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RATING ACTION COMMENTARY

Fitch Affirms Indiana's IDR at 'AAA'; Rates IN Fin Auth Fac Revs 'AA+'; Outlook Stable

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Fitch Ratings - New York - 28 Apr 2020: Fitch Ratings has assigned an 'AA+' rating to Indiana Finance Authority's (IFA) $50.51 million facilities revenue bonds, series 2020D. The series 2020D bonds are expected to sell via negotiation on or about the week of May 11. The bonds are being issued to finance construction, rehabilitation, remodeling and renovation of the Indiana State Fair Commission's (ISFC) Fall Creek Pavilion Project.

In addition, Fitch affirmed Indiana's 'AAA' Long-Term Issuer Default Rating (IDR), and 'AA+' ratings on outstanding Indiana appropriation-backed debt issued by the IFA and the Indiana Transportation Finance Authority. Fitch also affirmed at 'AA+' the ratings on the state's school aid intercept program and IFA's TIFIA loan with the U.S. Department of Transportation (USDOT) for the East End Crossing Project, the 'AA' rating for the public private partnership (PPP) counterparty obligation for the IFA's Ohio River Bridges/East End Crossing PPP Project and the 'F1+' short-term rating on IFA lease appropriation bonds (Stadium Project) series 2008A, supported by internal liquidity.

The Rating Outlook on the long-term ratings is Stable.

SECURITY

The bonds are limited obligations of the IFA, paid from biennial state legislative appropriations made to the Indiana Department of Administration for lease payments to the ISFC, which makes rental payments to the IFA.

ANALYTICAL CONCLUSION

Indiana's 'AAA' IDR reflects the state's low long-term liability burden and exceptionally strong operating profile, including prudent budgetary budget management during the long economic expansion that further strengthened the state's robust financial resilience as it enters the current coronavirus-driven downturn. Cyclical declines can be sharp for the state, with an above-average susceptibility of revenues to weakness during recessions. Given Indiana's strong reserves and commitment to sound fiscal oversight, Fitch anticipates the state will absorb recessionary weakness and quickly restore fiscal balance once the recovery is underway. Indiana has no general obligation (GO) bonds and relies entirely on lease appropriation bonds.

The 'AA+' rating on the bonds reflects reliance on legislative appropriations and the bonds are rated one notch below the state's 'AAA' Issuer Default Rating (IDR) reflecting appropriation risk. Facilities revenue bonds issued by the IFA are payable from rental payments to be received from entities including the ISFC pursuant to use agreements. The commission covenants under its use agreement to seek legislative appropriations sufficient to make annual rental payments. If the commission fails to request the appropriation, under the use agreement and the indenture the IFA must seek the legislative appropriation. The state utilizes appropriation debt to fund its capital needs as the state constitution prohibits general obligation debt.

The 'AA+' rating on outstanding lease appropriation bonds, the federal TIFIA loan and the school aid intercept program, and the 'AA' rating on the PPP counterparty obligation reflects their inherent appropriation risk and other rating factors described further at the end of this commentary. The 'F1+' rating reflects ample liquidity from available IFA funds to meet variable-rate debt tenders, and adequate timing mechanisms that allow for timely payment in the event of a failed remarketing.

The IFA was established in 2005. The state's debt structure formerly was diffuse with state appropriation-backed debt issued through several commissions and authorities, including the State Office Building Commission and the Transportation Finance Authority. The IFA is the successor agency to the former debt-issuing agencies.

ECONOMIC RESOURCE BASE

Despite ongoing diversification, Indiana's economy remains highly dependent on manufacturing, which makes up about one-fifth of employment and earnings in the state, approximately double the national levels. As a result, the state is prone to large economic swings in conjunction with national business cycles and is also likely to see slower overall growth than the nation.

KEY RATING DRIVERS

Revenue Framework: 'aa'

Fitch expects Indiana's revenues, primarily income and sales taxes, will continue to reflect the state's broad economy over the long-term, which is tilted toward manufacturing. The state's economy grows at a slower pace than the nation's. Indiana has complete legal control over its revenues.

Expenditure Framework: 'aaa'

Indiana maintains ample expenditure flexibility with a low burden of carrying costs and the broad expense-cutting ability common to most U.S. states. Medicaid remains a key expense driver, as it is for essentially all states, but one that Fitch expects the state will be able to actively manage without threatening fiscal stability.

Long-Term Liability Burden: 'aaa'

Indiana's long-term liability burden is low, at just below the median for U.S. states. The state issues debt infrequently, relies on pay-go capital funding, and has occasionally utilized the public private partnership (PPP) market. Net pension liabilities make up a much larger share of the long-term liability burden than direct debt. The closed Indiana State Teachers' Pre-1996 Account (the pre-1996 account) utilizes a dedicated pension stabilization fund (PSF) to manage growth of annual pay-go contributions, offsetting the plan's sizable net pension liability (NPL).

Operating Performance: 'aaa'

Indiana remains very well-positioned to deal with economic downturns, with exceptionally strong gap-closing capacity in the form of ample budgetary reserves, robust control over revenues and spending and a demonstrated willingness to take timely budgetary action. The state tends to rely on its significant expenditure control to deal with budgetary stress. As revenues recover, Indiana restores many of those cuts and focuses on reserve restoration.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable for a 'AAA' rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A significant deterioration in the Indiana's strong budget management practices, such as sustained utilization of non-recurring fiscal management tools even once the economic and revenue situations for the state begin to improve. Given the state's robust financial resilience heading into the current crisis, Fitch considers this unlikely.

--An economic contraction extending well into second-half 2020 or beyond, consistent with Fitch's coronavirus downside scenario, which triggers sustained and deep revenue declines and materially erodes the state's gap-closing capacity.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

Sector-Wide Coronavirus Implications

The recent outbreak of the coronavirus and related government containment measures worldwide creates an uncertain global environment for U.S. state and local governments and related entities in the near term. As severe limitations on economic activity only began very recently, most state governments' fiscal and economic data do not reflect any credit impairment. Material changes in revenues and expenditures are occurring across the country and likely to worsen in the coming weeks and months as economic activity suffers and public health spending increases. Fitch's ratings are forward looking, and Fitch will monitor developments in state and local governments as a result of the virus outbreak as it relates to severity and duration, and incorporate revised expectations for future performance and assessment of key risks.

In its baseline scenario, Fitch assumes sharp economic contractions hit major economies in the first half of 2020 at a speed and depth that is unprecedented since World War II. Recovery begins from the third quarter of 2020 onward as the health crisis subsides after a short but severe global recession. GDP remains below its fourth quarter of 2019 level through most of 2021. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the April 2020 report 'Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases' on www.fitchratings.com.

Federal Aid Provides Some Support for State Budgets

Federal aid measures enacted in recent weeks will benefit state budgets, although details remain fluid. The Families First Coronavirus Response included a 6.2% increase in the Federal Medical Assistance Percentage (FMAP) for Medicaid for every quarter of the national emergency declared by the president on March 13. FMAP is the rate at which the federal government reimburses states for Medicaid spending. Based on additional revenues received for first-quarter 2020, the state estimates the 6.2% increase could be worth approximately $211 million for each quarter of the national emergency. The ultimate value of the FMAP rate increase will depend primarily on the state's actual Medicaid spending.

Under the Coronavirus Aid, Relief and Economic Security (CARES) Act enacted on March 27, the U.S. Treasury department will distribute $150 billion to state and local governments within 30 days of enactment under a population-based formula. The statute limits the use of funds to coronavirus expense reimbursement rather than to offset anticipated state tax revenue losses. Indiana and its eligible local governments (with a population of 500,000 or more) received their full $2.6 billion allocation recently, with approximately $2.4 billion flowing directly to the state.

The Federal Reserve's recently announced $500 billion Municipal Liquidity Facility (MLF) provides a potentially valuable source of short-term liquidity for state and local governments. Under the MLF, a Federal Reserve Bank will set up a special purpose vehicle (SPV) to directly purchase short-term debt issued by states, the District of Columbia and the largest counties and cities. According to the Federal Reserve, Indiana could borrow up to $4.8 billion to address the state's own cashflow needs. Critical details for this program, including how quickly purchases will begin, are yet to be determined.

Coronavirus - Indiana Liquidity Update:

Fitch anticipates Indiana will address short-term liquidity pressure with no interruption in timely payments for key operating expenses, including debt service. Indiana extended its deadline for filing of individual and corporate income tax payments, by 90 days to July 15, aligning with the federal government's extension. The state currently estimates the extension could shift receipt of as much as $1.15 billion in individual income tax (IIT, $850 million) and corporate income tax (CIT, $300 million) to July 15. Fitch estimates this represents about 7% of fiscal 2020 general fund revenues of $16.8 billion as estimated in the state's December 2019 forecast. While the withholding portion of IIT tax payments will to continue to flow despite the extension for final payments, Fitch notes that lower tax collections attributable to the economic downturn will also reduce cash flow. Indiana entered the current fiscal year with approximately $2.3 billion of dedicated operating reserves, or approximately 14% of general fund revenues, providing ample immediately available liquidity to bridge possible cashflow challenges.

Coronavirus - Indiana Budgetary Update:

Indiana's ample reserves, and other available fiscal management tools should allow the state to weather the immediate economic and fiscal implications of the coronavirus pandemic without materially affecting its long-term credit quality. The governor has the ability to mandate reductions or "reversions" in agency spending at any point in the fiscal year to maintain budget balance. The state regularly uses that power, including at the start of the current fiscal year when the governor implemented a 2% reversion for most state agencies. The governor recently directed agencies to maximize reversions for the remainder of the current fiscal year beyond that 2% target, and Fitch anticipates a deeper set of reversions will be announced sometime in May or June for the second year of the current budget biennium beginning July 1.

The state is the primary funder for school district operations and the governor exempted K-12 aid in the reversions for fiscal 2020. Indiana reports that the closure of schools statewide will not affect their receipt of state aid. For fiscal 2021, whether school aid will be affected by reversions is dependent on the extent of anticipated revenue losses.

Direct budgetary effects from the coronavirus have been limited so far in Indiana, but will ramp up considerably over the next several months, particularly from revenue losses, as decreased economic activity affects tax collections. On the expense side, the state's spending has been limited to date, at less than $30 million, but will likely escalate, particularly if the virus spreads more widely within Indiana. Data from the state's department of health indicates the state's case count has risen notably since mid-March, accelerating in the last several weeks and currently exceeding 12,000. The federal aid noted above will assist in managing expense growth associated with the coronavirus.

Like most states, Indiana is only just beginning to collect revenue data that reflects the economic dislocation caused by the pandemic but anticipates the overall declines will be substantial. As in all states, unemployment claims have spiked in recent weeks, reflecting the economic dislocation. As of April 23, the state's initial unemployment claims filed since March 14 totaled 517,773, or just over 15% of the state's February 2020 civilian labor force. This is slightly higher than the states median of 13.4%.

The governor issued a 'stay-at-home' order on March 23 for the state's residents and businesses. For that month, the state reports sales and use tax revenues were down 4% ($25 million) from the December 2019 forecast, IIT was down 2.3% ($9.2 million, continuing a pre-coronavirus trend for the year) and total general fund revenues were down 6% ($70 million). Fiscal YTD revenues through March were essentially in line with the December 2019 forecast. Indiana is using internal revenue forecast revisions to guide budget decisions such as the extent of reversions. The next scheduled official revenue forecast is due in December 2020. Fitch anticipates Indiana will issue a public update to its forecast as soon as this summer when the state has more data and therefore more visibility on near-term economic and revenue trajectories.

Indiana - Updated FAST Analysis

The Fitch Analytical Stress Test (FAST) scenario analysis tool, which relates historical tax revenue volatility to GDP to support the assessment of operating performance under Fitch's criteria, has now been adjusted to reflect GDP parameters consistent with Fitch's global coronavirus forecast assumptions. FAST is not a forecast, but it represents Fitch's estimate of possible revenue behavior in a downturn based on historical revenue performance. Hence, actual revenue declines will vary from FAST results. FAST does provide a relative sense of the risk exposure of a particular state compared to other states.

Indiana has robust financial resilience that should allow it to absorb the budgetary effects of Fitch's coronavirus baseline and downside scenarios and ultimately rebuild that resilience through the eventual recovery period. The current coronavirus baseline scenario results in a first-year decline in Indiana's revenues of 12.4%, followed by a 7.2% increase and cumulative result over the three-year scenario of a 3.5% decline. This compares to the state median decline of 11.3% in the first year and negative 2.7% over the three-year scenario. In the downside scenario, Indiana's first-year decline would be 19.1%, followed by a slower rebound of 0.2% in the second year. The cumulative three-year decline of 10.6% under Fitch's downside scenario is somewhat weaker than the median 8.3% decline for all states reflecting the state's greater historical susceptibility to national economic downturns.

The baseline scenario decline for Indiana's revenues would be more severe than the 2008 Great Recession, when state general fund revenues declined roughly 7% from the fiscal 2008 peak to the fiscal 2010 trough. A fiscal 2009 increase in the sales tax rate (to fund a transition to state takeover of primary operating costs for schools districts) skews that metric somewhat.

Indiana entered that downturn with dedicated operating reserves totaling $1.4 billion at the end of fiscal 2008, or roughly 11% of general fund operating revenues, and drew down roughly $600 million over several years. This compares to approximately $2 billion of dedicated operating reserves projected for the end of the current fiscal year, or approximately 12% of general fund revenues. As in the past, Fitch anticipates the state would take aggressive cost-cutting measures through a downturn, in conjunction with reserve draws.

CREDIT PROFILE

Transaction Details

The 'AA+' rating on the bonds reflects reliance on legislative appropriations and the bonds are rated one notch below the state's 'AAA' Issuer Default Rating (IDR) reflecting appropriation risk. Facilities revenue bonds issued by the IFA are payable from rental payments to be received from entities including the ISFC pursuant to use agreements. The commission covenants under its use agreement to seek legislative appropriations sufficient to make annual rental payments. If the commission fails to request the appropriation, under the use agreement and the indenture the IFA must seek the legislative appropriation. The state utilizes appropriation debt to fund its capital needs as the state constitution prohibits general obligation debt.

Short-Term Rating Considerations

The IFA provides self-liquidity for a portion of the variable-rate debt associated with its stadium financing. As of March 31, 2020, the IFA's available liquid resources within its State Revolving Fund Waste Water Equity Earnings account and Waste Water Equity Grant account of approximately $257 million (held in money market mutual funds) covered Fitch's calculated potential short-term obligations of $30.6 million by more than eight times. Fitch's calculation includes the outstanding par amount of $29.9 million and maximum potential interest of $669,042 (the maximum interest payable pursuant to the original commitment on the initial $55 million issuance). The maximum interest payable on the smaller current outstanding par amount is considerably less. The state has no current plans for further use of internal liquidity.

The supplemental indenture for the stadium project provides for the payment of the purchase price by the authority of tendered 2008A stadium bonds during the daily and weekly rate modes in the event the proceeds of a remarketing of the bonds following a tender are insufficient. The commitments are sized to provide for the entire principal amount of the respective series plus interest coverage of 37 days calculated at a maximum interest rate of 12%. The short-term 'F1+' rating will expire on Feb. 1, 2035. The term of the commitment matches the scheduled maturity date of the bonds. The bonds currently bear interest at a weekly rate.

IFA - WVB East End Partners PPP Counterparty Obligation Rating Considerations

The East End Crossing project is part of a major bi-state initiative with Kentucky (Ohio River Bridges, or ORB) that began construction in 2013 and was completed December 2016. The ORB initiative involves construction of two new bridges (one of which is East End Crossing), refurbishment of an existing bridge and construction/refurbishment of connecting highways. The state expects the overall initiative to improve cross-river mobility in and around the congested Louisville, KY metro area, thereby supporting and spurring economic growth. The grantor obligations under the PPP agreement meet Fitch's expectation for a rateable PPP counterparty obligation. Structural provisions are sound as IFA's counterparty obligations are intentionally structured nearly identically to the authority's commitments for appropriation-backed debt issued on behalf of Indiana. There are parallel legal documents using similar language.

Please see "Fitch Affirms Indiana Finance Authority's Revs at 'A-'; Outlook Stable," published on Dec. 18, 2019 for additional information on the project revenue bonds.

Indiana School Aid Intercept Program Rating Considerations

The 'AA+' rating on the school aid intercept program reflects the state of Indiana's overall credit quality, as well as the breadth and strength of the state's school aid intercept law and associated security features. The structure of Indiana's pre-default mechanism provides for full and timely payment of debt service from state aid payments to participating school corporations, or districts, through intercept of appropriated aid.

Section 20-48-1-11 of the Indiana Code (the intercept statute) requires the state treasurer to make any necessary payments within five business days of a claim being filed by a bond trustee or paying agent for any unpaid amount of debt service. The treasurer must make the payment from these sources in the following order: first, state appropriations for that fiscal year for the particular school corporation; second, from 'excess' appropriations for tuition support (the primary form of state aid provided to school corporations) made for all school corporations in that fiscal year beyond the statutory formula requirement for tuition support; third, from any appropriations made for the specific school corporation in a budget enacted by the legislature for the following fiscal year.

Please see "Fitch Assigns 'AA+' Rating to Indiana School Aid Intercept Program; Outlook Stable," published on May. 20, 2019 for additional information on the school aid intercept program.

For additional information on the state's general credit, please see Fitch's press release "Fitch Rates Indiana Finance Convention Center and Stadium Project Bonds 'AA+'; Outlook Stable" dated Nov 1, 2019 and available at 'www.fitchratings.com.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Indiana, State of (IN) [General Government]	LT IDR	AAA	Affirmed	AAA
• Indiana Finance Authority (IN) /Payment Obligations - Ohio River Bridges/1 LT	LT	AA	Affirmed	AA
• Indiana School Aid Intercept Program (IN) /State School Bond Program Rating/1 LT	LT	AA+	Affirmed	AA+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST States & Locals - Fitch Analytical Stress Test Model, v2.4.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Indiana Finance Authority	EU Endorsed
Indiana School Aid Intercept Program (IN)	EU Endorsed
Indiana Transportation Finance Authority (IN)	EU Endorsed
Indiana, State of (IN)	EU Endorsed

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