

# 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, 2021, and  
Independent Auditor's Report

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

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Audit of the Financial Statements**

#### **Opinions**

We have audited the 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, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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**

Management is responsible for the other information included in the annual report. The other information comprises the statistical section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*Deloitte & Touche LLP*

July 28, 2022

# **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, 2021**

#### **(Amounts in thousands, except as otherwise noted)**

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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, 2021. 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**

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 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. While the pandemic continued to have an impact on the STSC, the distribution of COVID-19 vaccines and lifting of local restrictions resulted in an improvement to Sales Tax Revenues during 2021.

In December 2021, the STSC sold the Second Lien Sales Tax Securitization Bonds Series 2021A (the "Series 2021A Bonds") and Taxable Series 2021B (the "Series 2021B Bonds" and together with the 2021A Bonds, the "Series 2021 Bonds"). The Series 2021A Bonds in the principal amount of \$394.2M were sold at a premium (\$102.6M), while the Series 2021B Bonds in the principal amount of \$609.9M were sold at par. The

Series 2021A Bonds have an interest rate of 5.0 percent and maturity dates from January 1, 2024 and January 1, 2034; the Series 2021B Bonds have interest rates ranging from .79% to 3.338% and maturity dates from January 1, 2023 to January 1, 2048. The net proceeds of \$1,100.8 million were transferred to the City in exchange for a pledge of the City's Sales Tax Revenues and used by the City to refund certain outstanding general obligation bonds of the City, refund certain bonds issued by STSC, refund certain motor fuel tax bonds of the City, repay a loan obtained by the City under the Transportation Infrastructure Finance and Innovation Act (TIFIA), repurchase and cancel certain outstanding general obligation bonds and/or motor fuel tax revenue bonds of the City by means of a tender offer, fund capitalized interest on the Series 2021 Bonds, and pay costs of issuance of the Series 2021 Bonds.

The following summarizes the activities of the STSC for the year ended December 31, 2021 and for the year ended December 31, 2020:

	<b>2021</b>	<b>2020</b>
Revenues:		
Sales tax revenue	\$ 801,688	\$ 611,268
Investment income	517	902
Other revenue	-	85
	<u>802,205</u>	<u>612,255</u>
Total revenues		
Expenses:		
Payment to the City of Chicago	640,589	475,658
Amortization of deferred outflows	168,719	164,055
Interest and other fiscal charges	133,650	144,558
Other	184	205
	<u>943,142</u>	<u>784,476</u>
Total expenses		
Change in net position (deficit)	(140,937)	(172,221)
Net position—beginning of period	<u>(310,798)</u>	<u>(138,577)</u>
Net position—end of period	<u>\$ (451,735)</u>	<u>\$ (310,798)</u>

The STSC's revenues increased by 31.0% in fiscal year 2021 primarily as a result of the economic recovery from the COVID-19 pandemic. 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 2021 primarily as a result of increased revenues resulting in increased payments to the City of Chicago.

The following summarizes the STSC’s assets, liabilities, and net position as of December 31, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Assets—		
Non-capital	<u>\$ 339,924</u>	<u>\$ 290,100</u>
Total assets	339,924	290,099
Deferred outflows	<u>4,297,617</u>	<u>3,456,986</u>
Total assets and deferred outflows	<u>4,637,541</u>	<u>3,747,085</u>
Liabilities—		
Current liabilities	195,266	189,273
Long-term liabilities	<u>4,894,010</u>	<u>3,868,610</u>
Total liabilities	<u>5,089,276</u>	<u>4,057,883</u>
Net position—		
Unrestricted	<u>(451,735)</u>	<u>(310,798)</u>
Total net position (deficit)	<u>\$ (451,735)</u>	<u>\$ (310,798)</u>

As of December 31, 2021, the STSC’s assets and deferred outflows consisted primarily of Sales Tax Receivable from the State, restricted cash, and deferred outflows. Assets increased by \$49.8 million (17.2%) due primarily to an increase in sales tax receivable.

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 \$840.6 million (24.3%) which was due primarily to the net bond proceeds of \$1,100.8 million during 2021 which has been netted with the current year amortization of \$168.7 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 \$1,031.4 million (25.4%) primarily due to the gross bond proceeds of \$1,106.6 million during 2021 net of the current period amortization of the bond premium of \$33.5 million. The remaining amount of \$41.7 million primarily represents an increase in Sales Tax Revenues Payable to the City, offset by long-term debt refunded by the Series 2021B Bonds.

#### **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, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
General Fund		
Revenues:		
Sales tax revenue	<u>\$ 592,053</u>	<u>\$ 475,861</u>
Total revenues	<u>592,053</u>	<u>475,861</u>
Expenditures:		
General and administrative	184	205
Payments to City	<u>640,589</u>	<u>475,658</u>
Total expenditures	<u>640,773</u>	<u>475,863</u>
Other Financing Sources (Uses):		
Transfers in	<u>48,722</u>	<u>-</u>
Total other financing sources (uses)	<u>48,722</u>	<u>-</u>
Net change in fund balances	2	(2)
Fund balances—beginning of period	<u>241</u>	<u>243</u>
Fund balances—end of period	<u><u>\$ 243</u></u>	<u><u>\$ 241</u></u>

GF revenues were entirely composed of Sales Tax Revenues. Amounts not withheld for operations are returned to the City (“Payments to City”). GF revenues in 2021 were higher than 2020 due primarily to the economic recovery from the COVID-19 pandemic, offset by an increase in debt service withheld for principal retirement. The amounts withheld for principal retirement (\$48.7 million), were subsequently released to the City as residual Sales Tax Revenues following the issuance of the Series 2021B Bonds which refunded STSC principal due January 1, 2022.

The following summarizes the changes in the fund balances of the STSC's DSF for the years ended December 31, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Revenues:		
Sales tax revenue	\$ 209,635	\$ 135,407
Investment income	517	901
Interest and other fiscal charges	<u>-</u>	<u>85</u>
Total revenues	<u>210,152</u>	<u>136,393</u>
Expenditures:		
Principal retirement	-	3,150
Interest and other fiscal charges	164,248	165,193
Amortization of deferred outflows	<u>168,719</u>	<u>164,055</u>
Total expenditures	<u>332,967</u>	<u>332,398</u>
Other financing sources (uses):		
Bond proceeds	1,004,020	1,016,915
Premium on bonds	102,603	113,387
Payment to refunded bond escrow agent	(48,722)	-
Transfers out	<u>(48,722)</u>	<u>-</u>
Total other financing sources	<u>1,009,179</u>	<u>1,130,302</u>
Net change in fund balances	886,364	934,297
Fund balances—beginning of year	<u>3,556,082</u>	<u>2,621,785</u>
Fund balances—end of year	<u>\$ 4,442,446</u>	<u>\$ 3,556,082</u>

DSF revenues were almost entirely composed of Sales Tax Revenues. Revenues in the DSF increased due to increased withholding requirements to pay debt service requirements. 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, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
<b>Assets:</b>		
Cash equivalents and investments	\$ 66	\$ 48
Sales tax receivable	<u>117,197</u>	<u>107,597</u>
Total assets	<u>117,263</u>	<u>107,645</u>
<b>Liabilities:</b>		
Accounts payable	<u>117,020</u>	<u>107,404</u>
Total liabilities	<u>117,020</u>	<u>107,404</u>
<b>Fund balances:</b>		
Unassigned	<u>243</u>	<u>241</u>
Total fund balances	<u>243</u>	<u>241</u>
Total liabilities and fund balances	<u><u>\$ 117,263</u></u>	<u><u>\$ 107,645</u></u>

GF assets were composed primarily of Sales Tax Receivables from the State of Illinois. The GF assets at December 31, 2021 totaled approximately \$117.3 million which is an increase of \$9.6 million (8.9%) as compared to December 31, 2020. The increase in GF assets was primarily caused by an increase of approximately \$44.3 million in Sales Tax Receivables being allocated to the DSF to fund debt service and an increase of approximately \$53.9 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 \$9.6 million (9.0%) caused by an increase in Sales Tax receivables, offset by an increase in Sales Tax Receivables being allocated to the DSF to fund debt service.

The following summarizes the STSC's DSF assets, deferred outflows, liabilities, and fund balances as of December 31, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
<b>Assets:</b>		
Restricted cash	\$ 117,059	\$ 121,067
Sales tax receivable and other assets	104,088	59,800
Accounts receivable	<u>97</u>	<u>98</u>
Total assets	221,244	180,965
Deferred outflows	<u>4,299,448</u>	<u>3,456,986</u>
Total assets and deferred outflows	<u><u>\$ 4,520,692</u></u>	<u><u>\$ 3,637,951</u></u>
<b>Liabilities:</b>		
Accounts payable	\$ 642	\$ -
Bonds payable	-	3,150
Accrued interest	<u>77,604</u>	<u>78,719</u>
Total liabilities	<u>78,246</u>	<u>81,869</u>
<b>Fund balances:</b>		
Nonspendable	4,299,448	3,456,986
Restricted for debt service	<u>142,998</u>	<u>99,096</u>
Total fund balances	<u>4,442,446</u>	<u>3,556,082</u>
Total liabilities and fund balances	<u><u>\$ 4,520,692</u></u>	<u><u>\$ 3,637,951</u></u>

At December 31, 2021, the STSC's DSF assets consisted of cash equivalents restricted for payment of cost of issuance related to the Series 2021 Bonds and Sales Tax Revenues receivable restricted for debt service payments. The Sales Tax Receivable restricted for debt service reflects the amounts required to be withheld in January through March of 2022 to pay bond interest due on July 1, 2022. DSF assets increased by \$40.3 million (22.3%) due to an increase in Sales Tax Receivable due to increased withholding for debt service requirements. 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 \$842.5 million (24.4%) which was due primarily to the net bond proceeds of \$1,100.8 million during 2021 which has been netted with the current year amortization of \$168.7 million.

At December 31, 2021, the STSC had credit ratings for its Sales Tax Securitization Bonds with three of the major rating agencies as follows:

	<b>Fitch</b>	<b>Kroll</b>	<b>Standard &amp; Poor's</b>
Senior Lien	AA-	AAA	AA-
Second Lien	AA-	AA+	AA-

In October 2021, Fitch Ratings revised the outlook for the Sales Tax Securitization Corporation Senior Lien and Second Lien Bonds from Negative to Stable.

In November 2021, Standard & Poor's revised the outlook for the Sales Tax Securitization Corporation Senior Lien and Second Lien Bonds from Negative to Stable.

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, 2021**  
**(Amounts in thousands)**

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	<b>Governmental Activities</b>
ASSETS:	
Unrestricted cash	\$ 66
Restricted cash	117,059
Sales tax receivable	221,285
Accounts receivable	97
Other asset	<u>1,417</u>
Total assets	339,924
DEFERRED OUTFLOWS	<u>4,297,617</u>
Total assets and deferred outflows	<u>4,637,541</u>
LIABILITIES:	
Accounts payable	651
Sales tax residual payable to the City	117,011
Accrued interest	77,604
Bonds payable—portion due after one year	<u>4,894,010</u>
Total liabilities	<u>5,089,276</u>
NET DEFICIT—Unrestricted	<u>(451,735)</u>
TOTAL NET DEFICIT	<u>\$ (451,735)</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, 2021**  
**(Amounts in thousands)**

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	<b>Governmental Activities</b>
REVENUES:	
Sales tax revenue	\$ 801,688
Investment income	<u>517</u>
Total revenues	<u>802,205</u>
EXPENSES:	
Payment to City	640,589
Amortization of deferred outflow	168,719
Interest and other fiscal charges	133,650
General and administrative	<u>184</u>
Total expenses	<u>943,142</u>
CHANGE IN NET DEFICIT	(140,937)
NET DEFICIT—Beginning of period	<u>(310,798)</u>
NET DEFICIT—End of period	<u>\$ (451,735)</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, 2021**  
**(Amounts in thousands)**

	General Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>			
UNRESTRICTED CASH EQUIVALENTS	\$ 66	\$ -	\$ 66
RESTRICTED CASH EQUIVALENTS	-	117,059	117,059
SALES TAX RECEIVABLE	117,197	104,088	221,285
ACCOUNTS RECEIVABLE	-	97	97
Total assets	117,263	221,244	338,507
DEFERRED OUTFLOWS	-	4,299,448	4,299,448
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 117,263</u>	<u>\$ 4,520,692</u>	<u>\$ 4,637,955</u>
<b>LIABILITIES</b>			
ACCOUNTS PAYABLE	\$ 9	\$ 642	\$ 651
SALES TAX RESIDUAL PAYABLE TO CITY	117,011	-	117,011
ACCRUED INTEREST	-	77,604	77,604
Total liabilities	<u>117,020</u>	<u>78,246</u>	<u>195,266</u>
<b>FUND BALANCES:</b>			
Nonspendable	-	4,299,448	4,299,448
Restricted for debt service	-	142,998	142,998
Unassigned	243	-	243
Total fund balances	<u>243</u>	<u>4,442,446</u>	<u>4,442,689</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 117,263</u>	<u>\$ 4,520,692</u>	<u>\$ 4,637,955</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, 2021  
(Amounts in thousands)**

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TOTAL FUND BALANCES—Governmental funds \$ 4,442,689

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. (285,045)

Costs for bond insurance are reported as expenditures in governmental funds financial statements. However, in the statement of net position (deficit), those costs are reported as other assets and amortized over the life of the bonds. 1,417

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 and unamortized bond refundings. (4,610,796)

NET DEFICIT OF GOVERNMENTAL ACTIVITIES \$ (451,735)

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, 2021  
 (Amounts in thousands)**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total Governmental Fund</b>
<b>REVENUES:</b>			
Sales tax revenue	\$ 592,053	\$ 209,635	\$ 801,688
Investment income	<u>-</u>	<u>517</u>	<u>517</u>
Total revenues	<u>592,053</u>	<u>210,152</u>	<u>802,205</u>
<b>EXPENDITURES:</b>			
Principal retirement	-	-	-
Interest and other fiscal charges	-	164,248	164,248
General and administrative	184	-	184
Payments to City	640,589	-	640,589
Amortization of deferred outflow	<u>-</u>	<u>168,719</u>	<u>168,719</u>
Total expenditures	<u>640,773</u>	<u>332,967</u>	<u>973,740</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Bond proceeds	-	1,004,020	1,004,020
Premium on bonds	-	102,603	102,603
Payment to refunded bond escrow agent	-	(48,722)	(48,722)
Transfers in	48,722	-	48,722
Transfers out	<u>-</u>	<u>(48,722)</u>	<u>(48,722)</u>
Total other financing sources (uses)	<u>48,722</u>	<u>1,009,179</u>	<u>1,057,901</u>
<b>NET CHANGE IN FUND BALANCE</b>	<b>2</b>	<b>886,364</b>	<b>886,366</b>
<b>FUND BALANCE—Beginning of period</b>	<u>241</u>	<u>3,556,082</u>	<u>3,556,323</u>
<b>FUND BALANCE—End of period</b>	<u>\$ 243</u>	<u>\$ 4,442,446</u>	<u>\$ 4,442,689</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, 2021  
(Amounts in thousands)**

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NET CHANGE IN FUND BALANCES—Total governmental funds \$ 886,366

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. (1,004,020)

Costs for bond insurance are reported as expenditures in governmental funds financial statements. However, in the statement of net position (deficit), those costs are reported as other assets and amortized over the life of the bonds. (72)

Governmental funds report bond premiums as other financing sources. However, in the statement of activities, premiums are amortized over the life of the debt. (69,065)

Governmental funds report payment to refunded bond escrow agent as other financing uses. However, in the statement of activities, the costs of bond refundings are amortized over the shorter of the life of the bonds refunded or the life of the bonds issued to refund the bonds. 45,854

CHANGE IN NET POSITION (DEFICIT)—Governmental activities \$ (140,937)

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, 2021

(Amounts in thousands, except as noted)

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#### 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, 2021, were \$285.0 million, which were net of accumulated amortization of \$74.9 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.

**Debt**—Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. For disclosure purposes, debt does not include leases, except for contracts reported as financed purchase of the underlying asset, or accounts payable.

**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, 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 sold the Series 2021 Bonds in December 2021. The Series 2021A bonds in the principal amount of \$394.2M were sold at a premium (\$102.6M), while the Series 2021B Bonds in the principal amount of \$609.9M were sold at par. The Series 2021A Bonds have an interest rate of 5.0 percent and maturity dates from January 1, 2024 to January 1, 2034; the Series 2021B Bonds have interest rates ranging from 0.790% to 3.338% and maturity dates from January 1, 2023 to January 1, 2048. The net proceeds of \$1,100.8 million were transferred to the City in exchange for a pledge of the City’s Sales Tax Revenues and used by the City to refund certain outstanding general obligation bonds of the City, refund certain bonds issued by STSC, refund certain motor fuel tax bonds of the City, repay a loan obtained by the City under the Transportation Infrastructure Finance and Innovation Act (TIFIA), repurchase and cancel certain outstanding general obligation bonds and/or motor fuel tax revenue bonds of the City by means of a tender offer, fund capitalized interest on the Series 2021 Bonds, and pay costs of issuance of the Series 2021 Bonds. The refunding of the bonds decreased the City and STSC’s total debt service payments by \$91.3 million, resulting in a net economic gain of approximately \$134.9 million and a book loss of approximately \$120.5 million. In connection with the Series 2021 Bonds, the principal and interest due on January 1, 2022 for Series 2017A, Series 2017C, Series 2018C, and Series 2019A Bonds was refunded by the 2021B Bonds. By virtue of that refunding, the amounts withheld during the year ended December 31, 2021 were no longer needed to make the payments on January 1, 2022. Those withholdings no longer being necessary were released for payment to the City, as holder of the Residual Certificate. The withholdings were in the Debt Service Fund but were transferred to the General Fund because all residual payments to the City are treated as expenditures from the General Fund.

A summary of changes in outstanding bonds during the year ended December 31, 2021, is as follows (figures in thousands of dollars):

	<b>Year Ended December 31, 2021</b>			
	<b>Balance December 31, 2020</b>	<b>Additions</b>	<b>Reductions</b>	
Series 2017A	\$ 169,065	\$ -	\$ 18,195	\$ 150,870
Series 2017B	400,630	-	-	400,630
Series 2017C	171,040	-	12,000	159,040
Series 2018A	376,305	-	-	376,305
Series 2018B	303,975	-	-	303,975
Series 2018C	612,420	-	14,760	597,660
Series 2019A	605,430	-	5,880	599,550
Series 2020A	521,105	-	-	521,105
Series 2020B	495,810	-	-	495,810
Series 2021A	-	394,155	-	394,155
Series 2021B	-	609,865	-	609,865
	<hr/>	<hr/>	<hr/>	<hr/>
Total before premium	3,655,780	1,004,020	50,835	4,608,965
Premium	<hr/>	<hr/>	<hr/>	<hr/>
	215,980	102,603	33,538	285,045
	<hr/>	<hr/>	<hr/>	<hr/>
Total bonds payable and premium	<u>\$ 3,871,760</u>	<u>\$ 1,106,623</u>	<u>\$ 84,373</u>	<u>\$ 4,894,010</u>
Due within one year				<u>\$ -</u>

The amount due within one year 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 amounts due on January 1, 2022 were refunded as part of the issuance of the Series 2021B Bonds. The total bonds payable of \$4,894.0 million in the table above includes the current portion of \$0 and long-term portion of \$4,894.0 million of bonds payable and agrees to the Statement of Net Position.

Debt service requirements listed below for each year include amounts payable January 1 of the following year. Bonds maturing and interest payable January 1, 2022 have been excluded because

funds for their payment have been provided for. Debt service requirements, including principal and interest, at December 31, 2021, are as follows:

<b>Year Ended December 31</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2022	\$ 149,165	\$ 193,878	\$ 343,043
2023	131,235	189,549	320,784
2024	143,580	184,874	328,454
2025	137,010	178,840	315,850
2026	167,645	172,385	340,030
2027–2031	866,360	743,149	1,609,509
2032–2036	950,715	545,408	1,496,123
2037–2041	1,075,500	340,956	1,416,456
2042–2046	813,450	143,045	956,495
2047	<u>174,305</u>	<u>7,717</u>	<u>182,022</u>
Total	<u>\$ 4,608,965</u>	<u>\$ 2,699,801</u>	<u>\$ 7,308,766</u>

#### 4. SUBSEQUENT EVENTS

The Corporation has evaluated events occurring subsequent to December 31, 2021, and through July 28, 2022, the date the financial statements were available to be issued. The Corporation did not identify any subsequent events to be disclosed.

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**STATISTICAL SECTION**

**TABLE 1****Annual Sales Tax Revenues**

The following table shows the historical annual Sales Tax Revenues on a cash basis from 2012 through 2021.

**Annual Sales Tax Revenues 2012–2021**  
**(Dollars in thousands)**

<b>Years Ended December 31</b>	<b>Home Rule Sales Tax Revenues<sup>(1)</sup></b>	<b>Change Over Prior Year</b>	<b>Local Share Sales Tax Revenues</b>	<b>Change Over Prior Year</b>	<b>Total Sales Tax Revenues</b>	<b>Change Over Prior Year</b>
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
2020	251,101	(18.2)	387,625	(4.7)	638,726	(10.5)
2021	312,360	24.4	435,439	12.3	747,799	17.1

Source: City of Chicago

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

**TABLE 2****Monthly Home Rule Sales Tax Revenues**

The following table shows the historical monthly Home Rule Sales Tax Revenues on a cash basis from 2018 through 2021.

**Monthly Home Rule Sales Tax Revenues 2018–2021**  
**(Dollars in thousands)**

<b>Month</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
January	\$ 24,723	\$ 26,520	\$ 27,689	\$ 20,313
February	23,926	24,795	25,246	18,108
March	27,585	28,139	29,071	22,204
April	20,774	19,720	21,463	19,000
May	20,721	20,592	19,908	18,841
June	25,433	25,751	17,108	29,178
July	23,918	25,011	12,937	27,630
August	26,888	27,206	15,970	29,751
September	27,942	28,124	18,623	32,572
October	25,902	26,972	21,286	31,614
November	27,205	27,536	20,542	31,196
December	<u>26,257</u>	<u>26,690</u>	<u>21,258</u>	<u>31,953</u>
	<u>\$ 301,275</u>	<u>\$ 307,056</u>	<u>\$ 251,101</u>	<u>\$ 312,360</u>

Source: City of Chicago

**TABLE 3****Monthly Local Share Sales Tax Revenues**

The following table shows the historical monthly Local Share Sales Tax Revenues on a cash basis from 2018 through 2021.

**Monthly Local Share Sales Tax Revenues 2018–2021**  
**(Dollars in thousands)**

<b>Month</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
January	\$ 31,621	\$ 34,696	\$ 37,308	\$ 33,205
February	31,625	33,781	34,313	32,247
March	37,515	38,976	41,229	41,320
April	27,757	27,484	31,192	28,722
May	27,258	28,806	28,465	27,627
June	32,625	33,906	29,739	38,295
July	30,141	33,057	26,359	36,340
August	33,356	34,948	28,985	38,128
September	34,564	35,693	31,273	40,735
October	32,705	35,177	33,348	38,818
November	33,351	34,862	32,111	39,379
December	<u>33,634</u>	<u>35,379</u>	<u>33,303</u>	<u>40,623</u>
	<u>\$ 386,152</u>	<u>\$ 406,764</u>	<u>\$ 387,625</u>	<u>\$ 435,439</u>

Source: City of Chicago

**TABLE 4****Components of Sales Tax Revenues**

The following table shows on a cash basis the components of the Sales Tax Revenues from January 1, 2018 through December 31, 2021.

**Components of Sales Tax Revenues 2018–2021**  
**(Dollars in thousands)**

Tax	2018		2019		2020		2021	
	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	\$263,974	38.4 %	\$268,012	37.5 %	\$211,321	33.1 %	\$264,243	35.4 %
Use	37,301	5.4	38,044	5.3	39,780	6.2	48,117	6.4
Local share sales tax revenues:								
Retailers' and service occupation <sup>(1)</sup>	293,204	42.7	299,963	42.0	256,775	40.2	303,559	0.4
Use <sup>(2)</sup>	<u>92,948</u>	<u>13.5</u>	<u>106,801</u>	<u>15.0</u>	<u>130,850</u>	<u>20.5</u>	<u>131,880</u>	<u>17.6</u>
Total	<u>\$687,427</u>	<u>100.0 %</u>	<u>\$713,820</u>	<u>100.0 %</u>	<u>\$638,726</u>	<u>100.0 %</u>	<u>\$747,799</u>	<u>100.0 %</u>

Source: City of Chicago

<sup>(1)</sup> Includes Illinois Use Tax on titled personal property.

<sup>(2)</sup> Excludes Illinois Use Tax on titled personal property.