MOODY'S RATINGS

CREDIT OPINION
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Indiana (State of)

Update to credit analysis

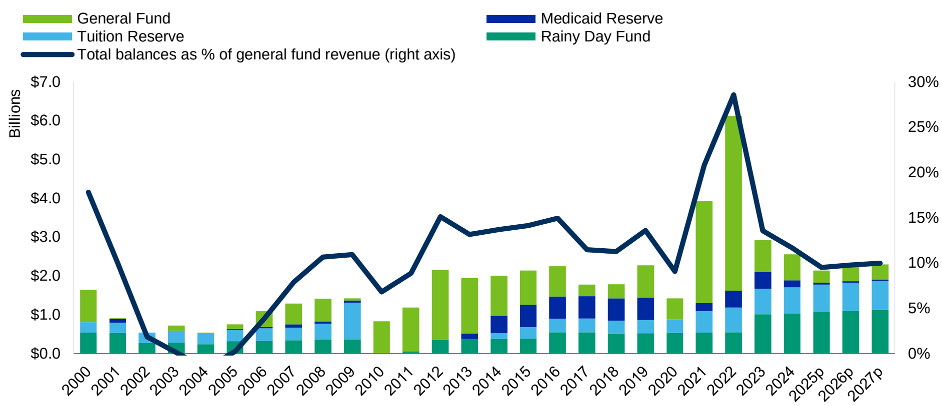
Summary

The State of Indiana (Aaa stable) will preserve its strong fund balances (Exhibit 1) over the fiscal 2026-2027 biennium following enacted budget controls as a response to a lower revenue forecast. We also expect the state's leverage and fixed costs will remain very low, providing additional financial flexibility. Indiana's primary challenges are its high economic concentration in manufacturing, below average incomes and educational attainment, which could limit growth opportunities. This also exposes the state's economy to negative impacts from tariffs. Like states generally, a large portion of Indiana's revenues consist of federal grant aid, which is at risk of cuts. Indiana has a trigger law on its Medicaid expansion program that would cancel the program if federal aid is cut.

Exhibit 1

General fund reserves will remain solid and stable over the next two years

Budgetary basis fund balances



The large drop in fiscal 2023 was primarily because of a one-time supplemental $2.5 billion contribution to the pre-1996 teacher pension system.
GAAP-basis available fund balances were 37% in 2024, higher than presented on a budgetary-basis above, primarily because of other committed and assigned balances in the general fund.
Source: Indiana State Budget Agency statements

Credit strengths

» Very strong fiscal governance that results in high reserves and liquidity, stable financial operations and sound budgeting practices

» Low leverage and fixed costs including proactive contributions to legacy teacher retirement liabilities

» Above average flexibility to adjust revenue and expenditures and conservative fiscal practices such as midyear budget cuts to retain structural balance

Credit challenges

» High economic reliance on the manufacturing industry and below average incomes may stunt long-term growth, exposes state to heightened risks from international trade and tariffs

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

	2020	2021	2022	2023	2024	State Medians (2023)
Economy						
Nominal GDP ($billions)	378.6	425.9	473.5	499.5	-	313.0
Real GDP, annual growth	-2.9%	7.6%	3.1%	1.3%	-	2.2%
RPP-adjusted per capita income as % of US	95.4%	96.0%	96.9%	95.2%	-	97.7%
Nonfarm employment, annual growth	-5.3%	3.0%	3.4%	1.6%	1.5%	2.1%
Financial performance						
Available balance as % of own-source revenue	40.2%	45.4%	49.6%	39.9%	37.1%	44.4%
Net unrestricted cash as % of own-source revenue	52.1%	60.1%	67.0%	53.1%	56.7%	72.4%
Leverage						
Total long-term liabilities as % of own-source revenue	101.3%	95.5%	78.0%	58.1%	42.2%	99.4%
Adjusted fixed costs as % of own-source revenue	5.3%	4.6%	3.6%	3.4%	2.5%	5.2%

Source: Audited financial statements, Bureau of Labor Statistics, Bureau of Economic Analysis

Profile

The State of Indiana has the 17th largest population (6.9 million in 2024) and the 19th largest GDP ($527 billion in 2024) among the 50 states.

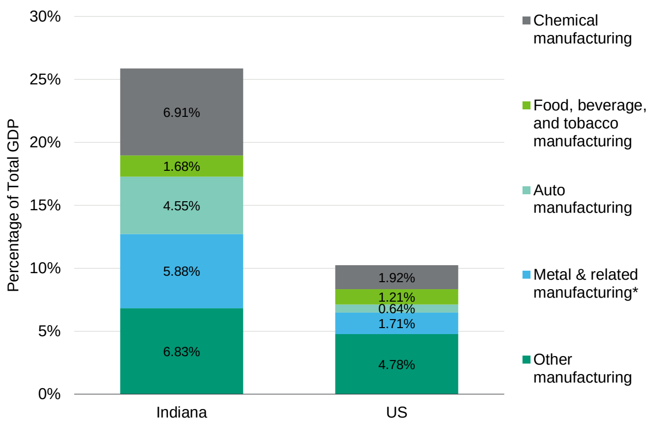
Detailed credit considerations

Economy:

Indiana's economy will cool alongside that of the nation as they both face headwinds related to policy uncertainty and trade tensions. Due to the state's industrial mix, which is one of the most concentrated in the country, Indiana would experience outsize impacts of tariffs on its economy. The state is the most reliant on manufacturing in the US, with sector employment representing one in six workers and production equal to over 25% of state GDP, both figures more than double the national concentration (Exhibit 3). The state is similarly a large contributor to international trade of goods, exposing it to federal tariff and trade policy (Exhibit 4). Tariffs could cause supply chain disruptions in the near term, increase production costs and dampen final product demand even as they might provide a degree of protection to domestic producers. Such uncertainty contributes to employment volatility in the state, particularly in the manufacturing sector (Exhibit 5).

Exhibit 3

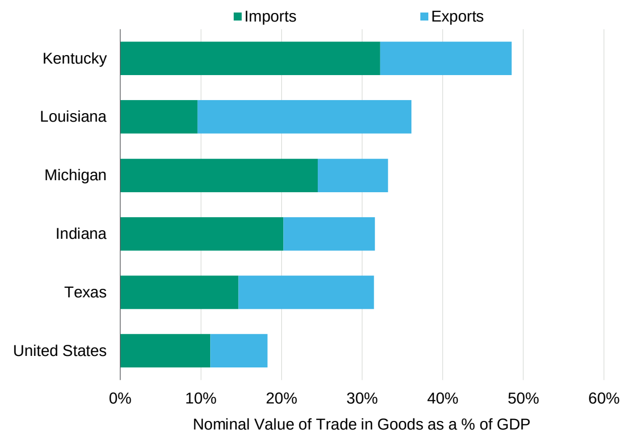
Much of Indiana's manufacturing sector concentrated in industries with high exposure to trade disruption, such as auto, metal, and chemical manufacturing.



Source: US Bureau of Economic Analysis

Exhibit 4

As a result, Indiana has one of the highest trade exposures in US, with the total value of imported and exported goods coming to over 30% of the state's GDP

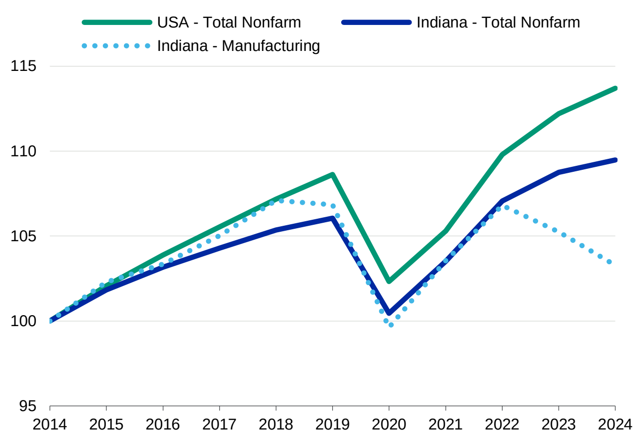


Source: US Census Bureau; US Bureau of Economic Analysis

Exhibit 5

Economic sensitivity to manufacturing disruptions can be seen in employment trends, with recent layoffs in the sector exacerbating the gap between national and statewide nonfarm employment growth

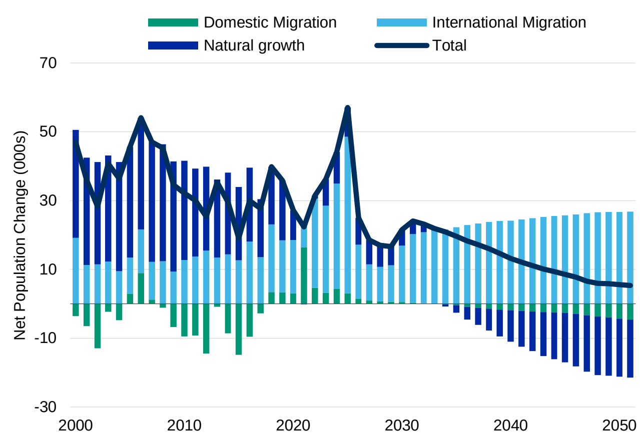
Nonfarm payroll employment indexed to 2014



Source: US Bureau of Labor Statistics

Exhibit 6

Despite recent strong population growth, we expect natural growth to further decline, making state highly reliant on international migration for growth



Source: US Census Bureau; Moody's forecasts

Given the state's manufacturing concentration, it is also a hub for new industrial developments. The Indiana Economic Development Corporation announced a record for committed capital investment in the state of over $39 billion in 2024, including 169 companies committing to locate to or expand in Indiana. One of the larger ongoing developments is the General Motors (Baa2 stable) and Samsung SDI partnership for a $3.5 billion electric vehicle battery plant in northern Indiana set to open in 2027.

We expect the state's population to grow moderately over the next several years, a pace similar to the national rate but stronger than other Midwestern states. The state's low cost of living, particularly its more affordable housing stock compared to the nation, may be a draw for movers. Future growth will be highly reliant on international migration as natural population growth continues to weak, so population dynamics will be sensitive to shifts in federal immigration policy.

Finances: Reserves will remain strong as budgetary controls will offset stagnant revenues

Indiana will preserve its strong fund balances and liquidity through fiscal year 2027 (ending June 30) following budgetary control measures in the face of stagnant revenues. The state's official revenue forecast from April 2025 revised projections downwards by roughly $2 billion or 4% of general fund revenues, largely due to projected declines in income tax revenues. State officials reacted to the news by reducing appropriations for a variety of programs and agencies and hiking the cigarette and tobacco tax, which will generate $300-400 million in new revenue. General fund appropriations will thus increase less than 1% in each of the next two years while officials now estimate revenues will increase by 2% in fiscal 2026 and hold flat for fiscal 2027. In addition, the state budget provides a buffer of roughly $700 million over the biennium that the state could use to fill gaps that may arise from weaker revenue or higher spending.

The revenue forecast includes recently enacted tax cuts, though additional tax reductions would not take effect for several years. Indiana has gradually cut its state income tax rate from 3.4% in 2014 to 2.9% starting January 1, 2026. However, new tax cuts that the Governor signed into law this year would not take effect until 2030 at the earliest with a terminal goal of 2.55% by 2042 if growth triggers are met. This break in tax rate reductions will provide some stability to state revenues amid national economic uncertainty and time to adjust future tax policy should the need arise.

Similar to states generally, Indiana is exposed to potential reductions in federal aid, which made up 44% of total governmental revenue in fiscal year 2024, primarily for the state's Medicaid programs. The Healthy Indiana Plan, the state's Medicaid expansion program, makes up about one-third of Medicaid spending and will likely shrink somewhat given new work requirements and more frequent eligibility reviews as part of various Medicaid reforms the state instituted this year. Additionally, Indiana has a trigger law that would cancel the expansion program if federal funding is cut. The state expects that changes to the expansion program will not have a material impact on the state's general fund. The primary cost pressure for the state is its core Medicaid and long-term care programs, which faced budget gaps in the prior budget cycle, but are forecasted to grow more slowly these next two years.

The state's fiscal governance practices are strong, and the state benefits from 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.

Liquidity

Cash and investments will remain strong and stable after reaching all-time highs in fiscal year 2022 (see Key Indicators Table). Liquidity and fund balance are higher on a GAAP basis than on a budgetary basis (as shown in Exhibit 1), in part because of unrestricted balances outside the general fund. Total available governmental fund balance on a GAAP-basis will likely remain between 30-40% of own-source revenue while cash and investments will likely remain around 50% of revenue through fiscal year 2027, both of which are very strong and in line with US State medians.

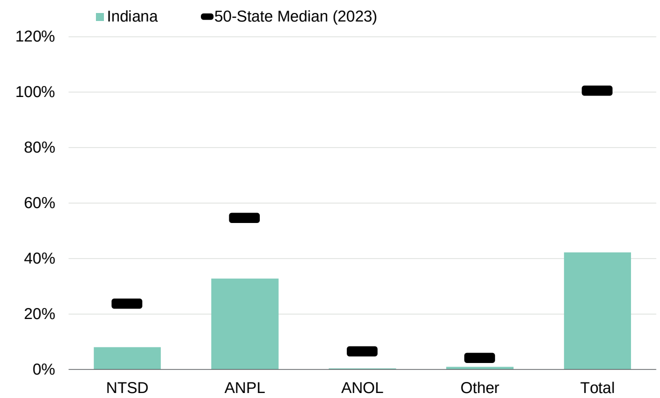
Leverage: Low leverage debt and proactive pension contributions will keep leverage low

Indiana's leverage from debt, pension and OPEB liabilities will remain very low and well below the median for US states (Exhibits 6 and 7) thanks to conservative debt management, a lack of additional large debt issuance plans and proactive pension contribution practices. As of Moody's latest liabilities report, Indiana ranks the 13th lowest in total liabilities compared to revenue and 7th lowest on net tax supported debt (NTSD) to revenue. The state's adjusted net pension liability (ANPL), which discounts liabilities using market interest rates, contributes the largest share of the state's leverage largely because Indiana, unlike many other states, takes on most K-12 school district pension liabilities through its contributions to the pay-go pre-1996 teacher retirement plan. After standardizing direct and indirect teacher retirement liabilities across states (as states share teacher pension costs to varying degrees), Indiana instead ranks 4th lowest in total leverage, including direct debt, pension and OPEB burdens and indirect teacher pension burdens.

Exhibit 7

Leverage primarily from the closed, pre-1996 teacher pension plan

As % of own-source revenue in fiscal 2024



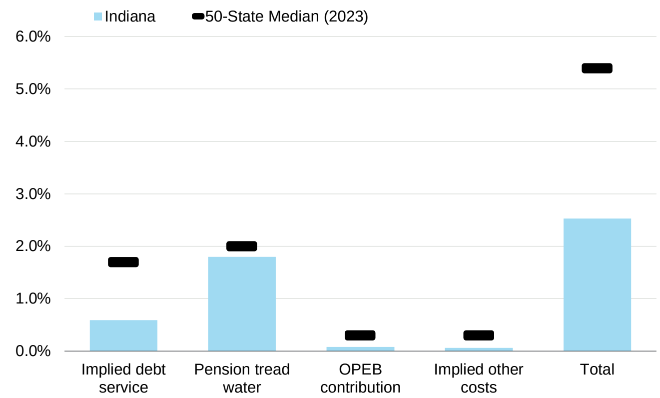
NTSD = net tax supported debt; ANPL = adjusted net pension liability; ANOL = adjusted net OPEB liability

Source: audited financial statements

Exhibit 8

Fixed costs are low for Indiana

As % of own-source revenue in fiscal 2024



Indiana pension tread water costs are relatively higher because of the pay-go nature of the pre-1996 teacher plan

Source: audited financial statements

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 (see Exhibit 8).

Exhibit 9

Moody's ratings on Indiana governmental debt

Security type	Related projects	Moody's rating on pledge
Issuer	N/A - Hypothetical general obligation rating	Aaa stable
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. However, 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 are 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 supports 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.

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.

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.

Debt structure
Lease appropriation debt makes up the vast majority of outstanding net tax-supported debt followed by PPP availability payment obligations. 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. A relatively small portion of bond bank debt carries the state's moral obligation enhancement. Much of the state's appropriation debt is fully paid from downstream entities such as the Marion County Capital Improvement Board, a component unit of the City of Indianapolis, for the stadium and convention center bonds and universities for fee-replaced obligations.

Debt-related derivatives
The state no longer has variable rate debt or debt-related derivatives outstanding.

Pensions and OPEB
Indiana's pension burden will remain manageable and will likely decline by another 20% in fiscal 2025 given strong annual contributions, well above our tread water benchmark, and continued higher interest rates we use to discount liabilities. The state's large $2.5 billion supplemental contribution to the closed pre-1996 teacher retirement plan in 2023 contributed to a more than 30% decline in the reported net pension liability and Moody's adjusted net pension liability (ANPL) for fiscal year 2024. The closed pre-1996 plan represents the largest single long-term liability for the state and is otherwise funded on a pay-as-you-go basis. Officials expect it will reach fully funded status on an actuarial basis by 2030, and the funded ratio has already incrased from 26% in 2019 to 68% in 2024.

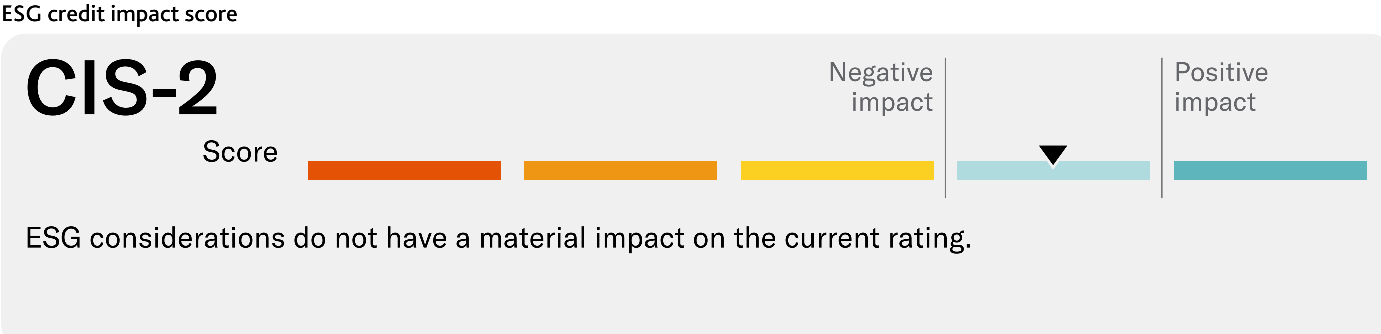
Indiana also contributes to a number of other pension plans, most notably the Teachers' Retirement Fund (TRF) and the Public Employees' Retirement Fund of Indiana (PERF). These are hybrid plans with a portion defined benefit and another portion defined contribution, limiting the state's exposure to retirement obligations. Employees may also participate in a defined contribution only plan.

The OPEB liability will remain 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

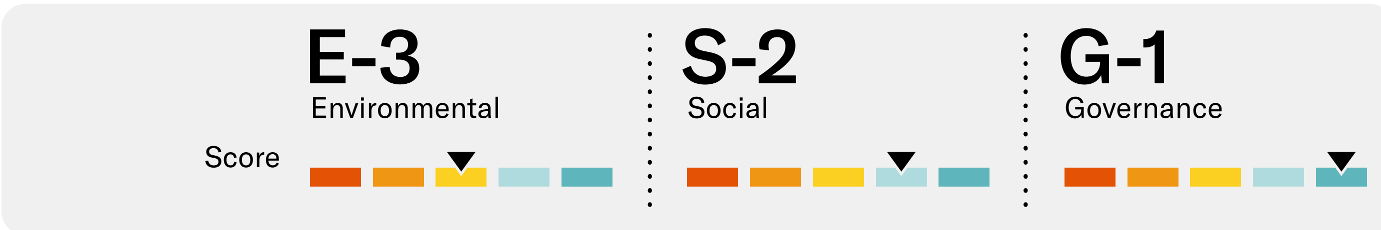
Exhibit 10
ESG credit impact score



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 11
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 12

State rating methodology scorecard

Indiana (State of)

	Measure	Weight	Score
Economy			
Resident Income (PCI Adjusted for RPP / US PCI)	97.0%	15%	Aa
Economic Growth (5-year CAGR real GDP - 5-year CAGR US real GDP)	-0.4%	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)	58.1%	20%	Aaa
Fixed-costs ratio (adjusted fixed costs / own-source revenue)	3.3%	10%	Aaa
Notching factors			
Very limited and concentrated economy	NA	NA	
Scorecard-Indicated Outcome			Aaa
Assigned rating			Aaa

Source: Audited financial statements, US Bureau of Economic Analysis, Moody's Ratings

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