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Fitch Ratings Returning to Pre-Coronavirus Stresses for U.S. Public Finance.

Fitch Ratings-New York-22 April 2021: With a brighter outlook for the U.S. economy expected, Fitch Ratings is generally returning to the same standard analytical stresses for U.S. public finance that it was using prior to the onset of the coronavirus pandemic.

U.S. Tax-Supported Sector

As part of its standard rating process, the U.S. tax-supported sector utilizes a revenue stress from the Fitch Analytical Stress Tool (FAST) States & Locals model, which looks to each issuer's own historical revenue cyclicality and then relates that to GDP as a scaling factor.

Most tax-supported issuers utilize a June fiscal-year end. For all issuers that (when evaluated) have audited fiscal year 2020 results available, and where there is visibility into the balance of calendar-year 2020 indicating a relatively benign revenue experience for the full year, Fitch will incorporate the same moderate cyclical stress used prior to the onset of the pandemic. The moderate scenario assumes a GDP sequence of -1.0%, +0.5% and +2%, for years one through three, respectively, and CPI of 2% each year. For any issuer where there is a lack of visibility into full 2020 calendar year revenue performance, or where a significant revenue decline is indicated, a downside stress will be utilized.

U.S. Revenue-Supported Sectors

A range of revenue-supported issuers utilize a top-down stress as part of Fitch's forward-looking scenario analysis.

U.S. Not-For-Profit Hospitals and Higher Education

Issuers in the U.S. Not-For-Profit Hospitals and Higher Education sectors often have large investment portfolios that represent a financial cushion that is considered a credit positive in ratings. Fitch is replacing both of its more severe coronavirus-influenced scenarios by a moderate stress scenario calling for a still substantial 21% decline in equity values, which equates to an approximate -1.5 to -2.0 standard deviation movement, followed by an approximate -0.5 standard deviation event in year two, an approximate +1 standard deviation bounce back in year three, and trend level growth in years four and five. As implemented in Portfolio Analysis Model (PAM), the GDP input to reflect this is -1.5%, +0.5%, +3.5%, +2%, +2% for years one through five of the scenario, respectively. The new moderate scenario is meaningfully less negative than the previous downside scenario in particular, but is still conservative.

State Revolving Funds

State revolving funds utilize the portfolio stress generator from PAM to discount certain investments of two pooled-program ratings. Consequently, this stress would change consistently with that outlined above under U.S. Not-For-Profit Hospitals.

U.S. Public Power Sector

U.S. Public Power issuers utilize the FAST Econometric API (previously the FAST Public Power) model that generates a cyclical stress to demand over the course of a theoretical five-year cycle based on each issuer's own inherent volatility and an assumed top-down stress. Given that variations in demand are typically weather-related as opposed to being more tied to the business cycle, the standard stress has not changed over the course of the pandemic. Instead, other relevant sensitivities have been considered in the analysis where appropriate.

U.S. Water & Sewer Sector

FAST for issuers in the U.S. Water & Sewer sector apply a 10% top-down stress to capital over the course of a theoretical five-year cycle. Given the inherent stability in demand and typical rate structures within the sector, this stress has remained consistent over the course of the pandemic, though additional sensitization was considered where appropriate.

Other Sectors

Sectors including Life Planned Communities and Housing not noted above, do not use a modelled input assuming a standard top-down stress, as is done for FAST. For these sectors, the same central baseline and downside scenarios will be incorporated in ratings in the context of the current analytical framework utilized by those issuers.

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