MOODY'S RATINGS

CREDIT OPINION
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Indiana (State of)

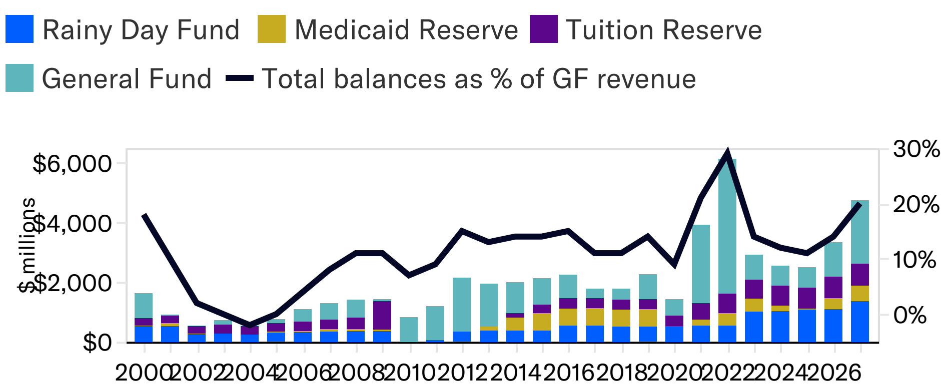
Update to credit analysis

Summary

The State of Indiana (Aaa stable) will build its fund balances and reserves over the next two years after recent draw downs for one-time spending (Exhibit 1). Revenue outperformance compared to prior forecasts as well as spending controls have led to large projected surpluses for fiscal years 2026 and 2027. Leverage is among the lowest for US states and will continue to decline given limited debt plans and very strong pension contribution practices.

The state's economy is a relative weakness compared to Aaa-rated peers given below average incomes and concentration in manufacturing, particularly chemicals/pharmaceuticals, auto, and metal/steel manufacturing. This concentration exposes the state to global trade, carbon transition risks and oil price shocks more than most states. That said, demographic projections are more positive than most other states in the region.

Exhibit 1
Fund balances will grow through FY27 given positive revenue forecast



Negative fund balance ratios reflect payment delays
Source: Moody's Ratings, Indiana State Budget Agency

Credit strengths

» Very low leverage and fixed costs; strong pension contribution practices including supplemental contributions to legacy teacher retirement liabilities

» Solid fund balance and liquidity that will increase in fiscal years 2026 and 2027 after recent revenue outperformance

» Strong fiscal governance and sound budgeting practices; above average flexibility to adjust revenues and expenditures

Credit challenges

» High economic reliance on the manufacturing sector, below average incomes

Rating outlook

The stable outlook reflects the state's continued strong fiscal governance, conservative liability management, and high reserves.

Factors that could lead to an upgrade

» Not applicable

Factors that could lead to a downgrade

» Economic stagnation that causes real GDP or income growth to lag the nation

» Structural budgetary imbalances and/or GAAP-basis fund balances trending toward 15% of own-source revenue

» Significant increase in the state's long-term liabilities to over 200% of own-source revenue or fixed costs reaching beyond 10% of revenue

Key indicators

Exhibit 2

	2021	2022	2023	2024	2025	State Medians (2025)
Economy						
Nominal GDP ($billions)	425.3	467.7	496.8	519.5	545.2	376.5
Real GDP, annual growth	7.5%	1.7%	1.8%	2.9%	2.5%	2.4%
RPP-adjusted per capita income as % of US	95.8%	96.3%	95.2%	93.6%	93.0%	98.3%
Nonfarm employment, annual growth	3.0%	3.4%	1.6%	0.6%	0.2%	0.9%
Financial performance						
Available balance as % of own-source revenue	45.4%	49.6%	39.9%	37.1%	30.9%	38.7%
Net unrestricted cash as % of own-source revenue	60.1%	67.0%	53.1%	56.7%	47.7%	69.7%
Leverage						
Total long-term liabilities as % of own-source revenue	95.5%	78.0%	58.1%	42.2%	34.2%	77.6%
Adjusted fixed costs as % of own-source revenue	4.6%	3.6%	3.4%	2.5%	2.3%	4.7%

Source: Indiana Audited Statement, US Bureau of Economic Analysis, US Bureau of Labor Statistics, and Moody's Ratings

Profile

Indiana has the 17th largest population among the 50 states, with an estimated 6.97 million residents in 2025. Indiana also ranks 19th nationally by gross state product, with GDP of approximately $545 billion in 2025 (current dollars).

Detailed credit considerations

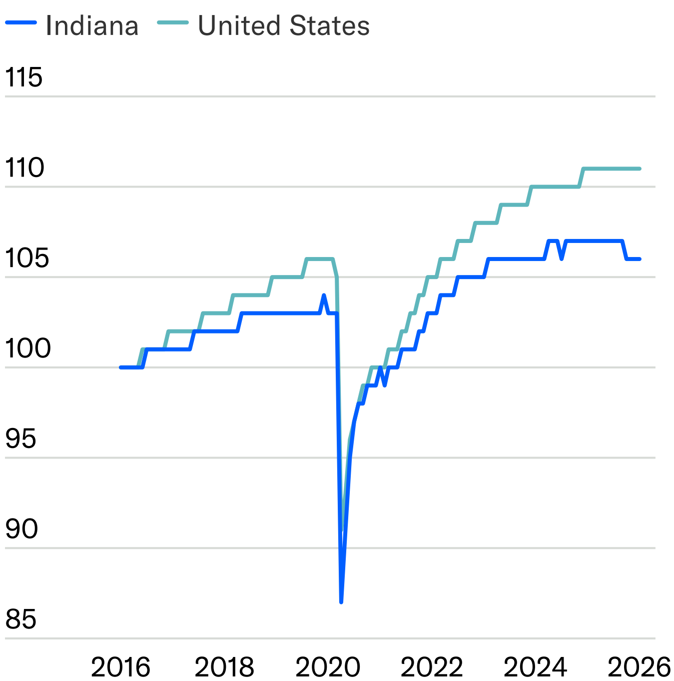
Economy

Indiana’s economy is underperforming the nation in the near term, with employment momentum softening after a period of post pandemic strength (Exhibit 3). Nonfarm payroll growth is lagging the US (Exhibit 4), driven by a contraction in manufacturing and logistics employment through late 2025, even as healthcare gains have helped stabilize overall job losses and keep unemployment below the national average as of early 2026. This divergence highlights the state’s persistent sensitivity to goods producing cycles and trade related uncertainty, which continues to weigh on hiring decisions despite ongoing capital investment and rising real output in manufacturing. Indiana's employment reliance in manufacturing is more than twice the national level, while imports and exports combine to make up one-third of state GDP, among the top 5 for states. Ongoing oil shocks could further disrupt sensitive but high growth sectors such as pharmaceuticals.

Over the medium term, Moody's expects Indiana's employment to grow roughly in line with the nation given cost competitiveness, central geography for logistics and trade, and continued working age population expansion (Exhibit 5), which should support labor force growth even as overall population gains remain subdued. The state is benefitting from large industrial developments and high tech manufacturing including advanced semiconductor packaging products and EV battery plants. The state has also jump-started development with strategic investments including in the LEAP District that will contain data centers and pharmaceutical facilities.

Exhibit 3

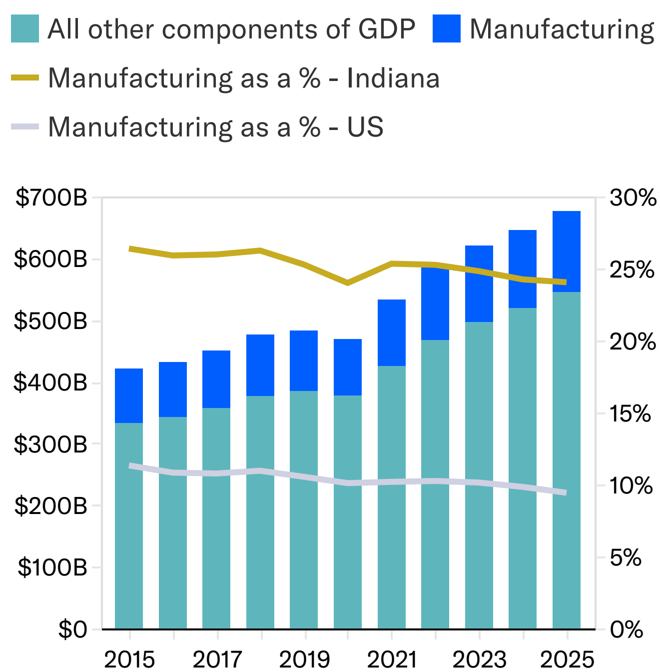
Employment growth has underperformed relative to national trends over the past decade



Source: US Bureau of Labor Statistics and Moody's Ratings

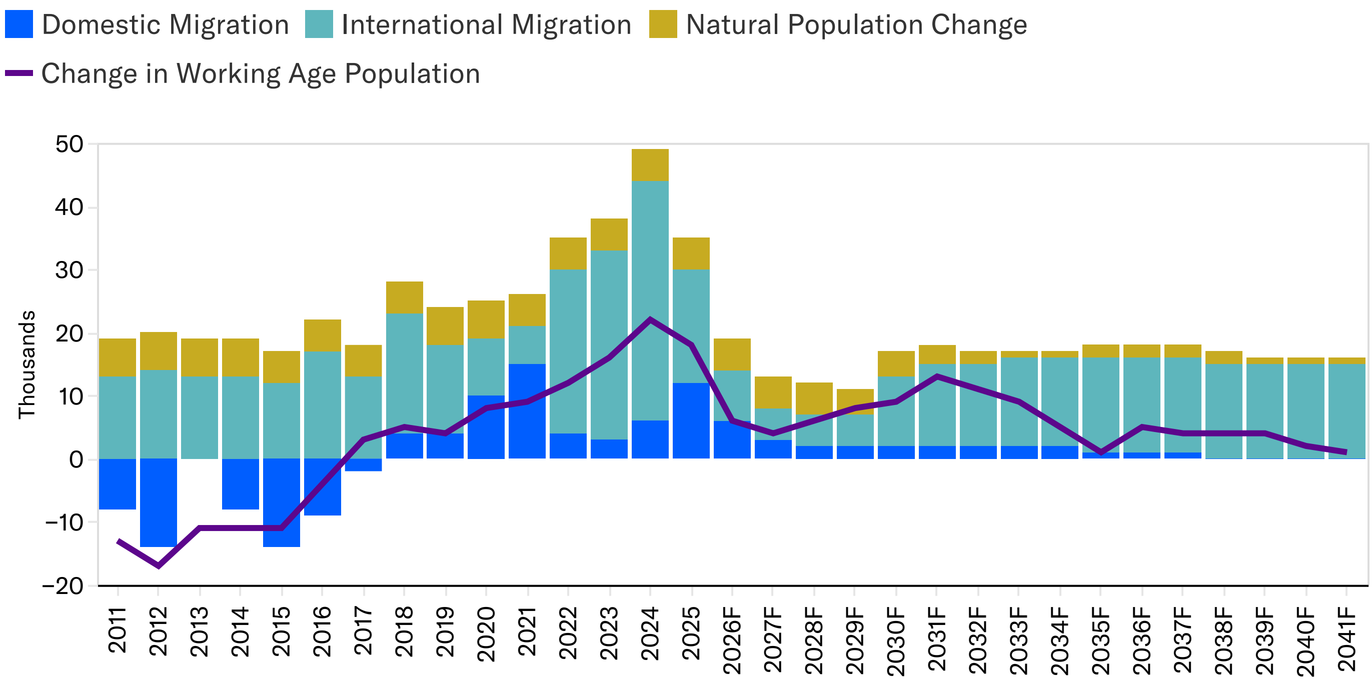
Exhibit 4

Manufacturing constitutes a structurally higher share of Indiana's GDP relative to the national economy



Source: US Bureau of Economic Analysis and Moody's Ratings

Exhibit 5
International migration drives population gains as domestic momentum moderates



Source: US Census Bureau and Moody's Ratings

Finances

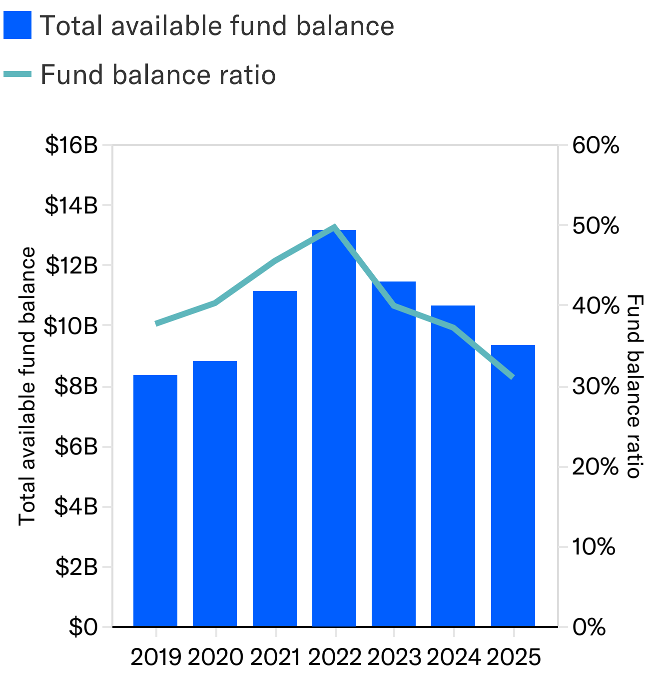
The state's fund balances and liquidity will grow by about $2.2 billion or 5-7% of revenue from fiscal 2025 to fiscal 2027 on the heels of a more positive revenue forecast and limited spending growth. The state's rainy day fund and Medicaid Reserve will increase while additional general fund surplus will be available for future budget years (see Exhibit 1). Indiana's fund balance ratio is on the lower end compared to Aaa-rated states; however, we expect these surpluses to bring the state closer to the median for Aaa-rated states. The state's budget is structurally sound. Prior reductions in GAAP-basis fund balances reflect large pay go capital spending, supplemental pension contributions and shifting of fund balances into restricted capital accounts (Exhibit 6).

The state's December 2025 revenue forecast of 4.2% growth in 2026 and 2.7% growth in 2027 was much more positive compared to the prior forecast of roughly flat revenues through the biennium. The forecasts include effects of minor income tax rate reductions through 2027. The state made budget cuts in 2025 in light of the initial flat revenue expectations and largely held spending steady in the 2026 legislative session despite the more positive revenue news. Spending growth has slowed since 2023 (Exhibit 7). While Medicaid had been a cost pressure in recent years, the state currently forecasts more moderate increases in state general fund Medicaid spending at about 3-7% in each of the next few years.

State officials note that revenues through May have outperformed even the December forecast by about $450 million, though this will be offset by about $200 million in one-time costs from compliance with changes in the federal tax code for fiscal year 2027. Additionally, the 2026 session concluded with about $240 million in new spending authority, primarily to fund childcare subsidies.

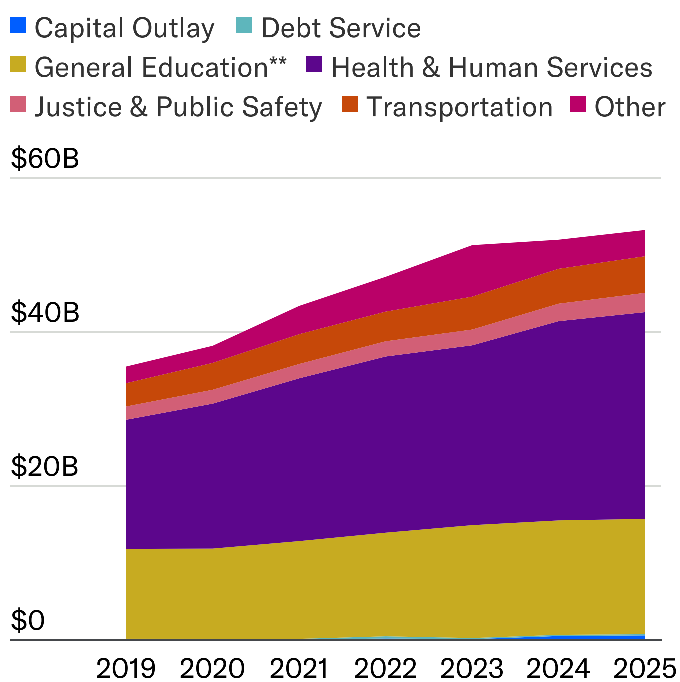
While fund balances will be quite high by the end of fiscal 2027, it is likely that the state will again spend down some of these balances in fiscal years 2028 and 2029 and revert to its average fund balance ratios over the last decade or so. The state's 120-day gas tax suspension will cost the transportation fund around $500 million in lost revenue, while officials have also identified additional capital spending priorities. General fund balance could be used to backfill these foregone revenues or other similar one-time objectives.

Exhibit 6
High fund balances provide cushion amid moderating revenue growth; spend downs for one-time strategic goals amid structural budgetary balance



Source: Indiana Audited Statements and Moody's Ratings

Exhibit 7
Spending growth is slowing; healthcare drives expenditures in recent years



Source: Indiana Audited Statements and Moody's Ratings

Federal aid exposure and state governance

Similar to states broadly, Indiana is exposed to potential reductions in federal aid, which made up 43% of total governmental revenue in fiscal year 2025. The federal reconciliation bill passed in 2025 shifts SNAP costs, tightens eligibility for Medicaid, and caps healthcare provider taxes, all of which will affect Indiana's revenues, some as early as fiscal years 2027 and 2028. That said, Indiana is not a particular outlier on these impacts, and we consider the state's fiscal governance strong and readily able to incorporate these cost shifts.

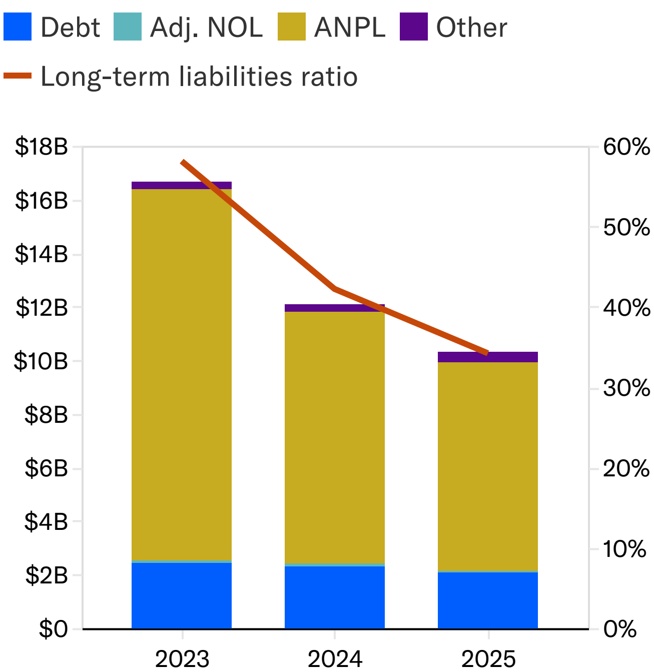
The state's strong fiscal governance practices include wide executive authority to make midyear spending adjustments, no supermajority requirement for tax increases, automatic rainy day fund appropriations and regularly conservative budget assumptions that lead to stable financial performance. Fixed costs, including debt service and retirement contributions, are low, providing additional financial flexibility.

Leverage

Very conservative liability management is a key credit strength for the state. Indiana's leverage from debt, pension and OPEB liabilities is equal to a low 34% of revenue in fiscal 2025, which is far below state medians. We expect liabilities and fixed costs to decline further given limited debt plans and continued reductions in the pension burden (Exhibits 8 and 9). As of Moody's latest state liabilities report, Indiana ranks the 11th lowest in total direct liabilities compared to revenue and 8th lowest in net tax supported debt (NTSD) to revenue.

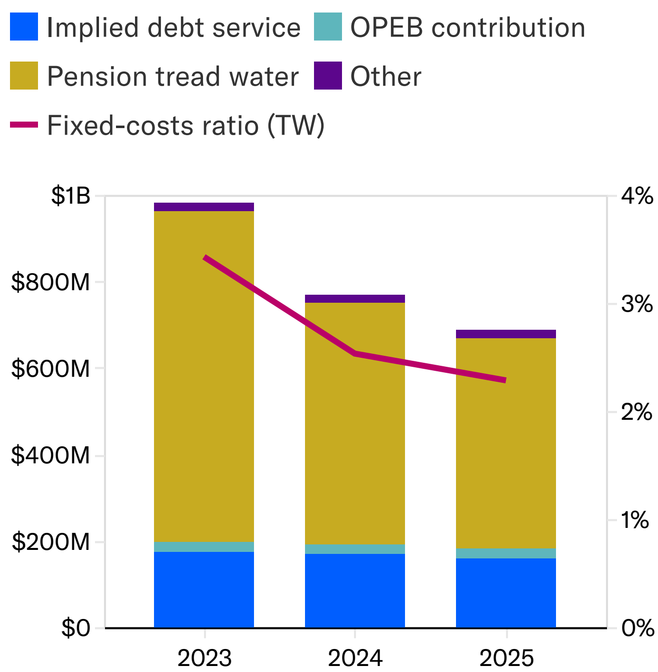
The state has limited additional debt plans, though some may include financing for transportation projects or stadium construction. While a final deal for the relocation of the Chicago Bears remains in progress, we do not expect the proposed state-supported portion (through a state appropriation backstop) would materially increase the state's debt burden: A maximum of $1 billion in new debt would only equate to a 3pp increase in the state's leverage ratio. For comparison, the state's leverage ratio declined by 8pp from 2024 to 2025.

Exhibit 8
Total liabilities decline, driven by pension liability reductions, keeping leverage very low



Source: Moody's Ratings

Exhibit 9
Pension-driven decline keeps fixed costs well below US medians



Source: Moody's Ratings

Legal security

Indiana does not issue general obligation debt. Instead, the state pays use and lease rental payments to the Indiana Finance Authority (IFA), a component unit of the state, on the lease revenue obligations the IFA issues.

Exhibit 10
Pledge description and ratings on Indiana state tax-backed debt

Security type	Related projects	Moody's rating on pledge
Lease/appropriation - more essential	Highways, bridges, neurodiagnostic facility	Aa1 stable
Lease/appropriation - less essential	Stadium, convention center, arena, motor speedway	Aa2 stable

Source: Moody's Ratings

The state payments, made through various state agencies, are subject to biennial legislative appropriation and to project availability for use. To mitigate the risk of project availability, the indentures require the finance authority to maintain rental income loss insurance and loss and damage insurance equal to replacement cost. The use agreements expire at the end of each of the state's fiscal biennia but are automatically renewed. The bonds have been issued for projects of varying essentiality to general governmental operations, with transportation projects and a health facility being more essential than the stadium, convention center and motor speedway. Essentiality is a key consideration for appropriation-backed bonds since wide political support for appropriation and repairs in abatement circumstances are more likely. That said, we consider the risk of non-appropriation for the State of Indiana as generally remote.

Some appropriation-backed debt, such as the stadium and convention center bonds, are supported by local excise taxes and fees imposed by local governments paid to the state through subleases. While the state appropriates for lease payments each biennium, the sublease revenue is used first to pay debt service and is sufficient to pay the lease obligations alone. State appropriations then revert to the state general fund. The stadium and convention center bonds also benefit from Excess Revenues and Reserve Accounts, which support debt service if sublease revenue is insufficient. The IFA used a portion of this reserve account to pay debt service in 2020 when local hospitality revenue tumbled. Given sufficient local revenues and reserve account funds, the state has never needed to pay debt service on the stadium and convention center debt from its own appropriations.

The IFA enters into public private partnerships (PPP), and the state appropriates for availability payments. The PPP agreement with the East End Crossing Partners LLC (A1 stable) bridge project has very similar mechanics to other lease appropriation bonds whereby the finance authority pledges to make the availability payment to the developer from state appropriations. However, Indiana expects toll revenue to cover these availability payments with little to no appropriation required from the general fund.

Finally, the state has certain moral obligation agreements to consider appropriating for debt service shortfalls including for the Indiana Bond Bank and the LEAP Lebanon Innovation District, which is building out water, sewer and other infrastructure for a large data center, pharmaceutical manufacturing facility and other economic developments.

Debt structure

Lease appropriation debt makes up the vast majority of outstanding net tax-supported debt, and debt amortization is relatively rapid with nearly all governmental debt paid in the next 10 years. State component units separately have debts outstanding larger than the state's own governmental debt, paid from the university system, housing development authority or bond bank.

School District Intercept Program

The Indiana School District Intercept Program (Aa1 stable) provides enhancement for school district general obligation bonds in the state through statutory and contractual mechanisms to redirect appropriated school aid to a fiscal agent should the school district face potential delinquencies in its bond repayments. We consider the state's commitment and the program mechanics as strong but also incorporate potential weaknesses in fiscal agent agreements or abatement risks in our credit analysis for individual financings. Because the state's mechanism involves an intercept of currently appropriated funds for that district, the enhancement only involves a change in existing cash flow rather than a contingent liability to the state. Please read the program credit opinion linked above for more detailed information.

Pensions and OPEB

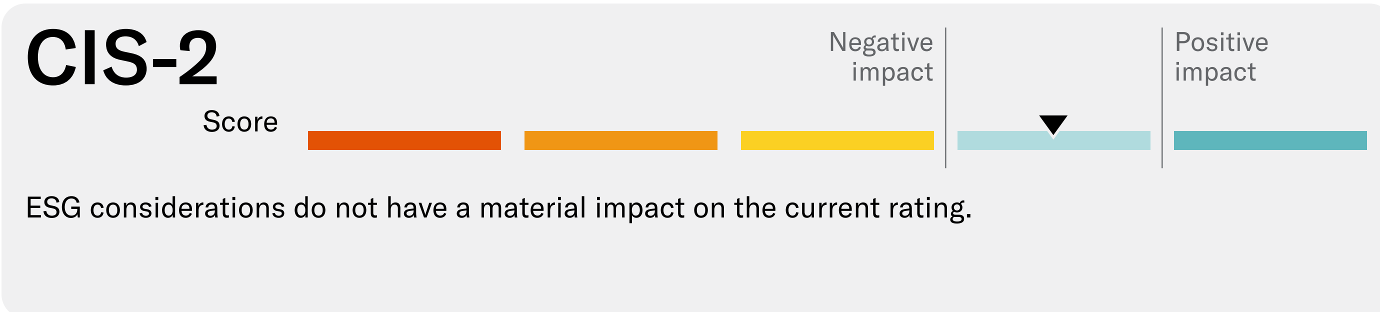
Indiana's pension burden will remain manageable and will likely decline by another 35% in fiscal 2026 given strong annual contributions, solid investment returns and continued higher interest rates we use to discount liabilities. Pension contributions regularly exceed our tread water benchmark (nearly 3x our benchmark in 2025) while using a relatively conservative discount rate of 6.25% for its plans, and the state has made large supplemental contributions to further reduce its pension liability in recent years.

Indiana contributes to a number of pension plans, including the closed pre-1996 teacher retirement plan and the hybrid Teachers' Retirement Fund (TRF) and Public Employees' Retirement Fund (PERF). Employees may also participate in a defined contribution only plan. The OPEB liability remains minimal, and the state pre-funds a sizable portion of its OPEB liability.

ESG considerations

Indiana (State of)'s ESG credit impact score is CIS-2

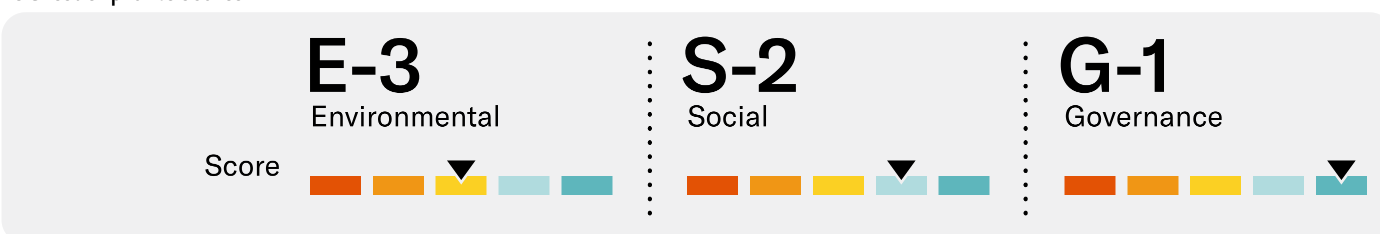
Exhibit 11
ESG credit impact score



Source: Moody's Ratings

Indiana's ESG Credit Impact Score of **CIS-2** reflects low credit impacts from ESG risks as strong fiscal governance somewhat offsets long-term carbon transition risks to the state's economy.

Exhibit 12
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Indiana's **E-3** issuer profile score reflects long term economic growth challenges as the global transition away from hydrocarbons will have unique stresses on the state given its high reliance on — and national leadership in - energy-intensive industries like manufacturing, logistics, steel production and agriculture as well as its higher consumption of coal energy compared to the nation as a whole. Consequently, Indiana has high on carbon emissions per GDP, even compared to traditional oil and gas producing states. Indiana also has high heat exposure and flood risk, which will increase costs for certain sectors particularly for improved cooling and flood mitigation. Flooding, along with aged sewer infrastructure, has led to perennial issues for local wastewater systems in Indiana, notably a high level of combined sewer overflows that lead to pollution in waterways. Many local governments in the state are under EPA consent decrees to rectify these overflows, and the state often provides financing for these projects through its revolving loan fund. The state also ranks high in its rate of industrial toxins in the environment.

Social

Indiana's **S-2** issuer profile score reflects its solid population growth, the strongest among Midwest states, low unemployment rate and relatively low cost of living. Below average wages and educational attainment pose moderate challenges to economic diversification and growth, however.

Governance

Indiana's **G-1** issuer profile score is based on its strong fiscal track record and wide financial flexibility even compared to other states. The governor has strong executive powers to make midyear budget adjustments and has used these powers in the past to trim spending when revenue has underperformed. Tax increases do not require a legislative supermajority, enhancing flexibility and the state has increased tax rates in prior periods of fiscal challenges. Statute requires automatic rainy day fund transfers when economic growth in the state exceeds certain benchmarks, and the state's reserves are generally quite stable as it often runs structural surpluses and uses excess funds for capital or pay down of liabilities. Liability management is likewise conservative with strong pension contribution practices. The state's financial reporting is sound as it produces monthly revenue reports, biannual revenue and expenditure forecasts and timely annual financial audits.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US States and Territories Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to state and territory credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 13

State rating methodology scorecard

Indiana (State of)

	Measure	Weight	Score
Economy			
Resident Income (PCI Adjusted for RPP / US PCI)	93.0%	15%	Aa
Economic Growth (5-year CAGR real GDP - 5-year CAGR US real GDP)	0.0%	15%	Aa
Financial performance			
Financial performance	Aaa	20%	Aaa
Governance/Institutional Framework			
Governance/Institutional Framework	Aaa	20%	Aaa
Leverage			
Long-term liabilities ratio (adjusted long-term liabilities / own-source revenue)	34.2%	20%	Aaa
Fixed-costs ratio (adjusted fixed costs / own-source revenue)	2.3%	10%	Aaa
Notching factors			
Scorecard-Indicated Outcome			Aaa
Assigned rating			Aaa

Source: US Bureau of Economic Analysis, State ACFRs and Moody's Ratings

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