FAST - State and Local Governments

Fitch Analytical Stress Test

The Fitch Ratings U.S. Public Finance team developed the Fitch Analytical Stress Test (FAST) offering true, through-the-cycle analysis of state and local revenues and state government financial profiles.

Our scenario analysis framework for state governments incorporates two distinct components that work together to highlight how an issuer's financial position can change through an economic cycle and what level of change can be considered consistent with the existing rating. FAST supports our through-the-cycle analysis and provides analytical information used in the rating process. However, FAST by itself does not generate ratings, nor should the models output be considered a forecast.

Revenue Sensitivity Analysis

- Models an issuer's historical revenue performance over multiple economic cycles to estimate possible future revenue behavior in a hypothetical, user-specified downturn.
- Utilizes both an issuer-specific econometric model that evaluates the historical relationship between revenues and national GDP, and a separate analysis of historical issuer revenue volatility.
- Generates both a point estimate and feasible range of percentage changes in revenues.
- Details model outputs on an individual issuer basis, across peers and sector-wide.
- Presents results in an interactive dashboard to facilitate screening and comparison across various economic and demographic variables.

Scenario Analysis for State Governments

- Uses results generated by the revenue sensitivity analysis in a framework that allows Fitch to consistently consider and compare issuers' ability to navigate through a downturn.
- Considers an issuer's available reserves and inherent budget flexibility to respond to revenue downturns.
- Incorporates historical financial statement data from issuer ACFRs as a jumping-off point, from which three out-years of scenario data are calculated based on the model outputs of the revenue sensitivity analysis.
- State scenario analysis considers the impact of the three-year scenario on an issuer's revenues and spending in the absence of offsetting policy action.

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Value Proposition

- Gain unique insight into state and local government revenue volatility.
- Assess financial exposure to an unaddressed stress for a specific issuer or an entire portfolio of state issuers.
- Discover patterns in macroeconomic impacts among certain groups of state governments.

Data Sources

Revenue Sensitivity Analysis:

- Local government revenue data: Issuer comprehensive annual financial reports (ACFRs) and/or other Issuer disclosure
- State government revenue data: U.S. Census Bureau tax revenue data incorporating policy adjustments based on figures from the National Conference of State Legislatures (NCSL) State Tax Actions reports 1994-present
- GDP: Bureau of Economic Analysis
- CPI: Bureau of Labor Statistics
- Population: U.S. Census Bureau
- Median Household Income: U.S. Census Bureau
- Median Housing Value: U.S. Census Bureau

Scenario Analysis:

- State government historical income statement data: Issuer ACFRs (most recent 10 years)

About Fitch Ratings

Fitch Ratings is a leading provider of credit ratings, commentary and research. Dedicated to providing value beyond the rating through independent and prospective credit opinions, Fitch Ratings offers global perspectives shaped by strong local market experience and credit market expertise. The additional context, perspective and insights we provide has helped investors fund a century of growth and make important credit judgments with confidence.

PF20094F3/050318