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Indiana Finance Authority Indiana; Appropriations; General Obligation; Moral Obligation

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Indiana Finance Authority
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Credit Profile		
US$162.0 mil EEC TIFIA Loan (Indiana) (Louisville-southern In Oh River Bridges Proj) dtd 04/15/2015 due 09/01/2032		
Long Term Rating	AA+/Stable	New
Indiana ICR		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating to the $162 million U.S. Department of Transportation (DOT) TIFIA Loan Agreement entered into by the Indiana Finance Authority (IFA or the authority) and the U.S. DOT for the East End Crossing Project. The loan is part of the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). At the same time, Standard & Poor's affirmed its 'AAA' issuer credit rating (ICR) on the State of Indiana, its 'AA+' rating on the state's appropriation debt, and its 'AA' rating on the Indiana Bond Bank's moral obligation debt. The outlook on all ratings is stable.

The TIFIA loan is being entered into to provide low-cost financing to cover a mismatch between the Indiana Department of Transportation's (INDOT) appropriated funds and the milestone payments due to WVB East End Partners under a public private agreement (P3). The loan is expected to be drawn at substantial completion of the project, which is estimated around October 2016. Loan proceeds will cover the all or a portion of the three final milestone payments on the project. The loan, which includes $162 million in principal plus capitalized interest, is payable through Sept 1, 2032. This financing is just one element of the larger Ohio River Bridges Crossing Project, under which the state is responsible for approximately $1.3 billion.

The 'AA+' rating reflects our view of the following credit factors:

- The 'AAA' issuer credit rating (ICR) on Indiana;
- The requirement that the state make requests for appropriation of use payments; and
- The constitutional prohibition against the state issuing general obligation (GO) debt, which enforces the importance of the state's appropriation-backed debt as its main vehicle to access capital markets.

The loan is backed by a lien and security interest in the trust estate established under the TIFIA note trust agreement. Under a use agreement between INDOT and the IFA, INDOT agrees to make use payments equivalent to the TIFIA debt service and TIFIA note expense in exchange for use of the project. After the initial term of the use agreement, the agreement is deemed to have been extended from biennium to biennium unless the authority or INDOT provide a notice of non-extension to the other party six months prior to the end of the biennium. The use payments are payable from appropriations from the General Assembly of the state to INDOT for such biennium and shall be deposited with the trustee. The payments for this loan and for all other expenses of the Ohio River Bridge Crossing are included as one line item in INDOT's budget, mitigating the concern that this particular payment may be taken out of the budget. Although the use payments are subject to abatement, the IFA, in the loan agreement, further covenants that it will cause INDOT to request an appropriation in an amount sufficient to make the payments on the loan or, in the absence of an appropriation, the IFA will request an appropriation from the General Assembly in an amount sufficient to make the use payments to TIFIA. Should INDOT have the money appropriated, but be unable to pay due to abatement, the Indiana Finance Board, which is made up of the governor, the treasurer, and the state auditor, can reallocate appropriations from INDOT to the IFA. Although the funds appropriated flow to different accounts with the trustee depending on whether the funds are use payments from INDOT or direct appropriations to IFA for payment of the loan, both funds to which appropriations can be made are part of the trust estate.

Under the loan agreements, events of default include non-payment, bankruptcy, covenant defaults, project abandonment, cessation of operations, and others. In our view, these events of default are either remote or include cure periods that would allow the state to respond in a timely manner. However, there are some events of default that allow for the U.S. DOT to accelerate the bonds immediately. Although we wouldn't expect the U.S. DOT to accelerate the loan, we believe that this contingent liquidity risk is limited and mitigated by the finance authority's self-liquidity program, which we monitor monthly; and by other alternate sources of liquidity available to the state to address, at least temporarily, a need for additional liquidity. As of June 30, 2014, the state had approximately $4.8 billion in available fund balance to cover calls on its liquidity, should there be any events of acceleration.

Management has indicated that unlike other portions of the Ohio River Bridges Project, the TIFIA loan does not have toll revenues pledged to it and is backed strictly by funds appropriated by the General Assembly for INDOT or IFA. Although the required approval levels for P3s are lower than for other debt, given the size and importance of this project, there is significant awareness about this debt at high levels of government. Management indicates that this TIFIA loan will be reflected together with other appropriation debt in the state's financial statements.

The ICR reflects our opinion of the state's:

- Economic base that is cyclical, but which has benefited from strong performance in its manufacturing sector;
- Biennium budget that maintains a solid level of reserves going into the next budget cycle;
- Very active budget management with practices that have been consistently applied to maintain sound reserve levels, including the administration's willingness to use its power to unallot appropriations and implement a lower cost structure; and
- Low overall debt levels, but with significant contingent liabilities tied to major infrastructure investment projects that could result in higher debt levels if toll revenues fall short of expectations.

Gov. Pence's proposed 2016-2017 biennium general fund budget totals $30.4 billion made up of $15.1 billion and $15.3 billion in fiscal years 2016 and 2017, respectively. The budget fully funds pension obligations and contributes to the other postemployment benefits (OPEB) annual required contribution (ARC). The budget increases education funding and fully funds Medicaid growth. According to the state's estimates, revenues are forecast to grow 2.37% in fiscal 2016 and 3.15% in fiscal 2017, which we view as achievable given a current revenue growth rate of 2% and an improving economic environment. Even if the revenue growth falls short of target, the state has built in structural surpluses of about $167 million and $482 million in 2016 and 2017, respectively. The budget projects closing the year with reserves of $1.98 billion in fiscal 2016 and $1.99 billion in fiscal 2017, which equate to 12.8% and 13% of the budget, respectively. The governor maintains his goal of keeping reserves equal to 12.5% of expenditures and using surpluses for one-time spending and includes no new debt. In our view, the state's commitment to maintaining structural balance while also addressing its long-term liabilities is a positive factor.

Sales tax revenues are the largest portion of the general fund and represent approximately 48%-49% of total general fund revenues. Individual income tax makes up about 35% of each year's general fund budget.

As of February 2015, total general fund collections are $9.0 billion, $267 million or 3.1% higher than the previous year's collections, but $91.1 million, or 1.0% short of estimates.

Indiana's financial management practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA). An FMA of good indicates that practices exist in most areas, although not all might be formalized or regularly monitored by governance officials.

Indiana's constitution does not allow new debt except to meet casual deficits in revenue, pay interest on state debt, or to provide funds for public defense. As such, the state has no GO or tax-supported revenue debt, but does have appropriation-backed debt. As of June 30, 2014, Indiana had about $2.8 billion in appropriation-backed debt, including $338 million in milestone payments related to the Ohio River Bridges Crossings Project. We have adjusted the state's debt burden to allow for approximately $900 million in self-support from the stadium and convention center bonds. In the past three years, local revenues available to pay debt service on the stadium and convention center bonds have provided at least 92% of the revenues for the bonds. After making this adjustment, the state's debt declines to $1.9 billion. Indiana's debt levels were low at $290 on a per capita basis and were 0.7% and 0.6% of per capita personal income and GSP, respectively. We expect debt levels to increase as the state continues to make significant investments in its transportation network through different P3s.

Based on the analytic factors we evaluate for states, on a scale of '1' (strongest) to '4' (weakest), we have assigned a composite score of '1.6' to Indiana. The 'AAA' ICR on Indiana reflects our view of the state's proven commitment to and significant focus on strengthening the budget through extensive use of management controls that have led to maintenance of structural balance, growth in reserve levels, and continued funding of long-term liabilities.

Outlook

The stable outlook reflects our view of the state's strong financial position and management's commitment to maintaining structural balance and a high level of reserves. In addition, despite any negative variance from projected revenues, we expect the state to make adjustments as necessary to restore budgetary balance. We believe Indiana has made a strong commitment to strengthen budget and management controls and overall financial management. The stable outlook is based on our expectation that these practices will continue. Given the 'AAA' ICR, there is no upside potential. Downside risks to the rating include increased leverage to fund capital infrastructure, mainly roads, and increased exposure to contingent liquidity risks tied to P3s, standby bond purchase agreements, and direct placement debt. Although we believe the state is actively managing its debt portfolio to mitigate these risks and has sufficient liquidity to meet temporary cash flow demands, should its debt levels rise significantly, this could weaken its debt profile and place downward pressure on the rating.

Government Framework

Neither Indiana's constitution nor statutes require the state to initially approve or maintain a balanced budget throughout the year. The Governor has requested that the legislature consider a balanced budget constitutional amendment which is currently being evaluated by the House of Representatives. In our view, although the state has managed its finances well in the absence of this requirement, a balanced budget requirement would strengthen Indiana's government framework. Despite the absence of the balanced budget requirement, there are mechanisms in place that provide the state with the flexibility to adjust both revenues and expenditures if deemed necessary. For example, only a simple majority of the legislature is required to raise taxes, and there is no constitutional constraint on the amount of the increase. In addition, state statute provides that the state budget director, with the approval of the governor, can withhold allotments of appropriations to agencies if revenues are less than anticipated in order to prevent a deficit. Indiana has historically used its allotment authority to avoid deficits when revenues are falling short of target. It provides a limited level of assistance to local governments, but does fully fund local school general operations as a result of the property tax reform passed in 2008. In fiscal 2010, the administration did use its allotment power and withheld funds from schools. Indiana also used its allotment power in 2013 and 2014. It is not a voter-initiative state, providing further flexibility.

Indiana's constitution does not allow new debt except to meet casual deficits in revenue, pay interest on state debt, or to provide funds for public defense. As a result, the state has no GO or tax-supported revenue debt, but does have appropriation-backed debt. There is no limit on the amount of appropriation debt that it can issue, but the legislature must first authorize the debt amount. This requirement for legislative approval does not apply to availability payment agreements, which are approved under the state's Public-Private Partnership Agreement (Indiana Code 8-15-5) and only require approval from the Budget Committee, which, while including legislators, is not the full legislature, and the governor. On Jan. 29, 2014, the state adopted a debt policy that limits total appropriation debt, including availability payments, to 15% of the prior year's revenues. As of the release of the fiscal 2014 comprehensive annual financial report (CAFR), this limitation would be $4.4 billion based on fiscal 2014 total governmental funds revenues of $29.4 billion. Given that the state's debt is appropriation-backed debt, there is no legal priority for debt payments.

We have assigned a score of '1.2' out of '4.0' to Indiana's government framework, where '1.0' is the strongest score and '4.0' the weakest.

Financial Management

Financial Management Assessment: 'Good'

Standard & Poor's deems Indiana's financial management practices "good" under its FMA. An FMA of good indicates that practices exist in most areas, although not all might be formalized or regularly monitored by governance officials.

Among Indiana's management techniques are the following:

- In terms of revenue assumptions and forecasts, the state convenes every December with a budget committee consisting of members from the house and senate along with economists to prepare the upcoming revenue forecast. The same group updates the revenue forecast in April of odd-numbered years and compares the budget to the April forecast.

- The state has a biennium budget process. Its practice is not to amend the budget. If there is a recession, the budget director has the power to forgo allotting appropriations.
- Indiana has a four-year revenue and expenditure forecast performed internally, but does not have a formal long-term revenue forecast provided to the legislature.
- In terms of long-term capital planning, the state universities make 10-year plans, as does the IFA for lease transactions, but, like most states, Indiana does not yet have a formal capital improvement plan.
- The state has its own investment policy.
- Indiana's debt management policies are comprehensive and include a well-defined swap management policy. The state has recently adopted a debt policy that limits appropriation debt, including to 15% of prior-year total revenues from its statement of governmental activities in the CAFR.
- In terms of liquidity and reserves, the state has an informal goal of maintaining between 10% and 12% of annual operating revenues in the general fund.

Budget Management Framework

Once the budget is approved, the state monitors both revenue and expenditure performance monthly. With the approval of the governor, the state budget director can withhold allotments of appropriations to agencies if revenues are less than anticipated to prevent a deficit. Budget adjustments have historically been implemented regularly and on a timely basis.

We have assigned a score of '1.5' to the state's financial management, where '1.0' is the strongest score and '4.0' the weakest.

Economy

In our view, Indiana's economy continued to expand at a good pace in 2014 with employment growth of 2% as December, according to IHS Global Insight. Manufacturing, primarily automotive, continues to lead the charge and provided a strong boost to employment growth, but most sectors of the economy are experiencing growth of close to 2% or better. The state has finally surpassed pre-recession employment levels. Many of its key economic and demographic indicators are improving, but remain below the national average. Average annual population growth between 2000 and 2010 was 0.6%, compared with 0.9% for the U.S. The state ranked 31st in population growth for that period. Additionally, its age dependency ratio is 61.1%, compared with 59.3% for the U.S. In our view, weak population growth could somewhat limit employment growth in the long term. Indiana's GSP is below the U.S. average but has continued to improve and was 91% of U.S. GDP in 2013, up from 86% in 2009. Unemployment, which was 7.5% at the end of 2013, still slightly above the U.S. average (7.4%), has continued to decline and is preliminarily estimated by the Bureau of Labor Statistics at 5.9% (not seasonally adjusted) for February 2015, compared with 5.5% for the U.S. Indiana's unemployment decline reflects both growing labor force and employment, an important distinction that we view as positive. The state's economy is more concentrated in the manufacturing sector than the U.S., but depends less on manufacturing than it has in the past. Specifically, manufacturing concentration is slightly down, to 16.8% in 2013 from 18% in 2008; however, it remains almost twice the national average of 8.8%. This sector remains an important component of Indiana's economy and factored into its increased unemployment levels in 2009 and 2010. Automotive manufacturing continues to have a significant presence, and its diversification beyond the American automakers to include foreign-owned companies adds a degree of stability to the state's economy. The state's manufacturing sector is not all auto-related; pharmaceuticals and durable household goods are also prominent products. Other major employment sectors include: trade/transportation/utilities (19% of the state's jobs), education and health, (15%) government (14%), leisure and hospitality (10%), and professional and business services (10.5%). The construction and information sectors are not experiencing growth (construction is down 1.1% year over year); however, they are relatively small sectors of overall employment.

According to IHS Global Insight, year-over-year payroll growth as of December 2014 was 2.0%, and the firm expects 1.7% employment growth in 2015. All economic sectors are experiencing growth. Manufacturing, Indiana's second-largest sector by employment, was the leading area of year-over-year payroll growth at 2.9% as of February 2015, followed by 2.6% growth in professional and business services. Trade, transportation, and utilities, the largest employment sector in the state, grew 2.4% year over year as of February 2015. Other sectors, while smaller, are also growing strongly. Financial services, educational and health services, and leisure and hospitality grew 2.3%, 2.2%, and 2.0% year over year, respectively.

The East North Central region's slower growth compared with the other regions will continue. Its projected GDP growth of 2.41% for 2015 is the second slowest after the Mid-Atlantic region. Michigan and Indiana are highly export dependent, and the strengthening of the U.S. dollar could dampen export growth. However, we expect the region's manufacturing employment to grow at a faster clip in 2015 than in 2014, at 2.27% versus 1.70%. Although oil price deflation will likely have positive effects across the region's economy as a whole, parts of eastern Ohio in the Utica and Marcellus Shales could see economic activity decline as rig counts drop, and the steel industry has announced significant layoffs tied to low oil prices. We project that the housing market will continue its growth, which should boost regional property tax revenues. For Indiana, IHS Global Insight projects employment to grow slightly lower than the nation at 1.0% on average over the next five years (2014-2019).

Indiana Economic Development Corp. still leads the state's job creation efforts by trying to attract increased investment in several key areas including advanced manufacturing, agriculture, life sciences, and defense and national security. The state offers a series of tax credits and exemptions as a way to spur expansion and relocation to the state. Tax credits are available for alternative fuel vehicle manufacturers, headquarters relocation, R&D, and business investment, among others. Indiana also offers an R&D and patent income exemption. In addition, it continues to phase in its corporate income tax rate reduction to 6.5% from 8.5% to become more attractive to businesses. Currently the tax is 7.5%, declining by 0.5% annually. In the fiscal 2014-2015 biennium, the state adopted a 5% individual tax cut that it is implementing through 2016, phased out the inheritance tax, and introduced a financial institutions tax cut to 6.5%.

We have assigned a score of '2.4' to Indiana's economy, where '1.0' is the strongest score and '4.0' is the weakest.

Budgetary Performance

The state bases its biennium budgets on revenue projections created by the Revenue Forecast Technical Committee with economic variables provided by IHS Global Insight. The revenue forecasts are performed once in December of even-numbered or non-budget years and twice in odd-numbered years in April and December. The most recent general fund revenue forecast update was completed on Dec. 20, 2013 for the fiscal 2014-2015 biennium.

Indiana focused primarily on the expenditure side during the most recent recession and did not raise taxes to compensate for lower revenues. It used reserves to a greater extent in the previous recession--more than $1.6 billion between fiscal years 2000 and 2004; the use of reserves during the Great Recession was much more limited. After depleting its reserves in fiscal 2004, Indiana rebuilt them to $1.38 billion by fiscal 2008. Even though revenues came in $879.1 million less than the budgeted projections, the state ended fiscal 2010, on a budgetary cash basis, with a general fund balance of $830.1 million, or 5.9% of operating revenue, down $504 million from the projected fiscal 2010 balance. The rainy day, Medicaid, and state tuition reserve funds had zero balances at year-end fiscal 2010; all balances were transferred to the general fund. The state has rebuilt its reserves in the past three years and they peaked at $2.2 billion in fiscal 2012. In fiscal 2012, its total reserves exceeded the cap, triggering equal payments of $360.6 million to the pension funds and automatic taxpayer refunds. In fiscal 2013, Indiana posted a $483 million budgetary surplus, bringing total reserves of $1.943 billion, or 13.1% of the following year's appropriation. Total reserves consist of $1.428 billion in the general fund, $145 million in the Medicaid reserve, and $370.1 million in the rainy day fund. The state has a statutory reserve cap of 12.5% of revenues as a percentage of the following year's appropriation. Any amounts in excess of that cap are equally divided among payments to pension funds and to an automatic taxpayer refund. The reserves must exceed the cap by $50 million to trigger the transfer, which only occurs in budget years. The state maintains the flexibility to adjust appropriations to reduce the excess by redirecting funds and in the past has appropriated additional amounts to defease debt, thus reducing the amount of excess. According to management, Gov. Pence has identified 12.5% as the minimum amount to be held in reserves to protect critical operations during the next economic downturn. However, this is not a formal fund balance policy.

Indiana has maintained sufficient liquidity to avoid cash flow borrowing. It does not have a history of issuing short-term debt for cash flow purposes. If needed, it has the flexibility to borrow from other dedicated funds, which as of fiscal year-end 2013 were in excess of $5 billion, including toll road lease revenues. The state monitors its cash flow regularly and can temporarily tap into these funds for cash flow purposes administratively or with approval from the Board of Finance.

Audited fiscal 2014 results

Based on the CAFR, Indiana ended fiscal 2014 with a total governmental fund surplus of $429 million after transfers, bringing the total fund balance to just under $8 billion, or 27% of total general fund expenditures on a generally accepted accounting principles basis. Of the total fund balance, $4.7 billion was assigned and $1.2 billion was unassigned, with the balance of the reserves being classified as nonspendable, restricted, or committed. The state had about $6.5 billion in total governmental cash and cash equivalents, of which $2 billion were in the general fund.

From a general fund standpoint, Indiana ended fiscal 2014 with a $135 million surplus after transfers, equal to less than

1% of general fund expenditures. Before transfers, it posted an operating surplus of $2 billion. The general fund balance improved slightly to $3.47 billion, or approximately 22.7% of expenditures. The unassigned fund balance was $1.33 billion, or 8.7% of expenditures after transfers, which we consider very strong.

We have assigned a score of '1.1' to the state's budgetary performance, where '1.0' is the strongest and '4.0' is the weakest.

Debt And Liability Profile

Indiana's constitution does not allow new debt except to meet casual deficits in revenues, pay interest on state debt, or provide funds for public defense. As a result, the state has no GO or tax-supported revenue debt, but does have appropriation-backed debt. As of June 30, 2014, Indiana had about $2.8 billion in appropriation-backed debt, prior to giving credit for about $900 million in self-supported debt. The portion of the state's total debt that has been consolidated under the IFA consists of $25 million for recreation development commission bonds, $90 million for airport facilities bonds and aviation technology center bonds, $977 million in stadium and convention center bonds, $1 billion for highway revenue bonds, and $290 million for state office building commission bonds as of June 30, 2014. Indiana has never had to provide support to debt backed by its moral obligation pledge. Therefore, we currently do not include $384 million in bond bank debt that is secured by the state's moral obligation pledge. Although the state has appropriated for the university fee replacement debt in the past, there is no appropriation pledge supporting the bonds and it is not obligated to appropriate for it in the future. Therefore, we do not include the $1.17 billion in university fee replacement debt in Indiana's debt calculation.

Indiana and Kentucky entered into a bi-state agreement to finance the Ohio River Bridges Crossings Project. Under the agreement, each state will be responsible for financing a portion of the project. The total project was estimated to cost $2.6 billion with each state responsible for approximately $1.3 billion. The project calls for building two bridges in the Louisville-Southern Indiana metro area and the reconstruction of the Kennedy Interchange where three interstates merge (I-64, I-65, and I-71). Both the Kentucky and Indiana crossings will be tolled, with revenues and expenditures shared between the states. In March 2013, the state closed on a P3 agreement for the Ohio Rivers Bridge Crossing East End Project. Under the terms of the agreement, Indiana will make milestone payments during the construction period and then, once the asset has been delivered and is available, make availability payments during a 35-year period. Pursuant to milestone and use agreements entered into by INDOT and the IFA, INDOT began to make payments to the IFA sufficient to make milestone and availability payments in fiscal 2014. INDOT's ability to make milestone and use payments under its agreements with IFA is subject to appropriations made by the state's legislature. The IFA agrees to seek appropriations if INDOT fails to do so. The availability payments are initially payable to the IFA from Indiana's portion of toll revenues received by INDOT and generated by the Ohio River Bridge Crossings Project; however, should these be insufficient, the IFA would seek an appropriation from the General Assembly to make the payments. We have included the net present value of milestone payments in our debt analysis because these are, for the most part, due before any toll revenue being available to make debt service. Once the asset is built and Indiana is receiving toll revenues, we will evaluate to what extent this project is self-supporting and, consistent with our criteria, include any portion that is not self-supporting in the state's debt statement.

The state is currently evaluating additional transportation projects under its P3 law, including section 5 of Interstate 69 and the Illiana Corridor Project. In our view, these projects could potentially lead to a significant increase in the state's debt or debt-like obligations in the near-to-medium term, depending on whether or not toll revenues come in as expected. Management has indicated that the I-69 project would not be backed by toll revenues. The cost of this project has not yet been determined, but we anticipate that the state's debt levels, which we consider low, could increase unless offset by additional amortization of current debt.

Contingent liabilities

Prior to the P3 asset being delivered, we consider availability payments as a contingent liability. We currently consider the net present value of availability payments, excluding operating and maintenance lifecycle costs, at approximately $789 million. Once these projects are delivered, we will evaluate if all or a portion of the availability payments should be considered net tax-supported debt or contingent debt.

Of the $976 million in IFA stadium and convention center debt outstanding as of fiscal year-end 2014, approximately $732 million is variable-rate debt with liquidity provided under several standby bond purchase and direct placement agreements. Under these agreements, there are events that allow for the banks to accelerate the bonds either immediately or on seven days' notice to the issuer. We believe that this contingent liquidity risk is mitigated by the finance authority's self-liquidity program, which we monitor monthly; and other alternate sources of liquidity available to the state to address, at least temporarily, a need for additional liquidity. The state has indicated that it currently has approximately $4.8 billion available to cover calls on its liquidity, should there be any events of acceleration.

The state has entered into floating-to-fixed swaps for $738 million out of its $768 million in variable-rate debt outstanding. The IFA entered into forward-starting synthetic fixed-payer swaps to match the future debt service on the bonds after the construction period is complete (three years forward for the stadium and five years forward for the convention center bonds) through the final maturity of each proposed series. Under the terms of the forward-starting swap, the authority will pay a fixed rate and receive the Securities Industry and Financial Markets Association municipal swap index. The state entered into a notional amount of $611.525 million in forward-starting swaps on the stadium bonds with Bear Stearns (novated to JPMorgan Chase Bank); JPMorgan Chase Bank; and Goldman Sachs Group (guarantor for Goldman Sachs Bank USA). Concurrently with the 2008A stadium bonds, Indiana entered into a fixed payer swap with The Bank of New York Mellon, with similar terms as the previous swaps and a notional amount of $46.875 million ($29.2 million current notional). The state also entered into a notional amount of $265.175 million in forward-starting swaps on the convention center bonds with Bear Stearns (novated to JPMorgan Chase Bank), JPMorgan Chase Bank, Goldman Sachs Group (guarantor for Goldman Sachs Bank USA), and Merrill Lynch Capital Services Inc. With the state's issuance of its 2009A convention center bonds, Indiana used bond proceeds to terminate the JPMorgan Chase (including Bear Stearns) and Merrill Lynch swaps for the convention center project, leaving Goldman Sachs Group as the sole swap counterparty outstanding with a notional amount of $98.115 million. In the state's swap policy, the counterparty must be rated at least 'AA-' or is required to post collateral at certain rating levels to mitigate concerns over counterparty risk. Indiana manages its swap program with an adopted swap policy that thoroughly addresses the risks associated with derivatives. Due to the low degree of termination risk, Standard & Poor's is not factoring in the swaps' value at risk as contingent liabilities for the state.

As of June 30, 2014, the state's debt levels in our opinion were low at $281 on a per capita basis and less than 1.0% of personal income. Appropriation-backed debt service accounted for slightly less than 2% of the state's general fund expenditures in fiscal 2014, which we consider low. Amortization is rapid, with approximately 75% retired over 10 years.

The Indiana State Teachers' Retirement Fund (TRF) consists of the closed pre-1996 account and the new 1996 account. In 1996, Indiana closed the plan and moved new hires to actuarially sound plans. The new plan, which is the responsibility of school districts, includes transferred teachers from the state plan. The state funds the closed pre-1996 account on a pay-as-you-go basis. The fund was approximately 32.8% funded as of June 30, 2014. The total liability was $16.4 billion with total assets of $5.4 billion, including $2.6 billion in the pension stabilization fund, leaving an unfunded liability of $11 billion. As part of its plan to address the significant unfunded liability, Indiana also adopted a 30-year amortization schedule and established a pension stabilization fund, which should limit the annual growth rate of general appropriations for the TRF to less than historical general revenue growth rates. The pension stabilization fund is a dedicated fund in the TRF, designed to accumulate a balance during a 12-year period. The pension stabilization fund is allowed to smooth out yearly general fund contribution growth to less than 3%; the original statute allowed use of the fund to start in 2007. The pension fund is funded through annually contributions from the Hoosier Lottery. The TRF 1996 account was 96% funded as of June 30, 2014 with a total liability of $5.2 billion and assets of $5 billion. The funded ratio for the entire TRF (pre-1996 and 1996) was 52% funded, which remains very low in the aggregate, but is an improvement from 45.7% at the end of fiscal 2013.

The state's Public Employees' Retirement Fund has a funded ratio of 82.4% on $16.7 billion of actuarial accrued liabilities at fiscal year-end 2014. This includes active, retired, and disabled employees at both the state and local levels. Indiana also has five other pension plans with much smaller liabilities, the largest of which is a $81.5 million liability for the 1977 Police Officers and Firefighters Pension and Disability Fund, which was 98.3% funded at the end of fiscal 2014.

The state's combined funded ratio for its pension plans was below average at 67.3% as of fiscal year-end 2014 and up from 64.5% in fiscal 2013. Total unfunded state pension liabilities of $14.3 billion translate to a below-average $2,164 per capita and 5.6% of personal income. Indiana makes its ARC for its pension systems in some years, but not all. However, it made its full ARC contribution in fiscal 2014 and has budgeted the full contribution for fiscal years 2015 and for the 2016-2017 biennium.

In terms of OPEB, the unfunded actuarial accrued liability as of valuation date June 30, 2014, was $290 million, or $45 per capita. The state is currently funding the OPEB liability on a pay-as-you-go basis.

We have assigned a score of '1.7' to the state's debt and liability profile, where '1.0' is the strongest score and '4.0' the weakest.

Related Criteria And Research

Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006

- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Rating Government Department Appropriation-Backed Debt In U.S. Public Finance, Nov. 7, 2007
- USPF Criteria: Moral Obligation Bonds, June 27, 2006

Related Research

U.S. State And Local Government Credit Conditions Forecast, April 2, 2015

Ratings Detail (As Of April 14, 2015)		
Indiana Bnd Bank, Indiana		
Indiana		
Indiana Bnd Bank (Indiana) moral oblig		
Long Term Rating	AA/Stable	Affirmed
Indiana Bnd Bank (Indiana) spl prog multipurpose & taxable spl prog multipurpose bnds (Indiana) ser 2010A1&A2 dtd 06/08/2010 due 02/01/2011-2021		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Indiana Bnd Bank (Indiana) spl prog rfdg bnds (Columbus Learning Ctr Proj)		
Long Term Rating	AA/Stable	Affirmed
Indiana Bnd Bank (Indiana) spl prog (South Bend Tif Districts) (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Indiana Bnd Bank (Indiana) taxable spl prog multipurpose bnds (Indiana) (Carlisle Swr Proj) 2010 ser A-3 dtd 06/08/2010 due 02/01/2012-2024		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Indiana Bnd Bank (Indiana) moral oblig		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Indiana Bnd Bank (Indiana) spl prog bnds ser 2001A		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Indiana Bnd Bank (Indiana) spl prog bnds (Hendricks Comnty Hosp Fing Prog) ser 2002D		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Indiana Bnd Bank (Indiana) spl prog bnds (Whiting Sanitary Dist) ser 2003C		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Indiana Fin Auth, Indiana		
Indiana		
Indiana Fin Auth arpt facs multi-mode lse rev rfdg bnds - tax exempt/taxable (Indiana)		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) facs rev bnds		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) facs rev bnds		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) facs rev bnds (Washbash Vy Correctional Facs) ser 2009A&B		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) facs rev rfdg bnds (Evanville State Hospital)		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) facs rev rfdg bnds (Indiana) (Pendleton Juvenile Correctional Fac) ser 2008A		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of April 14, 2015) (cont.)		
Indiana Fin Auth (Indiana) facs rev rfdg bnds (Logansport State Hospital)		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) facs rev rfdg bnds (Madison State Hospital)		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) fin rev rfdg bnds (Evansville State Hospital Facility Proj)		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) fin rev rfdg bnds (Indiana State Museum Fac Proj)		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) fin rev rfdg bnds (Indiana) (Logansport State Hospital Proj) ser 2011D due 06/30/2017		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) fin rev rfdg bnds (Indiana) (Southeast Regional Treatment Ctr Proj) ser 2011E due 06/30/2018		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) fin rev rfdg bnds (New Castle Correctional Fac Proj)		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) hwy rev rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) hwy (wrap of insured) (FGIC & AGM) (SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Indiana Fin Auth (Indiana) hwy (wrap of insured) (FGIC & BHAC) (SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Indiana Fin Auth (Indiana) hwy (MBIA) (National)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Indiana Fin Auth (Indiana) lease approp bnds (Convention Center Expansion Project) ser 2009B due 02/01/2039		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) lse approp bnds ser 2007 A (ARS) (Indiana) (Stadium Proj) ser A3 dtd 03/28/2007 RMKT dtd 10/08/2009 due 02/01/2037		
Long Term Rating	AA+/A-1/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Indiana Fin Auth (Indiana) lse approp bnds ser 2007 A2 (ARS) (Stadium Proj) dtd 03/28/2007 RMKTED 04/01/08		
Long Term Rating	AA+/A-1/Stable	Affirmed
Unenhanced Rating	NR(SPUR)/NR	
Indiana Fin Auth (Indiana) lse approp bnds (Convention Ctr Expansion Proj) ser 2009A		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) lse approp bnds (Stad Proj) ser 2005 A-4		
Long Term Rating	AA+/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Indiana Fin Auth (Indiana) lse approp bnds (Stad Proj) ser 2005 A-5		
Long Term Rating	AA+/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Indiana Fin Auth (Indiana) lse approp bnds (Stad Proj) ser 2008A		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Indiana Fin Auth (Indiana) lse rev rfdg bnds (Aviation Tech Ctr proj)		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) Cap complex taxable rev rfdg bnds (Government Ctr North fac)		

Ratings Detail (As Of April 14, 2015) (cont.)		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) Cap complex taxable rev rfdg bnds (Government Ctr Pkg facs)		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) Cap complex taxable rev rfdg bnds (Government Ctr South Fac)		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) Rev & rev rfdg bnds (St pk projs)		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) Taxable Rev rfdg bnds (St prk projs)		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (IN) facs rev rfdg bnds (Miami Correctional Fac-Phase Ii) ser 2008C		
Long Term Rating	AA+/Stable	Affirmed
Indiana Fin Auth (Indiana) hwy ser 2007A		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Indiana Fin Auth (Indiana) (Forensics & Hlth Science Laboratory) 2006A		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Indiana Fin Auth (Indiana) (Stad Proj) VRDB lse		
Unenhanced Rating	NR(SPUR)	
Long Term Rating	AA+/A-1+/Stable	Affirmed
Indiana St Office Bldg Comm, Indiana		
Indiana		
Indiana St Office Bldg Comm (Indiana)		
Long Term Rating	AA+/Stable	Affirmed
Indiana St Office Bldg Comm (Indiana) facs rev bnds (Museum Fac) (Indiana) ser 2003A dtd 01/01/2003 due 07/01/2004-2020 2023		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Indiana St Office Bldg Comm facs rev bnds (Museum Fac) (Indiana) ser 2003A dtd 01/01/2003 due 07/01/2004-2020 2023		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Indiana St Office Bldg Comm (Indiana) capitol complex rev bnds (Govt Ctr Pkg Facs, Gov Ctr No & Govt Ctr So) ser 2003 AB&C due 07/01/2006-2015		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Indiana St Office Bldg Comm (Indiana) fac rev rfdg bnds (Walbash Vy Corr Fac) & (Rockville Corr Fac) ser 2003C & 2003D dtd 12/04/2003 due 07/01/2020		
Unenhanced Rating	NR(SPUR)	
Indiana St Office Bldg Comm (Indiana) (Logansport State Hosp)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Indiana St Office Bldg Comm (Indiana) (Regl Treatment Ctr)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Indiana St Office Bldg Com (Indiana) correctional fac prog rev bnds (Indiana)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Ratings Detail (As Of April 14, 2015) (cont.)		
INDIANA ST OFFICE BLDG COM CAP COMPLEX		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Indiana Transp Fin Auth, Indiana		
Indiana		
Indiana Transp Fin Auth hwy rev bnds (FGIC) (MBIA) (National)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Indiana Transp Fin Auth hwy (wrap of insured) (FGIC & AGM) (SEC MKT)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Indiana Transp Fin Auth hwy (FGIC) (MBIA) (National)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Indiana Transp Fin Auth hwy (FGIC) (MBIA) (National)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Indiana Transp Fin Auth (Indiana) hwy rev		
Long Term Rating	AA+/Stable	Affirmed
Indiana Transp Fin Auth (Indiana) hwy rev bnds ser 2004A dtd 06/10/2004 due 06/01/2017-2029		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
INDIANA TRANSP FIN AUTH HWY		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.