Fitch Ratings is set to introduce new U.S. local government rating criteria, which will affect approximately 550 ratings over the next six months. The change was implemented after a revision process that began in the fall of last year. This update will impact cities, counties, school districts, and special districts, as well as tax-supported hospital districts, water and/or sewer utilities, public transit systems, and other entities receiving tax support. The new criteria are designed to allow Fitch to respond more quickly and easily to changes in credit quality. According to Michael Rinaldi, head of U.S. local government ratings at Fitch, the updated framework will provide a "more data-driven lens" for communicating credit quality across the local government portfolio. The change is expected to affect around 35% of 1,560 securities from 900 issuers, with most changes being single-notch upgrades or downgrades. However, not all securities on the list will experience a rating change, and Fitch Senior Director Evette Case emphasized that the impact will be fairly evenly distributed. The new criteria remove overlapping debt from the long-term liability metric, which has been reported in different ways by various governments. This update aims to improve transparency and consistency in credit ratings. Fitch worked closely with issuers and municipal market participants to develop the revised criteria, which will replace its current rating framework for sub-sovereign U.S. public finance ratings. The proposed criteria are expected to apply to 10,700 ratings, possibly changing around 5% of them. The revised framework for issuer default ratings includes three key drivers: financial profile; demographic and economic strength; and long-term liability burden. This change streamlines the previous four-drivers approach, which included revenue, expenditure, operating, and liability burden frameworks. The new structure aligns with a model-supported rating approach, incorporating select metrics that assess unrestricted reserves and budget flexibility against fund balance thresholds. Fitch Ratings introduces a headroom tool to help issuers visualize how close their ratings are to the next level. This feature, showcased in the draft chart, illustrates the metric value difference between AA and AA-plus ratings, enabling issuers to evaluate the impact of debt issuance on their credit rating. The new model also addresses emergent risks, such as natural disasters, allowing analysts to adjust ratings accordingly. The exposure draft, released September 21, invites market participants to provide feedback by November 17. Comments can be emailed to criteria.feedback@fitchratings.com. The finalized version is set for publication in January. The proposed methodology enhances issuer default ratings by formalizing the relationship between credit metrics and ratings, facilitating peer comparisons, pro forma scenarios, and timely responses to macro environment changes.