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Fitch Releases Exposure Draft for U.S. State & Local Government Criteria.

Fitch Ratings-New York-10 September 2015: Maintaining rating stability through swings in the U.S. economy is critical for both state and local government credits, according to Fitch Ratings. The rating agency has published an exposure draft for revisions it is proposing to its criteria for U.S. state and local governments.

One notable component revolves around the fundamental role that a government's economy plays in analysis. 'Whereas it was a standalone bucket in the past, we now propose incorporating the economy into the analysis of four focused key rating factors,' said Managing Director Laura Porter. 'We are introducing scenario analysis to explicitly consider the economic cycle in order to better communicate our expectations for state and local government rating stability through cycles.'

The four key rating factors driving state and local government ratings are centered around:

–Revenues;
–Expenditures;
–Long-term liabilities;
–Operating performance.

As part of its revised criteria, Fitch would create scenarios that consider how a government's revenues may be affected in a cyclical downturn and the options available to address the resulting budget gap. Fitch has made publicly available preliminary versions of two tools that support this analysis. The Revenue Sensitivity Tool estimates possible future revenue behavior in a downturn, allowing the user to view and chart historical revenue performance and form peer groups for over 500 state and local issuers. The Scenario Analysis Tool compares issuers' ability to navigate through a downturn.

Under the revised criteria, Fitch will also provide more in-depth opinions on reserve adequacy related to individual issuers' inherent budget flexibility and revenue volatility. 'State and local government credits have proven to be quite resilient despite the broader market turmoil in recent years so creating these scenarios would not only make our ratings more likely to remain stable over time but make any rating movement much more predictable,' said Porter.

Fitch does not expect the proposed criteria revisions to trigger widespread rating changes. Rating actions would likely not exceed 10% of the government credits covered by the criteria, with a roughly equal mix of upgrades and downgrades. Upgrades would likely result from the more focused consideration of the economy while downgrades would center around the more integrated consideration of the adequacy of reserve funding.

Fitch will be accepting market feedback for its proposed revisions until Nov. 20, 2015. Comments can be emailed to 'pfcomment@fitchratings.com'.

Exposure Draft: U.S. Tax-Supported Rating Criteria is available here.

Fitch's exposure draft will also be available on a new landing page ('info.fitchratings.com/pf comment') along with the following documents:

–An overview of the criteria and answers to frequently asked questions ('Proposed Tax-Supported Rating Criteria: Overview and FAQs');
–New through-the-cycle tools ('Introducing the Fitch Revenue Sensitivity Tool for Public Finance'), the preliminary versions of which will be publicly available (with limited data) during the comment period.

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