	32,705	35,177
November	24,593	30,525	32,020	33,351	34,862
December ⁽¹⁾	<u>50,017</u>	<u>31,318</u>	<u>32,034</u>	<u>33,634</u>	<u>35,379</u>
	<u>\$352,841</u>	<u>\$363,448</u>	<u>\$368,647</u>	<u>\$386,152</u>	<u>\$406,764</u>

Source: City of Chicago

⁽¹⁾ The City's receipt of its allocable portions of the Illinois Use Tax and the Illinois Service Use Tax was delayed in September, October and November 2015, because the Illinois General Assembly did not make the appropriation required for the City to receive such revenues. The appropriation was made, and the City received the revenues which it was to have received, in December 2015.

TABLE 4**Components of Sales Tax Revenues (Unaudited)**

The following table shows on a cash basis the components of the Sales Tax Revenues from January 1, 2015 through December 31, 2019.

**Components of Sales Tax Revenues 2015–2019
(Dollars in thousands)**

Tax	2015		2016		2017		2018		2019	
	Amount Collected	% of Total	Amount Collected	% of Total	Amount Collected	% of Total	Amount Collected	% of Total	Amount Collected	% of Total
Home rule sales tax revenues:										
Retailers' and service occupation Use	\$ 255,134	39.5 %	\$ 257,053	39.0 %	\$ 256,238	38.7 %	\$ 263,974	38.4 %	\$ 268,012	38 %
	37,378	6	38,246	6	36,753	6	37,301	5	38,044	5
Local share sales tax revenues:										
Retailers' and service Occupation ⁽¹⁾	278,490	43	283,598	43	283,815	43	293,204	43	299,963	42
Use ⁽²⁾	<u>74,351</u>	<u>12</u>	<u>79,849</u>	<u>12</u>	<u>84,832</u>	<u>13</u>	<u>92,948</u>	<u>14</u>	<u>106,801</u>	<u>15</u>
Total	<u>\$ 645,353</u>	<u>100.0 %</u>	<u>\$ 658,746</u>	<u>100.0 %</u>	<u>\$ 661,638</u>	<u>100.0 %</u>	<u>\$ 687,427</u>	<u>100.0 %</u>	<u>\$ 713,820</u>	<u>100.0 %</u>

Source: City of Chicago

⁽¹⁾ Includes Illinois Use Tax on titled personal property.

⁽²⁾ Excludes Illinois Use Tax on titled personal property.