State of Delaware

Assigned	Rating	Outlook
General Obligation Bonds, Series 2020A	AAA	Stable
Affirmed	**Rating**	**Outlook**
General Obligation Bonds	AAA	Stable

Methodology:

U.S. State General Obligation Rating Methodology

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Rating Summary: KBRA's rating is based on the State's very strong financial management policies and practices, its strong financial position and liquidity and a diverse economy anchored by financial services, chemicals and related industries, the healthcare sector and higher education.

The State serves as the legal domicile of over half of the publicly traded firms in the United States; and more than two thirds of the nation's Fortune 500 firms are incorporated in the State. The State's high gross state product (GSP) per capita and high percentage of GSP attributable to the finance and real estate sector reflects the State's unique role as a center of corporate business development and a hub of the financial services industry. In KBRA's view, the State actively manages and protects its position as a leader in these areas through supporting the prompt resolution of disputes by the State's Court of Chancery and by updating its statutes to respond to changing business conditions. The State's economic base has shown growth relative to the region and the nation, as evidenced by its population growth since 2010 and favorable unemployment rates.

KBRA views the State's management structure and policies as providing a very strong framework for managing budgetary and financial operations. The State Constitution limits annual appropriations to 98% of estimated budgetary General Fund revenue and unencumbered cash balance, enhancing financial flexibility. Formal revenue and expenditure estimation is done under the Delaware Economic and Financial Advisory Council (DEFAC). In KBRA's view, the DEFAC process provides comprehensive and frequent revenue forecasts as well as consistent fiscal monitoring and long-term planning. The State has broad authority to take mid-year action to adjust disbursements, which KBRA views positively. Under the State Constitution, at fiscal year-end, excess unencumbered budgetary General Fund cash is transferred to the Budget Reserve Account. The account is not to exceed 5% of estimated budgetary General Fund receipts. Since inception in 1980, the State has not needed to draw on the Budget Reserve Account.

KBRA also views the financial position of the State as very strong based on its conservative budgeting policies, comprehensive and timely process of revenue estimation, high levels of financial reserves and strong liquidity position. In KBRA's view, the State's budgetary and cost controls are well focused. Budgetary General Fund revenue sources reflect the importance of the financial services and corporate activities industry, which relate to 45% of revenues. Historically, these revenues have shown some volatility, however, this is offset by the State's conservative financial management, revenue estimation process and ability to adjust disbursements. The State has prudently accumulated General Fund reserves, with the FY 2019 Budget Reserve Account and unencumbered cash balance equal to a strong 14.1% of budgetary basis General Fund disbursements. The State's General Fund is well positioned to weather the next economic downturn.

KBRA views the State's tax-supported debt level as high, relative to population, personal income, and GSP. Delaware's high debt ratios reflect the centralized role of the State in financing schools and correctional facilities; projects generally funded by local governments in other states. KBRA views the State's debt structure favorably; all direct debt is fixed rate and is rapidly amortized. The funded ratio of the State's largest pension fund was a favorable 85.4% at June 2019. The State contributes essentially 100% of the actuarially recommended amount to fund its pensions. Debt service, pension contributions and OPEB costs are 9.3% of FY 2019 governmental expenditures, which KBRA considers to be low.

Key Rating Strengths

- Very strong financial management policies and procedures. Comprehensive and timely process for revenue forecasting serves as a vehicle for consistent fiscal monitoring and long-term planning.
- High levels of financial reserves and strong liquidity position.
- Low fixed costs; and a favorable funded ratio for the State's primary pension fund.

Key Rating Concerns

- Economic base is somewhat concentrated in corporate business activities and the financial services industry.
- State tax supported debt ratios are high compared to other states.

Drivers for Rating Change	
Not applicable given the AAA rating level.	+
Sustained trend of structural imbalance in the State's budgetary General Fund. Significant sustained deterioration in the level of the State's general reserves. Significant increase in debt burden measures. Significant decline in pension funded ratios.	-

Rating Sensitivities

Should General Fund spending demands substantially outpace revenue growth, with a resultant material structural imbalance, this could contribute to downward rating pressure. Ongoing financial operating balance with strategic use of reserves is a hallmark for the current rating level.

The State has achieved ample reserves to help weather the next economic downturn. Prudent use of reserves is anticipated, but a sustained deterioration in reserve levels would be a credit negative.

The State actively monitors its level of debt issuance, and debt burden is expected to remain at the current level. A significant increase in debt levels could crowd out other spending needs, limit operating flexibility, diminish borrowing capacity and place negative pressure on the rating.

The State maintains well funded pensions. A deterioration in funded levels would raise long term liabilities for the State, decrease future operating flexibility and put downward pressure on the rating.

Rating Highlights	
General Fund Revenue Forecasts	6x per year
Reserves as % of Disbursements, FY 2019	
Budget Reserve Account	8.6%
Budget Reserve & Unencumbered Cash	14.1%
Net Tax-Supported Debt Service as a % Govt Expenditures[1]	3.2%
Pension Payment History	Full Payment
Population Growth Rate, 2010 to 2018	
Delaware	7.5%
U.S.	5.8%
Unemployment Rate, Nov 2019	
Delaware	3.7%
U.S.	3.3%

[1]FY 2019, before school district reimbursement.

The Stable Outlook reflects the State's strong financial management framework, including the DEFAC revenue estimation process and conservative budgeting practices, which KBRA believes will continue to support the State's strong financial performance. The outlook also reflects KBRA's recognition of the State's ongoing efforts to maintain its leading role in corporate business development and the financial services industry.

Rating Determinants (RD)	
1. Management Structure, Budgeting Practices and Policies	AAA
2. Debt and Additional Continuing Obligations	AA+
3. Financial Performance and Liquidity Position	AAA
4. State Resource Base	AA+

Key Rating Determinants

RD 1: Management Structure, Budgeting Practices and Policies

The Governor serves as the chief executive officer of the State and is elected for a term of four years. Governor John Carney was elected in November of 2016 and took office in January 2017. In addition to the Executive Office of the Governor, which includes the Office of Management and Budget (OMB), there are fifteen cabinet departments including the Department of Finance. The Department of Finance is responsible for State revenue estimation and collection and development of fiscal policy as well as State accounting and bond financing and administration of the State lottery. OMB is responsible for monitoring and controlling State expenditures.

The State's General Assembly consists of a 21-member Senate and a 41-member House of Representatives. The entire House is up for election every two years while the Senate is elected to four-year staggered terms. Regular sessions of the General Assembly convene in January and adjourn by June 30. In Delaware, the State government funds and administers a number of services that are locally managed in other states, including corrections, public health, welfare and transportation. There are three incorporated counties in the State.

State Budget Process

The Governor is constitutionally and statutorily required to submit a balanced budget to the General Assembly and the Legislature must pass a balanced budget. The State's budget process starts in the fall of the fiscal year when each State agency submits to OMB a request for operating and capital funds for the next fiscal year. The Governor's proposed operating and capital budget for State operations are then drafted and presented by the Governor to the General Assembly in January. The proposed budget is amended by action of the Joint Finance and Bond Bill Committees and the budget is expected to be passed prior to July 1 and signed by the Governor shortly thereafter.

Appropriations Limit

The State Constitution limits annual appropriations to 98% of estimated budgetary General Fund revenue, plus the unencumbered budgetary General Fund balance from the previous year. An appropriation exceeding this limit may be made in the event of a declared emergency, with approval of 3/5ths of the members of each House of the Assembly.

The State Constitution was amended in May 1980 to limit new tax and license fees, or increases to existing taxes or fees, unless the measures are passed by a 3/5ths vote of each house of the General Assembly. Other than this restriction, the State has significant flexibility in its ability to raise taxes and other revenues.

State Revenue Estimate Process

The Delaware Economic and Financial Advisory Council (DEFAC) was created in 1977 and is comprised currently of 31 members including five cabinet level officials, the State Treasurer, the Controller General, three legislators and 19 private citizens from the business and academic sectors. All are appointed by the Governor.

DEFAC is mandated by executive order to submit to the Governor and General Assembly budgetary General Fund and Transportation Fund revenue estimates for the current year and the succeeding two fiscal years at regular intervals during a fiscal year (in September, December, March, April, May, and June). A forecast for the current fiscal year and succeeding four years is generated once a year by October 1. Budgetary General Fund and Transportation Fund expenditure forecasts are submitted for the current fiscal year in December, March, April, May and June.

DEFAC meetings are open to the public and provide a forum for representatives of the private and public sector to provide input and exchange views on the economic and fiscal condition of the State. Working subcommittees include Expenditures and Revenue subcommittees, which meet between public meetings. In KBRA's view, the DEFAC process provides the State with comprehensive and timely revenue forecasts which capture a wide range of input on factors that impact the State's fiscal operations and KBRA views this process as a strong positive credit factor. As part of its regular reports during the fiscal year, DEFAC projects the ending cash balances for the budgetary General Fund based on its current revenue and expenditure estimates.

The Department of Finance also publishes a monthly financial report which tracks the year to date receipts and disbursements of the budgetary General Fund and measures these numbers against comparable year to date receipts and disbursements from the prior year. Based on the assessment of the State's fiscal operations through the DEFAC process, the State, though the Governor's office and OMB, has broad authority to take action during the fiscal year to adjust disbursements, which KBRA views very positively. Historically, OMB has instituted a range of actions to control disbursements, as necessary, including implementing a hiring freeze and imposing strict controls on State travel and spending. Based on conversations with the State Department of Finance, the General Assembly has not been asked to take action to adjust a current year budget in a number of years. Given the appropriation limit of 98% of estimated General Fund receipts in a given budget, the State starts a fiscal year with a cushion equal to 2% of receipts.

Expansion of Fiscal Controls

On June 30, 2018, Governor Carney signed Executive Order 21, to improve fiscal controls and establish a budgetary smoothing mechanism. The Executive Order establishes a Budget Stabilization Fund to be used for reporting and budget planning purposes and allocates to it a portion of the unencumbered cash balance of the General Fund in the Governor's proposed budget. Under the Executive Order, DEFAC is charged with calculating a benchmark index, derived from equal weightings of the three year average of the State's personal income growth, population growth and the Implicit Price Deflator State and Local Government Purchases. . Based on discussions with the State, the intention is to improve the State budget process and create a more sustainable long-term approach to annual budgeting by better aligning expenditures to projected revenues. The Governor made these changes after the legislature did not proceed with a proposed Constitutional amendment that sought to initiate this process.

Under Executive Order 26, beginning March 2019, DEFAC submits general fund expenditure forecasts for both the current year (as previously required) and the subsequent fiscal year. KBRA believes this further enhances the State's ability to identify and respond to budgetary trends.

Budget Reserve Account

The Budget Reserve Account, or Rainy-Day Fund, was created in 1980 to provide an operating reserve for unanticipated revenue shortfalls. The State Constitution requires that the excess unencumbered cash balance in the budgetary General Fund at the end of a fiscal year be transferred to the Budget Reserve Account until the amount of funds in the Budget Reserve Account reaches 5% of the estimated budgetary General Fund receipts. Funds from the Budget Reserve Account may be appropriated by a 3/5ths vote of each house of the General Assembly to fund an unanticipated General Fund deficit. No funds have been withdrawn from the Budget Reserve Account since its inception.

State Debt Limits

In 1991, the State enacted a three-pronged debt limit, to be calculated at the time of budget adoption, which KBRA views as a conservative approach to debt management.

- The aggregate principal amount of new tax supported obligations of the State (defined in statute as State general obligation debt) which may be authorized in a fiscal year may not exceed 5% of estimated budgetary General Fund receipts in that year. For FY 2020, new tax supported debt authorizations of $230.9 million is estimated.

- No tax supported obligations and no Transportation Trust Fund (TTF) debt may be issued if the aggregate maximum annual debt service payments on the combined amount of outstanding debt exceeds 15% of the estimated budgetary General Fund revenues plus estimated TTF revenues in the fiscal year following issuance of the debt.

- No State general obligation debt may be issued if the maximum annual debt service payable in any fiscal year will exceed the estimated cash balance (including all reserves) of the budgetary General Fund, as estimated by the Department of Finance, for the fiscal year following issuance.

Bankruptcy Assessment

Under Chapter 9 of U.S. bankruptcy code, state governments are not permitted to petition courts for protection from creditors, including holders of their general obligation debt.

RD 2: Debt and Continuing Obligations

KBRA views the State's debt and continuing obligation profile as strong relative to most other states based on a high but manageable debt burden, well-funded pensions, and moderate fixed cost burden.

Tax-Supported Debt

As of January 2020, the State's pro forma tax-supported debt is $3.2 billion including $2.2 billion in general obligation bonds and $1.0 billion in Delaware Transportation Authority (DTA) debt. DTA borrowings are payable from dedicated sources including toll revenues, motor fuel tax taxes, and DMV fees but are included in the tax-supported debt figure because a portion of resources available for payment are derived from non-pledged operating resources of the State.

Delaware's tax-supported debt level is higher than most other states. Debt ratios comparing the tax-supported debt burden to population, personal income, and gross state product each place Delaware within the top 20% of the most indebted U.S. states (Figure 1). Delaware's high debt burden reflects the centralized role of the State government in financing capital projects that are generally funded by local governments in other states, such as schools and correctional facilities. This offset is evidenced by the State's more favorable debt rankings when assessed on the basis of aggregate state and local debt.

Figure 1
Debt Ratios
(in dollars)

	Delaware[1]	Average of U.S. States	Delaware Rank Among the 50 States
Tax-Supported Debt:			
Per Capita	$3,309	$1,633	Highest 15%
as a % of Personal Income	6.4%	3.0%	Highest 15%
as a % of GSP	4.3%	2.6%	Highest 20%
Aggregate State and Local Debt:			
Per Capita	$7,383	$9,308	Lowest 45%
as a % of Personal Income	14.7%	17.9%	Lowest 35%
as a % of GSP	10.0%	15.5%	Lowest 10%

Source: U.S. Census Bureau, U.S. Bureau of Economic Analysis, Credit Scope, and FY 2019 CAFR, and POS.
[1]Tax-Supported Debt includes current offering.

A substantial portion of the State's general obligation debt, approximately 25%, consists of school bonds that are fully paid from local school district property taxes that are transferred to the State. KBRA includes the full amount in the debt ratio calculations but notes that the school districts have historically funded their share of debt service.

The State's direct debt structure is conservative, consisting of entirely fixed rate, rapidly amortized debt and descending debt service. The State Constitution requires that all bonds mature within 20 years of their date of issuance and consequently, 70% of outstanding principal is scheduled to mature within the next decade and 100% within 20 years. Fiscal 2019 debt service represents 3.2% of total governmental fund expenditures, which KBRA considers low. In fiscal 2019 the local school districts transferred $67.4 million of property tax revenue to the State for debt service. Net of the school district property tax support, net debt service is 1.9% of total governmental expenditures.

Unique Role in School Construction Funding

The State issues bonds on behalf of school districts to provide lower capital financing costs for school districts. State laws foster prudent financing practices for school projects and include the following requirements: the State Department of Education must issue a Certificate of Necessity for the school capital project, and then the project must pass in a local voter referendum. Depending on the local school district's ability, the State funds between 60% to 80% of the cost of school capital improvements with the local school district paying the balance. The property tax collections are deposited into the State's local school district fund (within the State Special Funds), and then transferred to the State General Fund to pay the districts' required share of debt service.

Capital Priorities

The State's current capital priorities focus on education, economic development and environmental needs. The FY 2020 Capital Budget totals $862 million, including $425 million for transportation projects. General obligation bond authorizations are $231 million and planned General Fund spending provides $184 million of funding. The pay-go funding provides for a number of small projects, with the largest project ($20 million) being for the Delaware Higher Education Economic Development Investment Fund. Primary and secondary school projects account for 64% of FY 2020 general obligation bond authorizations. The capital improvement plan is updated annually as part of the budget process.

Delaware Public Employees Retirement System

The Delaware Public Employees' Retirement System (DPERS) includes several plans which are administered by the State Board of Pension Trustees (the Board). Approximately 98% of the total membership participates in the State Employees' Pension Plan (the State Plan), a cost sharing multiple-employer defined-benefit plan established in the Delaware Code. Plan management is the responsibility of the Board, which is comprised of five members appointed by the Governor and confirmed by the State Senate, plus two ex-officio members. The daily operation of the State Plan is the responsibility of the Office of Pensions. In 2011, the State undertook pension reforms and a second benefit tier for new employees was created. Employees hired on or after January 1, 2012 vest with 10 years of service, whereas pre-2012 hires require only 5 years of service. Additionally, employees hired post-2011 may not include overtime pay in their final average compensation calculation.

Actuarial assumptions currently include a 7.0% investment rate of return and a 20 year amortization period. Open amortization weakens the State Plan's ability to reduce its unfunded liabilities and improve funding. The State Plan provides no automatic cost of living increases. The assumed investment rate (discount rate) was lowered to 7.0% from 7.2% in FY 2017, which increased plan liabilities by $212 million. The Plan's unfunded actuarial liability at June 30, 2019 was $1.59 billion and the actuarially determined funded ratio was 85.4%. Although the funded level has weakened over the last ten years, KBRA still views the funded ratio as strong.

As shown in the table below, the State contributes to pensions at the actuarially recommended amount, which KBRA considers a credit positive. The State has a small, closed plan which it funds on a pay go basis. The State's $263 million required pension contribution in FY 2019 was a manageable 3.2% of governmental expenditures.

FIGURE 2

State Pension Contributions[1]
FYE June 30 (dollars in thousands)

	2015	2016	2017	2018	2019
Actuarially Determined Contribution (ADC) / Contractually Required Amount	$201,939	$201,839	$207,697	$226,535	$ 263,326
Actual Contribution	199,102	201,839	204,786	223,733	258,495
Percent Contributed	99%	100%	99%	99%	98%

Source: CAFR

[1]State Employees, New State Police, Judiciary, and Closed State Police Plans

Based on GASB 68 reporting requirements, as utilized in the State's FY 2019 comprehensive annual financial report (CAFR), the total governmental activities net pension liability (NPL) was $1.5 billion. KBRA considers the pension burden represented by the State's combined NPL to be moderate.

FIGURE 3

Net Pension Liability (NPL) Ratios
(in dollars)

	Delaware 2019	Average of U.S. States	Delaware Rank Among the 50 States
Net Pension Liability:			
Per Capita	$1,594	$2,024	Highest 35%
as a % of Personal Income	3.1%	3.7%	Highest 40%
as a % of GSP	2.1%	3.3%	Highest 50%

Source: Credit Scope (FY 2018 data) and DE CAFR. Reflects NPL as reported in the Statement of Net Postion per GASB 68.

Other Post-Employment Benefits

The State funds OPEB on a pay-as-you-go basis. The State's contribution to OPEB costs was $251 million which represented 3.1% of FY 2019 total governmental expenditures.

The State established an OPEB trust fund and has made ad hoc contributions since 2007. As of June 30, 2019, under GASB 74 reporting, the plan's funded ratio was 4.8% and the net OPEB liability (NOL) was $8.0 billion, which reflects a 2.9% decline from the prior year.

Pursuant to Executive order 34, the Governor established a Retirement Benefit Study Committee to assess the State's retirement benefits. The State has enacted a number of reforms to stem the growth of the OPEB liability, including cost sharing and restrictions on eligibility. Depending on the date of hire and the years of service, the State pays between 0% and 100% of retiree premiums. Conditions have been also established for retirees to pay a portion of the Medicare supplement.

Total State healthcare plan membership, including active and retired members was 63,952 at July 1, 2018. KBRA views membership as sizable (6.6% of the statewide population) but recognizes that OPEB membership also encompasses the State's component units and affiliated agencies, such as the public universities. The high OPEB liability also reflects relatively high medical costs statewide.

Total Fixed Costs

The aggregate of debt service, pension contributions and pay-as-you-go OPEB costs represent a low 9.3% of total governmental expenditures in FY 2019.

RD 3: Financial Performance and Liquidity Position

The State records its major financial activities in either the budgetary General Fund or the budgetary Special Funds. The budgetary General Fund is the chief operating fund of the State and is the focus of KBRA's analysis. It accounts for the cost of the State's general operations and receives all taxes and other receipts of the State not dedicated to a specific purpose. The General Assembly must authorize all disbursements from the budgetary General Fund through the appropriations process.

The receipts into the Special Funds are designated by statute for specific purposes. Certain uses of funds within the Special Funds are authorized by appropriation while use of funds for other purposes are considered non-appropriated funds, including certain federal payments for services provided and unemployment compensation payments. Other uses of the budgetary Special Funds include certain State parks operations, and fees charged by the Public Service Commission.

The State created the Transportation Trust Fund (TTF) to finance Delaware's transportation system. The sources of revenue in the TTF include motor vehicle fees, tolls and concessions, motor fuel taxes and other transportation revenue. The Transportation Trust Fund Act gives the Delaware Transportation Authority the power to issue bonds payable from and secured by these revenues. Revenues in excess of debt service are used to fund Delaware DOT operations and the State Capital Transportation Program.

The State budgets and operates on a cash basis of accounting for its fiscal year (July 1-June 30). Cash disbursements from State funds are controlled by an encumbrance accounting system that tracks the extent of the State's ongoing financial obligations, primarily based on purchase orders issued, to ensure that the State will have sufficient funds to pay all obligations when due. At fiscal year-end, a certain portion of the ending cash balance is reserved to pay these outstanding encumbrances and continuing appropriations, mainly for goods and services. These budgetary General Fund encumbrances and continuing appropriations are carried over into the subsequent fiscal year. The State also publishes annual financial statements prepared in accordance with GAAP accounting principles (modified accrual and full accrual).

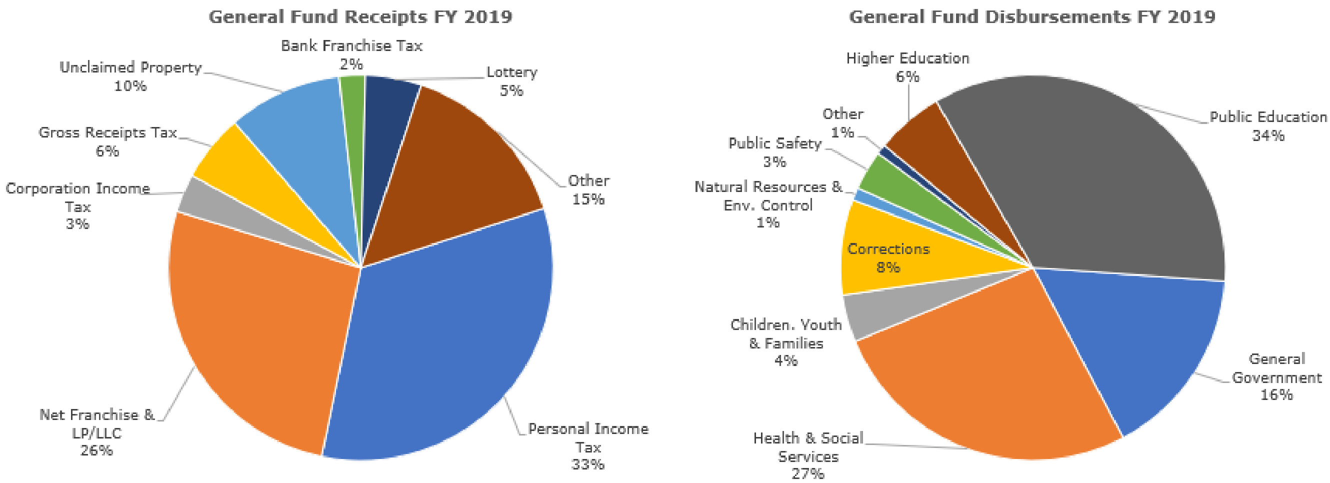
State Revenue Forecasts

DEFAC is mandated by executive order to submit to the Governor and General Assembly budgetary General Fund revenue estimates six times each year. The estimates cover the current year and the succeeding two fiscal years. Budgetary General Fund expenditure forecasts for the current fiscal year are submitted four times each year.

DEFAC relies on a diverse range of information for its revenue forecasts including economic trends developed by IHS Global Insight, the State Department of Finance's econometric model, projections generated by the Department of Transportation and, input from its members on aspects of the State's economy and structure of the State's revenue base. The DEFAC budgetary General Fund revenue projections cover the significant budgetary General Fund revenue sources as well as total budgetary General Fund revenues. Historically, the DEFAC process has generally been successful in accurately projecting the State's total budgetary General Fund receipts. Generally, the December DEFAC revenue estimates, with timely modifications, serve as the basis for budget development.

Based on its December 2019 revenue estimates, DEFAC projects a 3.2% increase in FY 2020 budgetary General Fund receipts from FY 2019 actuals, and more moderate 1.6% growth is projected for FY 2021. On the expenditure side, DEFAC projects base budgetary General Fund expenditures will increase 4.2% in FY 2020. As part of its regular reports during the fiscal year, DEFAC projects the ending cash balances for the budgetary General Fund.

FIGURE 4



Source: State of Delaware

Budgetary General Fund Revenues

KBRA views the profile of the revenue sources in the budgetary General Fund as balanced between the relatively stable personal income tax receipts and the more volatile corporate and bank related tax receipts. The State does not levy a general retail sales tax.

The State's budgetary General Fund revenue sources reflect the State's position as the legal domicile of U.S corporations as well as the importance of the financial services industry, including commercial banks, credit card banks and savings banks. Personal income taxes are levied at a rate of 6.6% on incomes over $60,000. Taxable income consists of federal adjusted gross income, with certain modifications, less itemized or standard deductions. Corporation franchise taxes consist of an annual franchise tax levied on corporations organized under State law, excepting banking institutions. The corporation franchise tax is based on either its total number of capital stock shares or the assumed par value of its stock. The corporation income tax is levied at a rate of 8.7% on the net taxable income of both foreign and domestic corporations derived from sources within the State. The State's gross receipts tax consists of annual license fees on businesses and occupations plus a tax on gross receipts. Bank franchise taxes are levied on the taxable income of banks with rates ranging from 1.7% to 8.7%.

Unclaimed property represents a debt or obligation, including securities, which has gone unclaimed for a certain period defined by statute. Based on U.S Supreme Court decisions and Delaware law, this property is considered the property of the State based on the last known address of the holder and the holder's incorporation status in the State. The State recognizes that future revenues may be impacted by pending legal challenges, which have been accepted for consideration by the US Supreme Court. The State is currently litigating claims involving 30 states on its right to retain one type of abandoned property, that being "official checks". The State's position is that abandoned property should be the property of the state where the property holder is incorporated. The State has stated that it cannot predict the timing of the decision or the potential financial impact, however, KBRA believes that the resolution of these challenges is likely at least a year away.

The history of budgetary General Funds receipts is shown in Figure 5. Total budgetary General Fund receipts increased at an average annual rate of 5.2% from FY 2014 through FY 2019. Over this period, personal income taxes increased in every year, with a 4.6% average annual increase. Business and corporate related taxes have generally shown volatility, an exception is corporate franchise taxes which has increased in every year. Collections from franchise, corporate, limited partnerships & LLCs, business entity fees, UCC fees and abandoned property represent approximately 45% of FY 2019 budgetary General Fund receipts. In KBRA's view, the State is somewhat reliant on these relatively volatile business and corporate revenue sources for its budgetary General Fund operation, however, this concern is offset by the State's conservative fiscal management.

Figure 5

General Fund Receipts and Disbursements FYE June 30 (Budgetary /Cash Basis) (dollars in thousands)	2015	% Chg.	2016	% Chg.	2017	% Chg.	2018	% Chg.	2019
Receipts									
Taxes:									
Personal Income	1,444,278	3.6%	1,496,898	3.4%	1,548,053	6.0%	1,641,398	5.4%	1,730,477
Franchise	675,490	4.8%	707,685	1.0%	714,471	19.9%	856,734	5.8%	906,154
Corporation Income	305,226	-27.4%	221,615	-29.0%	157,368	4.9%	165,065	13.8%	187,850
Gross Receipts	223,411	4.8%	234,072	2.3%	239,465	2.3%	244,986	5.9%	259,347
Insurance Taxes	54,815	-2.0%	53,692	3.0%	55,295	32.8%	73,432	17.9%	86,573
Bank Franchise	95,002	-2.6%	92,485	-4.6%	88,189	1.2%	89,240	13.0%	100,841
Other Taxes	1,020,416	6.7%	1,088,342	3.5%	1,126,724	6.8%	1,203,036	-16.7%	1,002,649
Total Taxes	3,818,638	2.0%	3,894,789	0.9%	3,929,565	8.8%	4,273,891	0.0%	4,273,891
Tax Refunds (-)	321,844	23.4%	397,189	-1.8%	390,149	-9.2%	354,188	9.5%	387,751
Net Taxes	3,496,794	0.0%	3,497,600	1.2%	3,539,416	10.7%	3,919,703	4.6%	4,100,011
Other Revenues	458,333	-2.4%	447,191	5.9%	473,679	-0.1%	473,274	3.9%	491,910
Total Receipts	**$3,955,127**	-0.3%	**$3,944,791**	1.7%	**$4,013,095**	9.5%	**$4,392,977**	4.5%	**$4,591,921**
Disbursements									
General Government	587,508	-1.6%	578,267	1.6%	587,361	1.9%	598,525	18.4%	708,694
Health & Social Services	1,096,818	2.0%	1,119,041	5.4%	1,179,778	-1.1%	1,167,364	-0.2%	1,165,199
Children, Youth & Families	149,053	1.8%	151,699	5.0%	159,231	1.3%	161,308	8.1%	174,359
Corrections	282,769	2.5%	289,899	5.2%	304,842	5.0%	320,176	9.9%	352,019
Natural Resources & Env. Control	41,600	-7.5%	38,499	7.3%	41,298	-9.0%	37,580	23.8%	46,506
Public Safety	131,766	-0.1%	131,691	3.9%	136,783	0.9%	137,972	5.9%	146,174
Other	32,650	-16.0%	27,429	47.7%	40,517	-45.4%	22,108	65.2%	36,521
Total Departments	2,322,164	0.6%	2,336,525	4.8%	2,449,810	-0.2%	2,445,033	7.5%	2,629,472
Higher Education	232,637	1.4%	235,818	2.2%	241,045	-1.2%	238,238	4.7%	249,377
Public Education	1,277,809	5.0%	1,341,382	5.5%	1,415,294	1.4%	1,434,814	5.6%	1,515,415
Total Expenditures	**$3,832,610**	2.1%	**$3,913,725**	4.9%	**$4,106,149**	0.3%	**$4,118,100**	6.7%	**$4,394,264**

Source: State of Delaware

Budgetary General Fund Disbursements

Disbursements for K-12 education represent 34% of FY 2019 budgetary General Fund disbursements. In FY 2018, the State funded 59% of overall education costs, with local school districts and the federal government funding 33% and 8%, respectively. The State funds between 60% and 80% of school construction costs. Health and Social Services accounted for 27% of General Fund disbursements, with the portion of the program costs funded by the federal government accounted for in the State's budgetary Special Funds. The State is the only correction agency in the State (8% of disbursements); there is no county or municipal jail system. Total budgetary General Fund disbursements increased at an average rate of 3.0% from FY 2014 through FY 2019.

Historical Reserve Levels

In each of the last five years, the State's FYE cash balances were over 10% of disbursements, which KBRA considers strong. A portion of the ending cash balance is reserved for encumbrances and to fund continuing appropriations, and these items are carried over into the subsequent fiscal year. The State's Budget Reserve Account is a dedicated cash balance maintained from excess unencumbered cash, in an amount not to exceed 5% of estimated budgetary General Fund receipts. Over the last five years, the budgetary General Fund year end combined Budget Reserve Account balance and unencumbered cash balance has exceeded 5.5%. No funds have been withdrawn from the Budget Reserve Account since inception in 1980.

FY 2019 ended with an operating surplus of $198 million and a cash balance of $948 million or 21.6% of budgetary General Fund disbursements. The combined Budget Reserve Account plus unencumbered cash balance represented 14.1% of budgetary General Fund disbursements. Based on the State's FY 2019 CAFR (GAAP basis), the General Fund balance was $1.3 billion, and the unassigned fund balance was $602 million.

FIGURE 6

General Fund Receipts, Disbursements, and Ending Fund Balances FYE June 30 (Cash Basis) (dollars millions)	2015	% Chg.	2016	% Chg.	2017	% Chg.	2018	% Chg.	2019
Beginning Balance (July 1)	$ 414.4	29.6%	$ 536.9	5.8%	$ 568.0	-16.4%	$ 474.9	57.9%	$ 749.8
Receipts	3,955.1	-0.3%	3,944.8	1.7%	4,013.1	9.5%	4,393.0	4.5%	4,591.9
Disbursements	3,832.6	2.1%	3,913.7	4.9%	4,106.1	0.3%	4,118.1	6.7%	4,394.3
Operating Surplus/ (Deficit)	122.5		31.1		(93.1)		274.9		197.7
Ending Balance (June 30)	536.9	5.8%	568.0	-16.4%	474.9	57.9%	749.8	26.4%	947.5
Less Continuing Approp. & Encumbrances	(201.3)		(181.5)		(178.6)		(184.1)		(329.6)
Less Budget Reserve Account	(212.5)		(214.7)		(221.1)		(231.6)		(240.4)
Unencumbered Cash Balance	123.1		171.8		75.2		334.1		377.5
Ending Balance as % of Disbursements	14.0%		14.5%		11.6%		18.2%		21.6%
Budget Reserve Acct plus Unencumbered Balance as a % of Disbursements	8.8%		9.9%		7.2%		13.7%		14.1%

Source: State of Delaware

FY 2019 Budgetary Results

The FY 2019 cash basis general fund financial results reflect continued strong financial operations, with the year-end general fund unencumbered cash balance increasing to $378 million (from $334 million) and the Budget Reserve Account increasing to $240 million (from $232 million). Combined, the unencumbered balance and the Budget Reserve Fund represent a strong 14.1% of general fund disbursements.

FY 2019 general fund revenue of $4.59 billion reflects year over year growth of 4.5%. The State's primary revenue sources experienced more robust growth but were modestly offset by a decline in net unclaimed property revenues. The largest revenue sources are PIT taxes (7.0% growth, net of refunds) and franchise/LP/LLC taxes (5.6% growth), which combined account for 60% of FY 2019 revenues. Delaware does not levy a sales tax.

General Fund total expenditure of $4.39 billion reflects growth of 6.7%. Total expenditures include one-time spending for pay go capital financing and employee and retiree bonuses, which together are in excess of $200 million.

FY 2019 Audited GAAP Results

Audited GAAP based General Fund results were also favorable, with a $356 million increase in fund balance. The year end unassigned fund balance is $602 million, which represents a strong 11.7% of annual expenditures. At FYE 2017 the unassigned balance was just $11 million. In addition to the unassigned balance, within the State's committed fund balance is $126.3 million of the budget stabilization fund which has been allocated to a special holding account.

FIGURE 7

General Fund Summary Statement of Income and Balance Sheet FYE June 30 (Audited, GAAP Basis) (dollars in millions)	2015	2016	2017	2018	2019
Statement of Income					
Revenues	$ 4,344	$ 4,368	$ 4,558	$ 4,874	$ 5,116
Expenditures	4,689	5,050	5,253	4,765	5,157
Excess (Deficiency of Rev. Over Exp.	(345)	(682)	(695)	108	(42)
Other Financing Sources (Uses)	356	352	331	302	398
Net Change in Fund Balance	**11**	**(330)**	**(364)**	**410**	**356**
Fund Balance (Deficit) - Beginning	1,217	1,229	899	535	945
Fund Balance (Deficit) -Ending	**1,229**	**899**	**535**	**945**	**1,301**
Balance Sheet					
Assets					
Cash, Cash Equivalents, Pooled Cash, and Deposits	1,582	1,561	1,542	1,857	2,218
Investments	129	134	77	122	185
Accounts Receivable	66	63	64	95	98
Taxes Receivable	94	104	65	72	75
Other	64	71	52	64	68
Total Assets	**1,935**	**1,933**	**1,799**	**2,210**	**2,644**
Liabilities					
Accounts Payable	363	453	533	532	575
Escheat Liability	175	390	578	525	550
Other	60	77	79	100	104
Total Liabilities	**597**	**919**	**1,189**	**1,157**	**1,229**
Deferred Inflows of Resources	109	114	76	109	113
Fund Balances					
Nonspendable	5	32	28	29	38
Restricted	184	210	230	233	251
Committed	193	183	152	159	300
Assigned	83	84	113	100	110
Unassigned	763	390	11	424	602
Total Fund Balance	1,229	899	535	945	1,301
Unassigned Fund Balance as a % of Expenditures	16.3%	7.7%	0.2%	8.9%	11.7%
Total Fund Balance as a % of Expenditures	26.2%	17.8%	10.2%	19.8%	25.2%

Source: CAFRs

FY 2020 Adopted Budget

The FY 2020 Operating Budget totals $4.45 billion, which is a 4.2% increase in spending. The largest spending category is public education (35% of appropriations), which also represents the largest spending increase with FY 2020 appropriations up 6.4% over the prior year's base budget. A portion of the education spending increase is for pay raises. The FY 2020 budgeted education spending also includes two new three-year initiatives, a $25 million weighted funding formula for low income and English learner students, and a $26 million program to bring parity to special needs children who are in the younger grades. The authorizing legislation requires that the initiatives be annually evaluated by an independent outside consultant. While Delaware ranks high in the nation for State support of education, the allocation of State funds to school districts is based primarily on enrollment. A pending lawsuit alleges that the Delaware system of public schools fails to provide adequate educational opportunities for disadvantaged students.

On the revenue side of the budget, the independent Delaware Economic and Financial Advisory Council (DEFAC) is projecting 3.2% revenue growth for FY 2020. State revenues are derived from a diversity of sources with reliance on corporate and bank related tax receipts. PIT taxes, representing 34% of forecast revenue, are projected to increase 5.4%. Revenue projections have improved from the September 2019 forecast, driven by strong performance in PI Taxes, as well as several business taxes (franchise, LP/LLC and Corporate). DEFAC relies on a diverse range of information for its revenue forecasts including estimates from the US Bureau of Economic Analysis and IHS forecasts. FY 2020 forecasts reflect the following key assumptions:

- 2.1% growth in US real GDP,
- 1.0% growth in Delaware employment and
- 3.7% growth in Delaware's wages and salaries.

The State utilizes a budget smoothing mechanism to improve fiscal controls. Pursuant to an Executive Order, a Budget Stabilization Fund (BSF) is funded from a portion of the General Fund unencumbered cash balance. DEFAC is charged with calculating a benchmark index used for determining the deposit to the BSF, which is budgeted at $126.3 million for FY 2020. In addition, the budgetary reserve account is budgeted at $252.4 million and the projected unencumbered year end cash is $246.6 million. In total, the projected sum (the BSF, budgetary reserve and unencumbered cash) is $625.3 million and represents 13.4% of FY 2020 expenditures, which KBRA views as strong.

Liquidity Position

The GAAP basis governmental funds held $2.8 billion of cash at FYE 2019, which represents 33.4% of FY 2019 governmental funds expenditures. KBRA considers this to be a strong level of liquidity. The State is authorized to issue Tax and Revenue Anticipation Notes (TRANS) for cash flow purposes but has not issued TRANS since 1977.

RD 4: State Resource Base

The Delaware General Corporation Law is considered to be the most modern and flexible in the nation and the State updates its statutes on an ongoing basis to respond to changing business conditions. The State's Division of Incorporations maintains an ongoing focus on efficient and timely service delivery. The State's Court of Chancery, with its extensive body of case law in corporate governance and its history of prompt resolution of commercial and corporate disputes is a key element in the State's role as a leader in new business formation activity.

The State has long focused on financial institutions as a key element of its economic base. In 1981, legislation was passed that opened the State to interstate banking, modernized the State's banking laws and permitted creation of new types of special purpose intermediaries. The State updates its banking statutes to maintain the State's role as a financial services center. The State is currently home to about 80 banks, including commercial banks, credit card banks, limited purpose trust companies and federal and state savings banks.

Delaware has a long history in the chemical and advanced materials industry dating back to the establishment of DuPont in 1802. In 2017, Delaware based Dupont completed the merger with Dow Chemical of Michigan to form the world's largest chemicals company, based on sales. Dow Dupont then separated into three companies: agricultural and chemical, material sciences, and specialty products, with two of the three business lines (agriculture and specialty product) remaining in Delaware. Prior to the merger, DuPont spun off Chemours, which continues to operate in Delaware. Chemours manufactures performance chemicals and is the world's largest producer of titanium dioxide.

The University of Delaware, a leading public university, also plays a role in various industries across the State. The University recorded more than 24,100 enrollments in Fall of 2018 and has working since 2009 to build out the development of a new 272-acre Science, Technology and Advance Research (STAR) campus which is a growing center of innovation blending research, academics, and high tech businesses. Major developments pertaining to the campus include the completion a 10-story tower for classrooms and high-tech tenants in 2018, the expected opening of a $156 million Delaware Biopharmaceutical Innovation Building in January 2020, the planned opening of the $150 million Chemours Discovery Hub for chemical research later this year, and the recent announcement of a $38 million financial services technology building project that will bring together startups associated with the University's business and engineering schools. The STAR campus is also home to the Delaware Health Science Alliance, which focuses on biomedical research. The Delaware Department of Transportation is in the midst of a $65 million project to improve the Newark Regional Transportation Center that the campus, which will accommodate growing commuter rail and Amtrak activity as the campus continues to expand.

The State's logistics sector and the Port of Wilmington are also important and elements of the State's economic engine. In September 2018, the Delaware State Port Corporation signed a 50-year concession agreement granting a private firm, GT USA Wilmington, LLC the right to operate existing Port of Delaware facilities and develop a new container terminal. Per the agreement, the operator has invested $100 million in new warehousing facilities and is committed to invest $250 million over five years to develop the new container terminal north of the existing port known at a site known as Edgemoor. Separately, a 1.0 million square foot expansion of a distribution and fulfillment center in Delaware City is currently underway and a 3.9 million square foot vertical logistics facility in Newport is expected to break ground in Q2 2020.

The State is also home to the 3,900-acre Dover Airforce base which is in the city of Dover. The base is the nation's busiest military cargo terminal and has approximately 6,400 military personal. The State estimates that the air force base provides $466 million annually to the local economy.

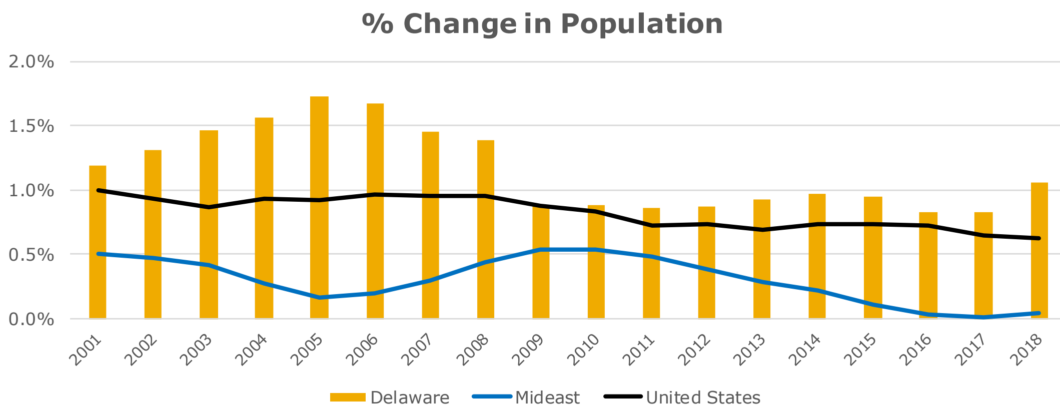
Demographic Characteristics

Delaware ranks 49th in size for states based on an area of approximately 1,955 square miles. The State is comprised of three counties including Kent, New Castle, and Sussex. Its three principal cities are Wilmington (2018 population 70,653), Dover (population 37,331), and Newark (population 33,352). The State is characterized by relatively strong population growth, a somewhat above average median age, and moderate incomes that in the context of the State's business friendly environment and low cost of living relative to the Mideast[1] region supports a strong economic base.

Population Change

State population growth has exceeded the U.S. average each year since 2000 despite some moderation over the last decade. State population increased by a robust 7.5% since 2010 compared to growth in the Mideast region of 1.6% and U.S. growth of 5.8%. KBRA believes the State's diverse employment base, strong business environment, a good affordability relative to regional peers as contributing to favorable demographic trends. According to the Tax Foundation's 2020 State Business Tax Climate Index, Delaware placed among the best states with a ranking of 11.

FIGURE 8



	2000	2010	2018	% Δ 2010 to 2018
Delaware	786,373	899,595	967,171	7.5%
Mideast	46,386,027	48,204,184	48,970,133	1.6%
United States	282,162,411	309,326,085	327,167,434	5.8%

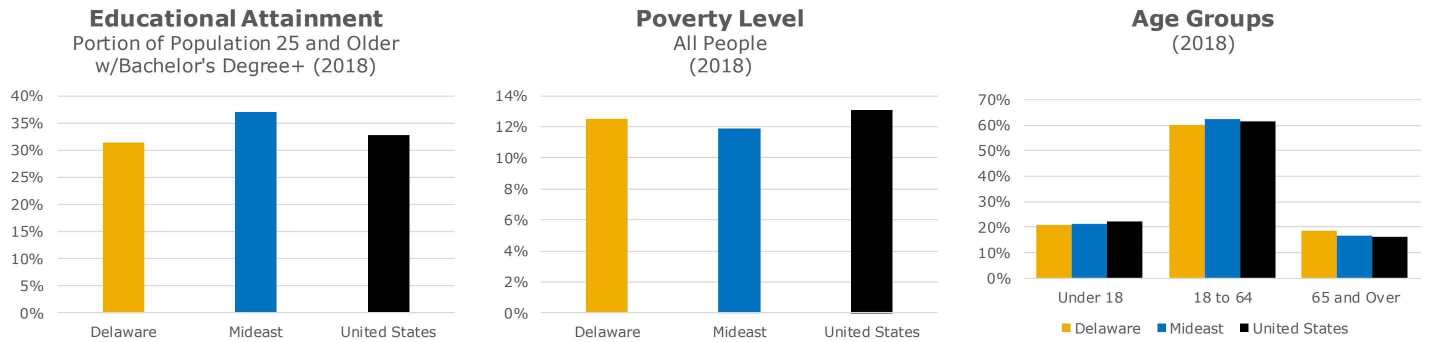
Source: U.S. Bureau of Economic Analysis

Educational Attainment, Poverty, and Age Groups

Educational attainment is somewhat weak relative to the Mideast and U.S., though the level of poverty is below the national average. The concentration of working age individuals is low compared to the Mideast and U.S. reflecting a higher than average concentration of retirees.

[1] Mideast region is comprised by Delaware, the District of Columbia, Maryland, New Jersey, New York, and Pennsylvania.

FIGURE 9



Educational Attainment

	2010	2018	Point Δ 2010 to 2018
Delaware	27.8%	31.3%	3.5
Mideast	32.8%	37.1%	4.3
United States	28.2%	32.6%	4.4

Source: U.S. Census

Poverty Level

	2010	2018	Point Δ 2010 to 2018
Delaware	11.8%	12.5%	0.7
Mideast	13.1%	11.9%	-1.2
United States	15.3%	13.1%	-2.2

Source: U.S. Census

Age Groups

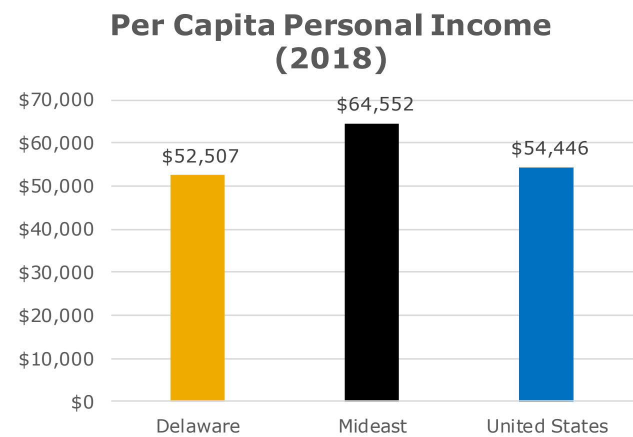
	Under 18	18 to 64	65 and Over
Delaware	21.0%	60.3%	18.7%
Mideast	21.1%	62.2%	16.7%
United States	22.4%	61.6%	16.0%

Source: U.S. Census

Per Capita Personal Income

Wealth levels in Delaware are moderately strong especially relative to housing costs and the cost of living in the State. The State's per capita personal income has historically been lower than the region; however, KBRA notes that the region has four of the ten highest per capita personal income states; District of Columbia ($82,005), New York ($68,668), New Jersey ($68,236), and Maryland ($63,354).

FIGURE 10



	2010	2018
Delaware as a % of Mideast	85%	81%
Delaware as a % of United States	101%	96%

Source: Bureau of Economic Analysis

Real Gross State Product

As of 2018, the State's real GSP per capita ranked tenth in the nation at $64,895 and third in the region behind the District of Columbia ($176,498) and New York ($73,463). The State's per capita GSP is a high 114% of the national average.

The State's prominence as a financial and business center is anchored by the banking and credit card industries and the State's business-friendly legal system. Consequently, the finance, insurance, real estate sector accounts for an outsized percentage of Delaware's GSP (44%), well in excess of the national percentage (21%).

FIGURE 11

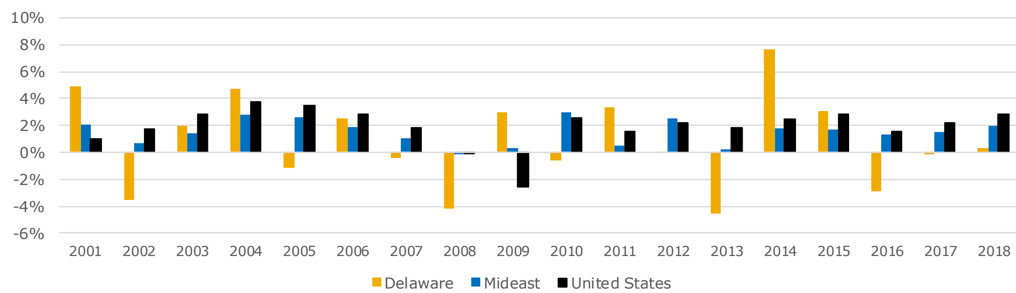
Gross Domestic Product by Sector (2018)	Delaware	United States	*Difference*
Agriculture and Mining	2.2%	4.6%	*-2.4%*
Utilities	1.5%	1.6%	*-0.1%*
Construction	3.8%	4.1%	*-0.3%*
Manufacturing	6.5%	11.3%	*-4.7%*
Wholesale Trade	2.7%	5.9%	*-3.2%*
Retail Trade	3.8%	5.5%	*-1.7%*
Transportation and Warehousing	1.6%	3.2%	*-1.6%*
Information	1.4%	5.2%	*-3.8%*
Finance, Insurance, and Real Estate	44.2%	20.9%	*23.3%*
Processional and Business Services	11.5%	12.5%	*-1.0%*
Education and Healthcare	8.2%	8.7%	*-0.5%*
Arts, Entertainment and Recreation	2.8%	4.2%	*-1.4%*
Government	9.7%	12.4%	*-2.6%*
Total	100.0%	100.0%	

Source: Bureau of Economic Analysis

Delaware's real (inflation deflated) GSP experienced a deeper decline and a slower recovery following the 2007-08 economic downturn than either the region or the nation. This performance reflects the State's above average reliance on the financial sector, which contracted more than the economy overall following the downturn.

FIGURE 12

Real GSP Annual Change
(chained 2012 dollars)



($ in Millions)	2000	2010	2018	% Δ 2010 to 2018
Delaware	56,109	60,016	63,855	6.4%
Mideast	2,490,916	2,905,744	3,259,430	12.2%
United States	13,130,987	15,598,753	18,566,442	19.0%

Source: U.S. Bureau of Economic Analysis

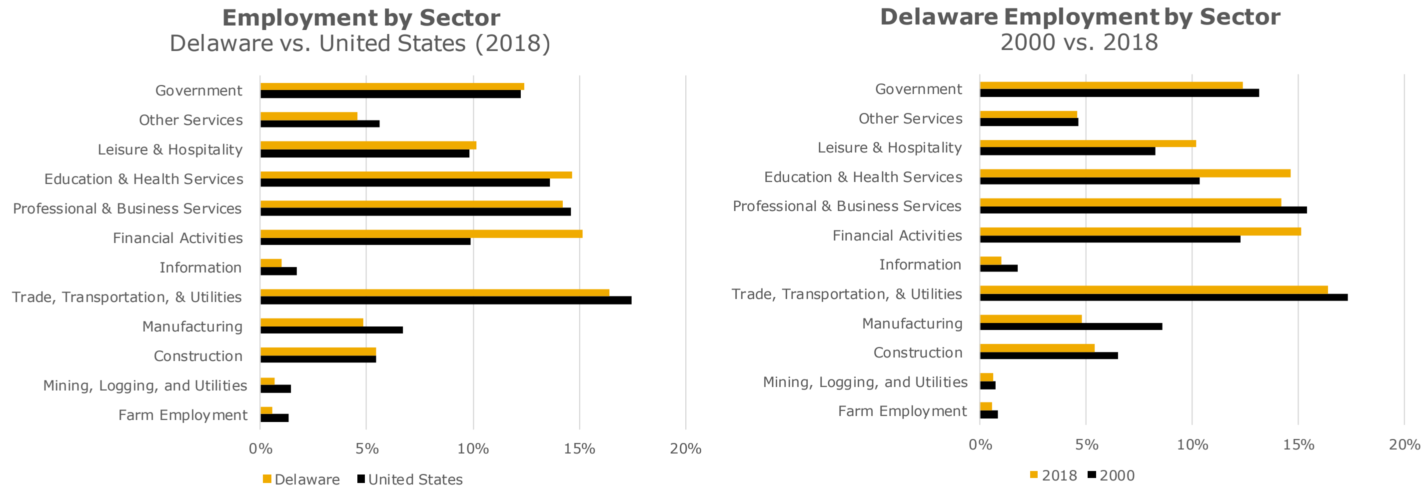
Note: Output for the "United States" represents GDP of the United States, not the sum of all 50 states.

Real GSP growth of 6.4% from 2010 to 2018 was slower than the region and nation. Output from the large financial sector was volatile, supporting robust growth in some years but increasing just 2.1% over the eight year period. Professional services growth was comparatively gradual accounting for more than half of real GSP growth since 2010. In 2017 the State restructured its economic development efforts through the creation of a new public-private entity, the Delaware Prosperity Partnership, to promote entrepreneurship and better leverage of resources.

Employment

The State's employment opportunities are diverse. Education and health services is among the largest employment sectors (15%), and this sector has shown the strongest growth since the year 2000. Delaware is home to the Christiana Care Health System, which is ranked in the top 25 for hospital admissions in the nation. The health system includes a major teaching hospital, affiliated with Thomas Jefferson University's Sidney Kimmel Medical College. Financial activities accounted for 15.1% of employment in 2018, compared to the national average of 9.9.

FIGURE 13



Source: U.S. Bureau of Economic Analysis

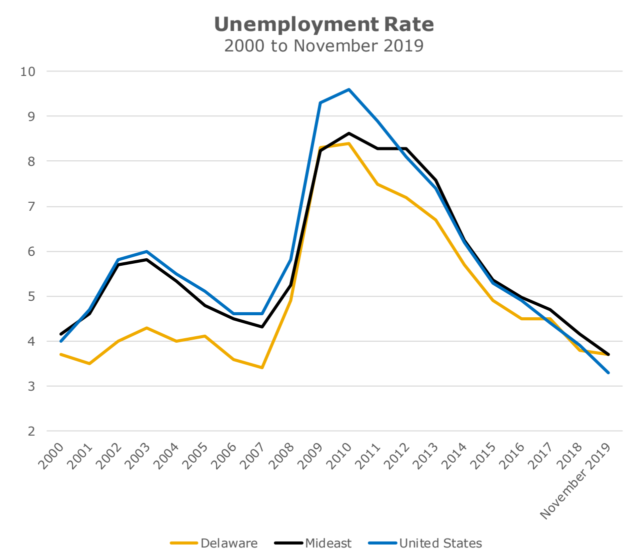
Source: U.S. Bureau of Economic Analysis

The State is in its sixth year of strong employment growth, with education and health services, along with the leisure and hospitality sector, serving as important contributors to jobs creation. The State experienced three consecutive years of employment declines as a result of the recession, registering a steeper decline than the nation, but since 2010, statewide employment has grown 10.9%, more than Mideast and U.S. growth of 3.4% and 9.3%, respectively.

FIGURE 14

Employment (Not Seasonally Adjusted) (in thousands)						
Year	State of Delaware	Δ YOY (%)	Mideast Region	Δ YOY (%)	United States	Δ YOY (%)
2000	398		22,091		136,891	
2001	407	2.2%	22,120	0.1%	136,933	0.0%
2002	400	-1.8%	22,098	-0.1%	136,485	-0.3%
2003	397	-0.6%	22,026	-0.3%	137,736	0.9%
2004	404	1.5%	22,286	1.2%	139,252	1.1%
2005	414	2.6%	22,636	1.6%	141,730	1.8%
2006	425	2.6%	22,893	1.1%	144,427	1.9%
2007	**428**	0.7%	23,004	0.5%	**146,047**	1.1%
2008	425	-0.8%	**23,122**	0.5%	145,362	-0.5%
2009	401	-5.9%	22,394	-3.1%	139,877	-3.8%
2010	398	-0.9%	22,282	-0.5%	139,064	-0.6%
2011	410	3.0%	22,353	0.3%	139,869	0.6%
2012	413	0.8%	22,558	0.9%	142,469	1.9%
2013	413	-0.1%	22,734	0.8%	143,929	1.0%
2014	426	3.1%	22,845	0.5%	146,305	1.7%
2015	443	3.8%	23,148	1.3%	148,834	1.7%
2016	451	1.7%	23,290	0.6%	151,436	1.7%
2017	455	1.0%	23,362	0.3%	153,337	1.3%
2018	464	1.9%	23,487	0.5%	155,761	1.6%
November 2018	468		23,637		157,015	
November 2019	475	1.4%	23,898	1.1%	158,945	1.2%
Growth 2007/2008 Cyclical Peak to Nov. 2019	**10.9%**		**3.4%**		**9.3%**	

Note: Cyclical low noted in bold.
Source: U.S. Bureau of Labor Statistics



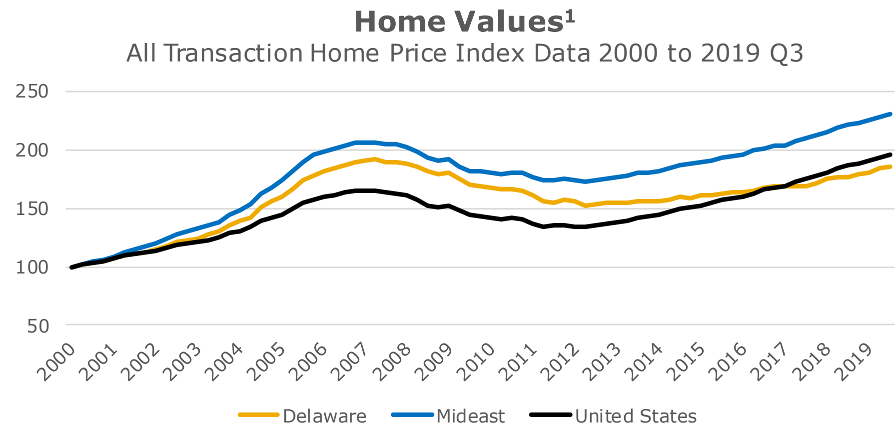
Source: U.S. Bureau of Labor Statistics

As shown in the table below, Delaware's unemployment trend rate has historically been lower than the U.S., although November unemployment at 3.7% was somewhat higher than the U.S. level of 3.3%. Unemployment in the State remained below the highs experienced by both the nation and region during the great recession.

Housing Market

The State's housing market experienced a more protracted recessionary decline when compared to the region, with home values declining over a longer period and the recovery also taking longer. According to the Federal Housing Finance Agency home values declined 20.4% from the 2007 Q2 peak to 2012 Q2 trough whereas the region and national peak to trough declines were 16.3% and 18.9%, respectively. The State's housing market also has had a slower recovery. As of Q3 2019, the State's home values had recovered to 97% of their prior peak compared to the Mideast region at 112% and the U.S. average at 119%. At the end of 2015, in conjunction with the merger with Dow, DuPont announced the layoff of approximately 6,100 Delaware employees, which likely suppressed the State's housing recovery.

FIGURE 15



Source: Federal Housing Finance Agency

[1]Mideast data is based on a simple average of values for DE, DC, MD, NJ, NY, and PA.