Research Update:

Vigo County, IN Debt Rating Lowered To 'A+' On Internal Control Deficiencies And Weakened Financial Transparency

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Overview

- S&P Global Ratings lowered its rating to 'A+' from 'AA-' on debt issued by and on behalf of Vigo County, Indiana.
- The outlook is negative.
- The rating action reflects our view of heightened governance risks resulting in internal control deficiencies and weakened financial transparency, which, if not resolved, could further weaken our view of management and lead to an additional negative rating action.

Rationale

Security

All rated debt reflects the county's limited tax general obligation (GO) pledge, payable from ad valorem property taxes subject to state circuit-breaker limitations, which cap the property tax burden for taxpayers based on a percentage of the real estate parcels' gross assessed value. The rating is set at the same level as our view of the county's general creditworthiness, reflecting our expectations it will use all resources available to pay the debt and there is no lack of fungible resources to do so.

Existing 2019 lease rental revenues bonds, issued to fund a new county jail, are secured by a variety of income taxes plus a limited tax GO pledge. Lease rentals are not subject to appropriation and lease risks are mitigated. The 2019 general revenue bonds, issued to fund a convention center, are payable from general revenues plus a limited tax GO pledge.

Credit highlights

The 'A+' rating reflects our view of weaker governance and oversight, which expose the county to potential pressures, known or unknown. It also reflects our view of below-average financial management practices and a weaker underlying tax base. These factors are partly offset by extremely strong reserves and liquidity, generally stable budget conditions, and minimal fixed costs and long-term liabilities, all of which provide substantial flexibility, especially in the event of unexpected situations.

The tax base is large and home to Terre Haute, which anchors a regional metropolitan area, but the area is marked by low incomes and a slightly declining population, and its employment, economic output, and incomes are all growing more slowly than the national levels. As a large government, the county is required by statute to generate annual audits on a generally accepted accounting practices (GAAP) basis. It stopped doing so after the 2022 audit, which we understand was driven by management turnover and a lack of procedures in place to keep records supportive of a GAAP audit. The county received Indiana State Boad of Accounts (SBOA) waivers to instead proceed with cash-based audits, performed by the SBOA. The audits have since included several findings on internal controls and record keeping compliance, most of which are repeat findings. These reporting deficiencies contributed to a delay in the 2023 audit release until September 2025, when both the 2023 and 2024 audits were completed. The current auditor started with the county in January 2025 and has been working to establish protocol and address all findings, which were attributed to record keeping in years prior to the auditor beginning. The auditor has been committed to improving oversight and did not request further SBOA waivers, which view positively. The team has implemented new policies and has support from the county commission and council to improve and sustain transparency. We understand the county is close to completing the process of submitting financial statements to SBOA for completion of a 2024 GAAP-based audit and that a 2025 GAAP audit process will ensue thereafter.

The county also continues to have issues related to its jail. It issued debt in 2019 to finance a new, larger jail, after facing years of litigation and a federal consent decree. We understand the completed, new jail facility continues to face similar overcrowding and litigation and that officials are strategizing plans for another possible expansion. The county has exceptional liquidity, both in funds we consider operating funds and in others specifically tethered to the jail, which could be used to pay down existing debt, cash fund large portions of a potential expansion, or address potential litigation, all of which should allow the situation (including potential litigation) to be resolved without having a significant negative impact on the operating or debt position. Another layer of uncertainty is that the school district is considering a formal request to the county to lend support for substantial capital improvements. The county has been working with advisors to assess the potential impacts of scenarios involving a jail expansion and/ or potential support to the school district, as well as impacts of the state's new tax reform, and these scenarios suggest continued maintenance of very strong liquidity and low debt.

Additional factors consider in the 'A+' rating include our view of the county's:

- The geographically large tax base outside of Terre Haute consists mostly of agricultural properties. There is also a large industrial manufacturing component to the tax base. Indiana State University is in the county, with a student population of about 8000. Economic output and incomes are both low, and even factoring the student population and inmate population from prisons, we'd expect these ratios to be well below average. The county lies along the Indiana-Illinois border, on Interstate 70, about 90 minutes west of Indianapolis.
- Year-to-year operating performance is stable, with expectations for balanced operations in 2026, following a slight deficit in 2025. We combine the general fund ($32.8 million cash to end 2025), public safety income tax fund ($5.9 million), and rainy day fund ($1.1 million) as the operating fund, with revenues generated mostly from property (47%) and income (21%) taxes. The county also has a special purpose income tax fund and jail income tax fund, which together hold more $38 million in cash. Annual collections in these two funds well exceed

expenditures, which are restricted to debt service, operations, and maintenance of the jail. There is also another $26 million in income tax and riverboat gaming revenue funds that add to overall flexibility. The county does not anticipate the state's tax reform will present significant pressures; rather, it should have room to increase income tax rates if needed to cover potential cost increases.

- Day-to-day financial operations remain stable, but could be pressured by our view of weaknesses in general controls and oversight. Budgets are developed in house and with the department of local government finance certifying most revenues, revenues are predicable. There are no formal debt, investment, or reserve policies, nor any informal reserve targets, and we view in-year budget monitoring as weak. The county has consulted with third-party advisors for financial scenario analysis, but there is not specific annual long-term planning embedded into the budget, nor is there formal comprehensive capital planning. Our management assessment additionally negatively factors risk controls, including lack of processes in place to ensure continuity in financial reporting through turnover, not meeting the state's audit requirements, and limited contingency planning (including for cyber mitigation, though steps have been taken to strengthen after a breach several years ago).
- Liabilities are minimal, with pension and debt burdens that combine to only $710 per capita and typically account for less than 10% of the budget. Should the county issue additional debt for the jail, the debt burden could rise significantly relative to the current size, but in total it would remain low and affordable. The county participates in a well-funded state pension plan and has small single-employer plans. We view the relatively simple debt profile as a credit-supportive factor, considering the governance weaknesses.
- We believe there is a limited impact of environmental factors on our credit analysis. Although physical risks are relevant for the local government sector, we consider Vigo County's exposure to natural hazards low on both a nominal basis and compared with that of national peers.
- Given the length of time without GAAP audits and uncertainty on when they return and with what frequency, we lowered our institutional framework assessment for Vigo County to a level that is on par with most of the rest of municipalities and counties in the state. If the county returns to completing GAAP audits annually and in a timely manner, we could revise the assessment upward. We view financial transparency for counties in Indiana as very weak compared with that of national peers, highlighted by use of cash-based accounting and limited disclosures in financial reporting. Our analysis uses and compares unaudited reports submitted to the state and subsequent state-issued audits for alignment, the combination of which supports our view that the information is sufficiently reliable. For more information on our institutional framework assessment for Indiana counties, see "Institutional Framework Assessment: Indiana Local Governments," Sept. 15, 2025.

Outlook

The negative outlook reflects our view of at least a one-in-three chance we lower the rating over the next two years.

Downside scenario

We could lower the rating if we feel that governance conditions have not improved over the outlook horizon, whereby improvement could be demonstrated by a return to GAAP-based audits as required by statute and timely completion of financial statements that have reduced internal control findings. We could also consider resolution or a more positive situation related to the jail facility in assessing future rating action. Additionally, if the liquidity position is unexpectedly materially reduced to a level that we feel provides weaker cushion against uncertainty at the current rating level, or if the operating budget comes under increased pressure, we could consider a lower rating.

Upside scenario

We could revise the outlook to stable if the above-mentioned governance conditions improve and if the financial profile remains strong.

Vigo County, Indiana--credit summary

Institutional framework (IF)	3
Individual credit profile (ICP)	2.75
Economy	5.0
Financial performance	2
Reserves and liquidity	1
Management	4.00
Debt and liabilities	1.75

Vigo County, Indiana--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita as % of U.S.	--	--	72	70
County PCPI as % of U.S.	--	--	70	70
Market value ($000s)	9,634,961	8,138,185	7,695,521	7,272,883
Market value per capita ($)	90,454	76,402	72,426	68,551
Top 10 taxpayers as % of taxable value	10.8	9.6	9.9	11.1
County unemployment rate (%)	--	3.9	4.2	3.6
Local median household EBI as % of U.S.	--	68	71	70
Local per capita EBI as % of U.S.	--	65	69	71
Local population	--	106,518	106,253	106,094
Financial performance				
Operating fund revenue ($000s)	--	55,241	56,425	51,874
Operating fund expenditures ($000s)	--	56,724	52,726	45,306
Net transfers and other adjustments ($000s)	--	0	0	0
Operating result ($000s)	--	(1,483)	3,699	6,568
Operating result as % of revenue	--	(2.7)	6.6	12.7
Operating result three-year average %	--	5.5	6.1	3.7
Reserves and liquidity				
Available reserves as % of operating revenue	--	72.2	73.4	72.7
Available reserves ($000s)	--	39,906	41,389	37,690
Debt and liabilities				
Debt service cost as % of revenue	--	4.8	4.9	5.4
Net direct debt per capita ($)	515	533	584	632

Vigo County, Indiana--key credit metrics

Net direct debt ($000s)	54,865	56,820	62,025	67,085
Direct debt 10-year amortization (%)	75	75	68	62
Pension and OPEB cost as % of revenue	--	4.1	3.6	3.5
NPLs per capita ($)	--	195	224	201
Combined NPLs ($000s)	--	20,820	23,795	21,371

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:

- Risk management, culture, and oversight

Ratings List		
Downgraded;Outlook Action		
	To	**From**
Local Government		
Vigo Cnty, IN Limited Tax General Operating Pledge	A+/Negative	AA-/Stable
Multiple Revenue Stream		
Strong Link of Limited Tax Revenues and Special income Tax plus Correctional and Rehabilitation Income Revenues	A+/Negative	AA-/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.