U.S. Local Government Rating Regression Model

Model Summary Document (MSD)

1. Model Purpose and Description

The purpose of the U.S Local Government Rating Regression Model (LGRRM) is to establish the model weights and coefficients for the U.S. Local Government Rating Model (LGRM) using a quantitative optimization process to find the best fit possible between the Metric Profile and existing Issuer Default Ratings.

2. Model Assumptions

The assumptions in the model are described in Fitch's criteria

- U.S. Public Finance Local Government Rating Criteria

3. Model Inputs

The model considers a mixture of financial, demographic, economic and long-term liability variables. The financial data is obtained from the internal Financial Data Repository (FDR) and the demographic and economic data is obtained from a DIVER by Solve data feed from the Bureau of Economics Analysis, Census Bureau and Bureau of Labor Statistics.

As the rating criteria was changed in mid-2016, the modelling period is over rating years 2017-2022.

The model is trained on a subset of 'target issuers', which are good representatives of their rating category and are relatively less encumbered by extraneous factors that could distort the relationship between independent/ explanatory variables and rating.

Five credit risk composites and one revenue volatility metric are used in the final model, i.e.

- Financial resilience
- Revenue volatility
- Demographic trend
- Demographic level
- Economic concentration and size
- Long-term liability burden

4. Model Development Data

See Model Inputs section above.

5. Model Limitations

The model is intended only to support the U.S. Local Government Rating Model, which is intended only to analyse U.S. local governments within the scope of Fitch's "U.S. Public Finance Local Government Rating Criteria". The criteria can also support the assessment of tax-supported hospital districts, water and/or sewer utilities, public transit systems or other enterprises with tax support, in conjunction with Fitch's "Public Sector Revenue-Supported Entities Rating Criteria" or relevant sector criteria, where applicable.

6. Material Changes

The current model version is 1.1.x. Any future material changes will be disclosed in this section.

Contact Information

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