Fitch Ratings Updates Coronavirus Scenarios for U.S. State and Local Governments.

Fitch Ratings-New York-16 December 2020: Fitch Ratings has updated the assumptions that underpin its scenario analysis to reflect the company's latest view of the United States' path to recovery from the coronavirus pandemic. Informed by Fitch's recently-published "Global Economic Outlook – December 2020" and "Fitch Ratings Coronavirus Scenarios: Baselines and Downside Cases – Update," the revised baseline scenario reflect somewhat stronger economic activity to date than anticipated, a weak start to 2021 and an anticipated pick-up later in the year, as a safe and effective vaccine becomes widely available. Scenario analysis informs Fitch's assessment of state and local governments' financial resilience.

Revised baseline GDP assumptions for the FAST States & Locals – Fitch Analytical Stress Test Model (FAST) model are for a 3.5% decline in year one, reflecting actual performance in 2020 to date, followed by growth of 4.5% and 3.5% in years two and three, respectively. In the new baseline scenario, real GDP recovers to 4Q19 levels in the 3Q21. Inflation assumptions remain zero in year one and 2% in years two and three. Even as fiscal 2020 actual financial results for issuers become available (fiscal years ended June 30), Fitch will continue to utilize the year one revenue decline estimate in its analysis as the full revenue impact from the pandemic-fueled economic dislocation continues to take shape. In addition, revenues for most issuers were enhanced by direct and indirect federal stimulus and generally good performance in the first three quarters of the fiscal year. While an incremental $1 trillion in federal stimulus is assumed in the economic outlook for the U.S., Fitch's ratings do not incorporate an expectation for additional federal stimulus aid directly to states and local governments.

In addition to the baseline scenario, Fitch has updated its more severe downside scenario, as described in the updated company-wide common scenarios report noted above. This scenario anticipates repeated 'circuit-breaker' lockdown measures, unrelenting pressure on health systems, extensive voluntary social distancing through 2021 and a delay in the rollout of vaccines. The interpretation of the downside scenario for state and local governments was developed in consultation with Fitch's chief economist. It incorporates GDP declines of 3.9% in year one and 1.6% in year two, followed by growth of 3.8% in year three, and a delay in recovery to 2019 GDP levels until 2023.

U.S. Public Finance Tax-Supported Rating Criteria are forward-looking and designed to communicate state and local governments' ability to maintain financial resilience through an economic cycle at a level consistent with their typically very high rating levels. The economic crisis caused by the coronavirus pandemic and related containment efforts by government officials has led to a far more profound downturn than the standard moderate recessionary cycle envisioned in the criteria. The criteria allow for a temporary modification of the scenario, including key input assumptions, in a period of economic decline. To reflect the current unprecedented stress, Fitch began adjusting its scenario analysis model — the FAST — in April. Prior to the current downturn, the standard GDP assumptions for the scenario were down 1% in year one, followed by growth of 0.5% and 2.0% for years two and three respectively, with CPI assumed to be 2% per year.

FAST is not a forecast, but it represents Fitch's estimate of possible revenue behavior in a downturn based on historical revenue performance. Hence, actual revenue declines will vary from FAST results. FAST does provide a relative sense of the risk exposure of a particular entity compared with others.

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