

Fitch Rates \$278MM Illinois Sports Facilities Authority Bonds 'BBB+'; Outlook Negative

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has assigned a 'BBB+' rating to the following Sports Facilities Refunding Bonds (State Tax Supported) of the Illinois Sports Facilities Authority:

--\$235.625 million series 2014A

--\$7.405 million series 2014B

--\$34.5 million series 2014C

The bonds are expected to sell via negotiation July 14, 2014.

Fitch has also affirmed the 'BBB+' rating on the following outstanding bonds of the authority:

--\$386.055 million Sports Facilities Bonds (State Tax Supported) series 2001.

The Outlook remains Negative, reflecting the outlook on the State of Illinois General Obligation bonds (rated 'A-'; Negative Outlook by Fitch).

SECURITY

The bonds are secured by 'state tax payments' which consist of advances of the statewide hotel tax (in statutorily specified amounts, sized to cover debt service, that increase annually), plus \$10 million in annual state and city of Chicago subsidies. State tax payments are subject to annual appropriation.

KEY RATING DRIVERS

RATING LINKED TO THE STATE OF ILLINOIS: Bond security is derived from an appropriation by the state of a portion of the 5% statewide hotel tax to cover an advance to the Authority to pay debt service in anticipation of the receipt of the Authority's own tax revenues, plus two \$5 million subsidies from the state and city of Chicago. As such, the rating is one notch below the GO rating of the State of Illinois ('A-', negative outlook).

STRONG INCENTIVE TO APPROPRIATE: The prospects for state appropriation are strong - the Authority's tax revenues, consisting of a 2% tax on hotels within the city of Chicago, are sufficient to reimburse the state for its advances and, in case of any shortfall, the city of Chicago's share of state income tax distributions are also pledged to reimburse the state.

CURRENT COVERAGE SATISFACTORY BUT GROWTH NEEDED: While not pledged to bondholders, the Authority covenants in the bond indenture to cover any shortfalls in the bond funds from its own revenues. However, current revenues, while sufficient to meet current debt service requirements, require annual growth of 4.5% to provide continuous coverage of the increasing debt service schedule.

RATING SENSITIVITIES

The rating is sensitive to changes in the GO credit quality of the state of Illinois, to which it is linked. The rating is also sensitive to performance of the statewide hotel tax from which funds for appropriation are drawn.

The rating is also sensitive to performance of the Authority's tax revenues and the statewide income tax allocations to Chicago as these revenues are used to reimburse the state for its advances for debt service and their positive performance mitigates the risk of non-appropriation.

CREDIT PROFILE

The Authority is a separate unit of local government and a municipal corporation of the State of Illinois, formed in 1988 to provide sports stadiums for professional sports teams. It owns and operates US Cellular Field, home of the Chicago White Sox, and financed renovations to Soldier Field, home of the Chicago Bears. It is governed by a seven member board of directors jointly appointed by the mayor of Chicago and the governor of Illinois. The current offering refunds outstanding bonds for debt service savings.

APPROPRIATED STATE TAX PAYMENTS SECURE BONDS

The bonds are secured by a first lien pledge and assignment of all amounts received by the trustee from the Illinois Sports Facilities fund, a fund in the state treasury, into which revenues are advanced to the Authority by the state. These 'state tax payments' consist of advances of the statewide hotel tax, in statutorily specified amounts that increase annually, plus monies to cover a \$5 million state subsidy and a \$5 million city of Chicago subsidy. As the state tax payments are subject to state appropriation, the rating on the Authority's bonds is linked to that of the state of Illinois, whose GO bonds are rated 'A-', Negative Outlook, by Fitch Ratings. The one notch distinction between the Authority's debt and the state GO rating reflects the requirement for the state to appropriate payment and the limited source of funds for the appropriation (i.e., the statewide hotel tax).

STRONG INCENTIVE TO APPROPRIATE

The prospects for appropriation are strong. The Authority's own tax revenues, a 2% tax on hotel stays within the city of Chicago, are currently sufficient to repay the state for debt service advances. Further, the city of Chicago, which provides a \$5 million subsidy from its share of state income taxes, has pledged to reimburse the state for any advances not covered by the Authority's 2% tax, also from its share of statewide income taxes deposited into the Local Government Distributive fund. Thus, there is no impact on the state's own fiscal operations based on the requirement to appropriate debt service for the bonds beyond its \$5 million subsidy.

Although not pledged to bondholders, the Authority covenants in the indenture to make up any deficiencies in the bond funds from its own funds, including hotel tax revenues and reserve funds. Authority tax revenues are deposited in a trust fund outside of the state treasury, are not subject to appropriation, do not flow through the Illinois Sports Facilities Fund, and are not under the control of the Governor or legislature. Authority hotel tax revenues received in excess of the amount necessary to reimburse the state are paid to the Authority.

SOUND COVERAGE OF CURRENT DEBT SERVICE; WEAK MADS COVERAGE

The performance of the Authority's tax revenues is quite cyclical, given the tourism based nature of the tax. Over the past twenty years, the tax has increased an average of 5% per year; however, over the past five years, that average increase has been much lower, at 2% per year with significant volatility throughout. Hotel tax revenue has rebounded strongly over the past three years after steep declines during the recession. While current debt service coverage is adequate (1.5x with the state and Chicago subsidies, 1.23x when subsidies are excluded), debt service requirements increase over the life of the bonds. Fiscal 2013 revenues equal approximately 44% of maximum annual debt service (MADS). Revenues would have to consistently grow an average of 3.7% per year to cover debt service through the life of the bonds, assuming continued receipt of the state and city subsidies. The Authority maintains a Hotel Tax reserve fund to cover any fluctuations in hotel tax receipts. Initially funded with a \$6.8 million transfer of Authority revenues in fiscal year 2002, it contained \$20 million as of June 2013.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's report 'Tax-Supported Rating Criteria', this action was additionally informed by information from IHS Global Insight.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. State Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033

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