# State of Delaware – G.O.

| Issuer: State of Delaware | | |
|---|---|---|
| **Affirmed** | **Rating** | **Outlook** |
| General Obligation Bonds | AAA | Stable |

**Methodology:**

U.S. State General Obligation Rating Methodology

ESG Global Rating Methodology

**Analytical Contacts:**

Linda Vanderperre, Senior Director
+1 (646) 731-2482
linda.vanderperre@kbra.com

Peter Scherer, Director
+1 (646) 731-2325
peter.scherer@kbra.com

**Rating Summary:** The General Obligation Bonds are direct obligations of the State of Delaware to which its full faith and credit is pledged. Payment of principal and interest is made when due, pursuant to legislative appropriation. The rating reflects constitutionally mandated financial management policies, conservative budget practices, and ongoing fiscal monitoring that have fostered consistently favorable financial operations and structural balance.

Delaware is the legal domicile of over half of U.S. publicly traded firms, and the state of incorporation of over two-thirds of the nation's Fortune 500 companies. Tax and statutory policies favorable to the financial sector, coupled with incentives for high-wage job development, enhance the State's attractiveness to employers.

Statewide employment growth, led by the trade, transportation utilities, education and health services sectors, has been rapid and steady since the Great Recession, with the 2020 pandemic-related disruption in overall employment more muted in Delaware than in the Mideast or the nation. While the pandemic caused little disruption to employment in the State's key financial services industry, other employment sectors including education and health services, leisure, and manufacturing were hard hit and have been slow to recover compared to other states. The State's employment base is somewhat concentrated, with the top 10 largest employers comprising 14% of FY 2022 total non-farm employment.

Although Delaware's revenue structure is limited by the lack of a personal property tax or sales tax levy, revenues benefit from the assessment of taxes on various business entities, including franchises, limited partnerships and LLCs, corporations, banks and insurers. Collectively, these business tax revenues contributed approximately 50% of FY 2022 General Fund revenues, followed by personal income tax revenues at 29%. Growth in General Fund revenues has exceeded both inflation and the rate of expenditure growth since at least 2017. Education spending for local school districts and higher education represents 36% of General Fund expenditures, and has increased at a 5-year CAGR of 6.0% (2017-2022). Health and children's services spending, 27% of General Fund expenditures, grew at a more moderate 1.7% CAGR during the period. The FY 2024 Budget anticipates a significant increase in Medicaid costs related to the phase out of enhanced FMAP by calendar year-end 2023 and the provision of continuing coverage to the State's large Medicaid population upon expiration of pandemic-era eligibility provisions.

In addition to the State's broad authority to take mid-year action to adjust disbursements, financial flexibility is enhanced by constitutional provisions which build in a budgetary surplus by limiting annual appropriations to 98% of estimated budgetary General Fund (GF) revenues in the subsequent fiscal year plus the unencumbered GF budgetary balance. The provision, together with a trend of strong revenue performance, has resulted in exceptional growth in unassigned fund balances in each of the last six fiscal years. The FY 2022 unassigned fund balance of approximately $2.3 billion equated to a robust 39.5% of GF expenditures.

State constitutional provisions require excess, unencumbered budgetary GF cash to be transferred to the Budget Reserve Account (Rainy-Day Fund) at fiscal year-end, until the amount therein reaches 5% of estimated budgetary GF receipts. Appropriations from the Rainy-Day Fund can only be made for unanticipated budgetary deficits, with super-majority approval of the General Assembly. In addition to the Rainy-Day Fund, a Budget Stabilization Fund (BSF) was created in 2018, into which FYE unencumbered GF balance above the 2% set-aside may be deposited. Such deposits can only be appropriated upon an act of the General Assembly. The FY 2023 BSF balance was $402.6 million as of January 1, 2023, and the FY 2024 Governor's Recommended Budget proposes an additional $18.9 million transfer to the BSF. With the Rainy-Day Fund and 98% appropriations limit, the State's estimated FY 2024 structural reserves are equivalent to a robust 13.5% of gross revenues[1]. Additionally, a Special Fund (outside of the GF) holds an estimated budgetary balance of $3.67 billion as of December 2022, including $751.7 million of Federal pandemic aid.

Fixed costs for debt service, pension contributions (which include a portion of local school district employee contributions), and OPEB contributions exceed the average for states but remain manageable at 8.07% of FY 2022 governmental fund expenditures. The State's tax-supported debt burden is moderately high, reflecting its capital

[1] Based on March 2023 DEFAC estimates and FY 2024 Governor's Recommended Budget.

financing responsibilities for public school districts and prisons - projects typically funded by local governments. While there is no State Constitutional debt limit, strict statutory debt limits serve to maintain debt affordability.

The State's practice of consistent full funding of the actuarially determined contribution, together with solid investment returns through FY 2021 have led to favorable pension funding metrics. The Delaware State Employees' Pension Plan, the largest component of the Public Employees Retirement System, had an approximately 88% fiduciary net funded position at FYE 2022.

Despite various modifications to the State's health insurance programs since 2011, the net OPEB Liability[2] of $8.355 billion at June 30, 2022 is the highest of all 50 U.S. states on a per capita basis and as a percentage of State GSP and personal income. A legislatively created Retirement Healthcare Benefits Advisory Subcommittee has proposed a combination of benefit modifications and additional funding recommendations for future legislative consideration. Per the Governor's Executive Order 52 approved in the FY 2023 Budget, 1% of prior year appropriations or $48 million was deposited to the State's OPEB Trust Fund in FY 2023. The FY 2024 Budget plan includes a one-time, 1% or $51 million deposit to the OPEB Trust from extraordinary revenues.

The Stable Outlook considers the State's strong fiscal management framework, conservative budgeting practices, solid reserves and strong unencumbered cash position, all of which KBRA believes should continue to support favorable financial performance throughout the economic cycle.

## Key Credit Considerations

The rating was affirmed because of the following key credit considerations:

Credit Positives
- Strong financial management policies and procedures. Comprehensive and timely process for revenue forecasting facilitates 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.

Credit Challenges
- Delaware's net OPEB liability, among the highest of all U.S. states on a per capita basis and as a percentage of personal income and Gross State Product, has the potential to limit future fiscal flexibility if not addressed.
- The State economic base is somewhat concentrated.
- The revenue base, while diverse, is weighted toward business taxes, and thus more sensitive to secular economic and financial market downturns compared to states that levy sales taxes.

## Rating Sensitivities

| | |
|---|---|
| ▪ Not applicable. | + |
| ▪ A relaxation of conservative financial management and budgeting practices resulting in a trend of expenditure demands that outpace revenue growth could contribute to downward rating pressure. | - |

| State of Delaware Key Facts | |
|---|---|
| Population (2022) | 1,018,396 |
| Growth (CAGR) 2012 to 2022 | 1.06% |
| Per Capita Personal Income (2022) (in dollars) | $61,387 |
| *as % of U.S. (2022)* | *93.8%* |
| Real GSP % Change 2012-2022 | |
| Delaware | 5.5% |
| Mideast | 14.5% |
| United States | 23.1% |
| Reserves & Unassigned FB as % GF Expenditures (FY 2022) | 51.9% |
| Days Cash on Hand (FY 2022) | 199 DCOH |
| Net Pension Liability (FY 2022) | $1.76 billion |
| Net OPEB Liability (FY 2022) | $8.355 billion |
| Fixed Costs as % of Governmental Expenditures (FY 2022) | 8.1% |

[2] Based on GASB 74 Reporting Information.

| 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+ |

## 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. In addition to the Executive Office of the Governor, which includes the Office of Management and Budget (OMB), there are fifteen cabinet departments. 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 government funds and administers several 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 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. Exceptions to the limit may be made in the event of the declaration of an emergency, with approval of 3/5ths of the legislature.

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) is mandated 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.

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.

### 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 therein 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.
- 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.

## RD 2: Debt and Additional Continuing Obligations

**Tax-Supported and Aggregate State and Local Debt**
The State's tax-supported debt level is high relative to population, personal income and GSP, reflecting its capital financing responsibilities for public school districts and prisons - projects typically funded by local governments. Combined state and local debt metrics, however, are favorably low compared to U.S. averages. While there is no State constitutional debt limit, strict statutory debt limits serve to maintain debt affordability.

**Figure 1**

| Debt Ratios (in dollars) | | | |
|---|---|---|---|
| | Delaware | Average of U.S. States | Delaware Rank Among the 50 States |
| Tax-Supported Debt: | | | |
| Per Capita | $3,314 | $1,763 | Highest 20% |
| as a % of Personal Income | 5.4% | 2.7% | Highest 15% |
| as a % of GSP | 3.9% | 2.4% | Highest 20% |
| Aggregate State and Local Debt: | | | |
| Per Capita | $7,939 | $9,856 | Lowest 50% |
| as a % of Personal Income | 14.2% | 16.7% | Lowest 40% |
| as a % of GSP | 10.4% | 15.6% | Lowest 10% |

*Source: U.S. Census Bureau, U.S. Bureau of Economic Activity, Credit Scope, and Annual Disclosures.*

Outstanding tax-supported debt of $3.37 billion includes $2.26 billion G.O. Bonds and $1.05 billion Delaware Transportation Authority debt payable from dedicated sources, including toll revenues, motor fuel taxes and DMV fees. Tax-supported debt service equates to a manageable 2.9% of FY 2022 governmental expenditures.

G.O. debt is conservatively structured with a rapid principal amortization profile and a final maturity of 2043. More than 2/3 of outstanding G.O. debt is supported by budgetary GF revenue; the remainder, associated with the local share of school facilities, is supported by the budgetary Special Fund together with district property tax revenues. School districts issue their own bonds to the State for their 20% to 40% share of capital costs and pay debt service from tax receipts into the State's budgetary Special Fund. The State pays total debt service on G.O. bonds from both budgetary GF and Special Fund appropriations.

**Pension Metrics**
Consistent funding of the actuarially determined pension contribution has led to a low net pension liability and favorable pension funding metrics for the Delaware Public Employees Retirement System (DPERS), which covers substantially all State employees. DPERS includes nine plans, the largest of which, the State Employee's Plan, had a FY 2022 fiduciary net position of approximately 88%.

**OPEB Considerations**
In KBRA's view, Delaware's net OPEB liability, among the highest of all U.S. states on a per capita basis and as a percentage of personal income and Gross State Product, has the potential to limit future fiscal flexibility if not addressed.

The Delaware Other Postemployment Benefits Trust Fund (OPEB Trust) provides retirement medical coverage to pensioners and eligible dependents in the State's Employees', Judiciary, New State Police and Closed State Police Pension Plans. Notwithstanding the State's longstanding efforts to reform its retiree health insurance programs, the net OPEB Liability[3] of $8.355 billion at June 30, 2022 is the second highest of all 50 U.S. states on a per capita basis, at $8,204 per capita, the second highest as a percentage of GSP, at 9.5%, and the highest in the nation as a percentage of personal income, at 13.4%. A legislatively created Retirement Healthcare Benefits Advisory Subcommittee has proposed a combination of benefit modifications and additional funding recommendations for future legislative consideration. Per the Governor's Executive Order 52 approved in the FY 2023 Budget, 1% of prior year appropriations or $48 million was deposited to the State's OPEB Trust Fund in FY 2023. The FY 2024 Budget plan includes a one-time, 1% or $51 million deposit to the OPEB Trust from extraordinary revenues.

Other than the FY 2023 and planned FY 2024 deposits to the OPEB Trust, the State has maintained OPEB contributions at approximately $200 million to $246 million in each of the last six fiscal years. The State's fixed cost burden, measured as annual debt service plus pension and OPEB contributions, has thus remained manageable at 8.1% of FY 2022 governmental expenditures.

[3] Based on GASB 74 Reporting Information. Determined by actuarial valuation as of June 30, 2021, updated to a June 30, 2022 measurement date.

# RD 3: Financial Performance and Liquidity

**Audited FY 2022 General Fund Results**

Revenue growth has been well above inflation, increasing at a CAGR of 7.8% from FY 2017- FY 2022. This trend of strong revenue growth combined with the State's practice of appropriating no more than 98% of revenues has enabled a substantial increase in reserves and cash balances over the period. Both business taxes and personal income taxes, the primary sources of GF revenues, recorded double-digit YoY increases in fiscal years 2021 and 2022, as the State economy and employment levels recovered from the pandemic. DEFAC's March 2023 revenue forecast projects a tempering of growth in total revenues associated with an anticipated slowdown in global economic conditions in fiscal years 2023-2024.

The State's strong spending controls are evidenced by modest growth in total expenditures, which increased at CAGR of 2.0% from FY 2017-FY 2022, despite much larger increases in education spending (6.0% CAGR) over the period. FY 2022 GF expenditures fell 2.8% YoY, following a large increase in education spending in the prior fiscal year.

Available liquidity at FYE 2022, including the budgetary GF unassigned balance plus budgetary Special Funds cash balances, was ample at approximately $6.0 billion, equating to 199 days cash on hand. The State is authorized to issue Revenue Anticipation Notes (RANS) for cash flow purposes but has not done so since FY 1977.

**Figure 2**

**General Fund Summary Statement of Income and Balance Sheet**
FYE June 30 (Audited, GAAP Basis) (dollars in thousands)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| ***Statement of Income*** | | | | | | |
| Revenues | 4,557,880 | 4,873,533 | 5,115,632 | 5,109,350 | 6,074,174 | 6,630,050 |
| Expenditures | 5,253,057 | 4,765,371 | 5,157,148 | 5,022,388 | 5,976,943 | 5,812,310 |
| Excess (Deficiency) of Rev. Over Exp. | (695,177) | 108,162 | (41,516) | 86,962 | 97,231 | 817,740 |
| Other Financing Sources (Uses) | 330,865 | 301,974 | 397,727 | 318,061 | 333,159 | 369,160 |
| **Net Change in Fund Balance** | **(364,312)** | **410,136** | **356,211** | **405,023** | **430,390** | **1,186,900** |
| Fund Balance (Deficit) - Beginning | 898,889 | 534,577 | 944,713 | 1,300,924 | 1,709,541 | 2,141,577 |
| **Fund Balance (Deficit) - Ending** | **534,577** | **944,713** | **1,300,924** | **1,705,947** | **2,139,931** | **3,328,477** |
| ***Balance Sheet*** | | | | | | |
| **Assets** | | | | | | |
| Cash and Cash Equivalents | 13,385 | 28,711 | 14,727 | 36,530 | 29,145 | 56,356 |
| Pooled Cash and Investments | 1,528,149 | 1,828,170 | 2,199,261 | 2,432,794 | 3,302,548 | 4,349,298 |
| Accounts Receivable (Net) | 63,734 | 95,445 | 97,828 | 98,106 | 106,056 | 111,257 |
| All Other | 194,115 | 258,160 | 331,878 | 479,194 | 398,759 | 501,519 |
| **Total Assets** | **1,799,383** | **2,210,486** | **2,643,694** | **3,046,624** | **3,836,508** | **5,018,430** |
| **Liabilities** | | | | | | |
| Accounts Payable and Accrued Liabilities | 588,016 | 596,380 | 640,522 | 633,678 | 704,245 | 601,857 |
| Due to Other Funds | 20,125 | 31,579 | 35,487 | 40,145 | 98,179 | 22,029 |
| All Other | 580,947 | 528,629 | 553,407 | 553,644 | 775,811 | 925,394 |
| **Total Liabilities** | **1,189,088** | **1,156,588** | **1,229,416** | **1,227,467** | **1,578,235** | **1,549,280** |
| Deferred Inflows of Resources | 75,718 | 109,185 | 113,354 | 113,210 | 118,342 | 140,673 |
| ***Fund Balances*** | | | | | | |
| Nonspendable (Receivables, Inventory) | 27,729 | 28,665 | 37,820 | 47,466 | 47,444 | 45,198 |
| Restricted | 229,797 | 233,054 | 250,694 | 256,303 | 289,202 | 376,752 |
| Committed | 152,451 | 158,677 | 300,246 | 334,329 | 422,867 | 452,590 |
| Assigned | 113,197 | 99,917 | 109,702 | 156,545 | 142,952 | 159,589 |
| Unassigned | 11,403 | 424,400 | 602,462 | 911,304 | 1,237,466 | 2,294,348 |
| Fund Balance (Deficit) - Ending | 534,577 | 944,713 | 1,300,924 | 1,705,947 | 2,139,931 | 3,328,477 |
| *Unassigned Fund Balance as a % of GF Expenditures* | *0.2%* | *8.9%* | *11.7%* | 18.1% | 20.7% | 39.5% |
| *Total Fund Balance as a % of Expenditures* | *10.2%* | *19.8%* | *25.2%* | *34.0%* | 35.8% | 57.3% |

*Source: State of Delaware Annual Comprehensive Financial Reports*

**FY 2024 Governor's Recommended Budget**

The nearly $5.5 billion, FY 2024 Governor's Recommended Budget (the FY 2024 Financial Plan) will be finalized in June 2023. The FY 2024 Financial Plan addresses tax relief for lower and middle-income taxpayers, and includes funding for increased state workforce compensation, early childhood education, economic development and environmental initiatives. The FY 2024 Financial Plan fully funds the Rainy-Day Fund and sets aside $18.9 million to increase the planned balance in the BSF to a record $421.5 million, and includes a $51 million, one-time payment of extraordinary revenues to the OPEB Trust in keeping with Executive Order 52.

Based on revenue benchmarks calculated by the Delaware Economic and Financial Advisory Council (DEFAC), the FY 2024 Financial Plan projects a slight 1.2% YoY decline in budgeted FY 2024 GF revenues, reflecting anticipated recessionary impacts on business taxes offset by a slight increase in personal income tax receipts. Budgetary GF operating expenditures are estimated to increase by 7.4% the current budget.

The FY 2024 Financial Plan assumes nearly $1.3 billion for the Bond and Capital Improvements Act, including $967 million in State capital projects expected to be funded with a 69%/26% mix of cash and bonds, plus other funding sources. Transportation projects of $322.3 million are also included.

## RD 4: State Resource Base

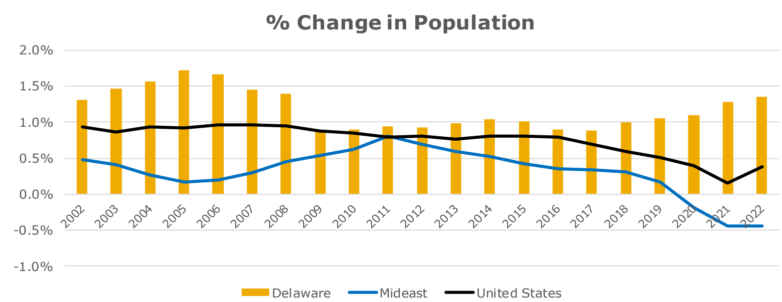
**Economic Climate and Population**

Businesses have historically incorporated in Delaware to take advantage of the State's competitive business tax rates, low business costs, favorable legal and regulatory environment, and proximity to major markets in the Northeastern U.S. The State's major industrial sectors include chemicals, biotech, financial services and agriculture. The State plays an active role in attracting business and capital investment through incentives including tax credits, grants and loans. It has committed over $800 million of American Rescue Plan Act (ARPA) funding for statewide capital projects including technology and broadband, healthcare infrastructure, housing development, libraries and higher education, in addition to COVID-19 response and workforce development initiatives.

The State's economic resource base has benefitted from rapid population in-migration in recent years. Delaware's population reached 1.0 million in 2022, having grown a CAGR of 1.06% from 2012 through 2022, a rate 6.6 times that of the Mideast region (consisting of Maryland, New Jersey, New York, Pennsylvania and Delaware), and 1.8 times that of the national average.

Wealth metrics compare satisfactorily to the Mideast region and the Nation. While State personal income per capita is 83.1% of the Mideast region and 93.8% of the U.S., only 11.6% of Delaware's population lives below the poverty line, compared to 12.4% for the region and 12.8% for the U.S.

**Figure 3**

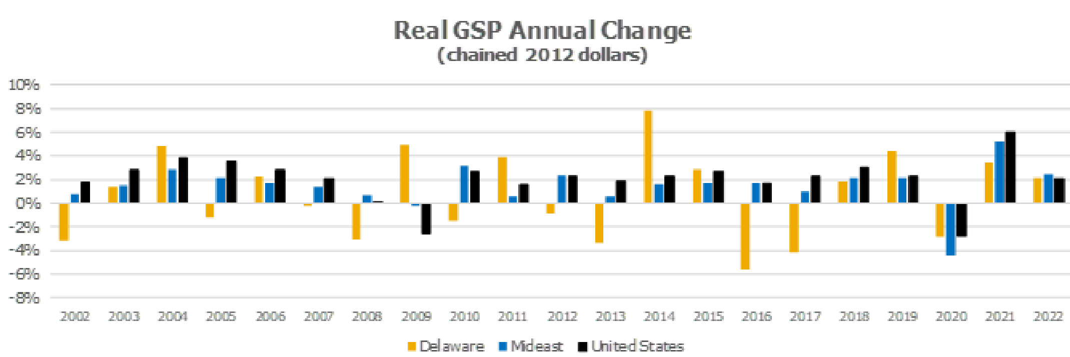



| | 2002 | 2012 | 2022 | % Δ 2012 to 2022 | 10-Year CAGR (2022) |
|---|---|---|---|---|---|
| Delaware | 806,169 | 916,572 | 1,018,396 | 11.1% | 1.06% |
| Mideast | 46,841,190 | 48,968,003 | 49,765,717 | 1.6% | 0.16% |
| United States | 287,625,193 | 314,344,331 | 333,287,557 | 6.0% | 0.59% |

*Source: U.S. Bureau of Economic Analysis*

While real GSP per capita, a measure of productivity, is in line with State and regional averages, growth in real GSP has lagged both the region and the nation over the last decade.

**Figure 4**




| ($ in Millions) | 2002 | 2012 | 2022 | % Δ 2012 to 2022 | 10-Year CAGR (2022) |
|---|---|---|---|---|---|
| Delaware | 56,535 | 62,355 | 65,755 | 5.5% | 0.5% |
| Mideast | 2,564,150 | 3,000,390 | 3,436,608 | 14.5% | 1.4% |
| United States | 13,488,357 | 16,253,970 | 20,014,128 | 23.1% | 2.1% |

*Source: U.S. Bureau of Economic Analysis*

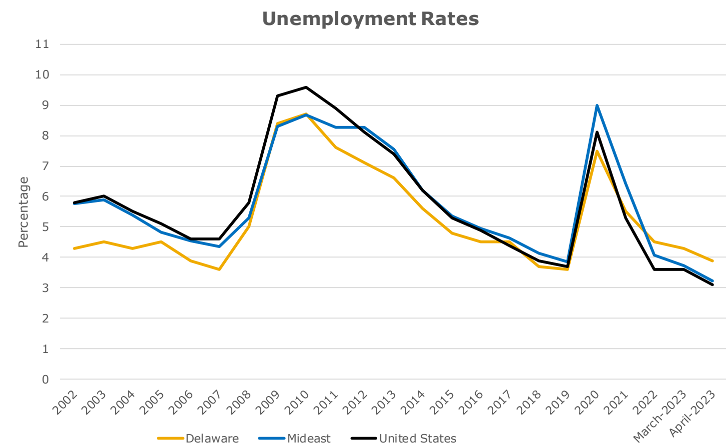
Note: Output for the "United States" represents GDP of the United States, not the sum of all 50 states.

## Employment and Unemployment

The State's largest employment sectors include trade, transportation and utilities, education and health services, government and financial services. While the pandemic disrupted the statewide trend of rapid and steady employment growth from 2010, its impact on the State's key high-wage employment sectors was muted. However, employment declines in other sectors including education and health services, leisure, and manufacturing have been relatively slow to recover compared to other States. The State's employment base is somewhat concentrated, with the top 10 largest employers comprising roughly 14% of FY 2022 total non-farm employment.

Statewide unemployment rates, which trended below national and regional averages prior to the onset of the pandemic in 2020, have since remained stubbornly high, reflecting the slow recovery in non-financial sector employment. DEFAC's March 2023 forecast anticipates continued growth in employment, in keeping with national trends.

**Figure 5**




| | Delaware | Mideast | United States |
|---|---|---|---|
| April-2023 | 3.9 | 3.2 | 3.1 |
| Great Recession Peak | 8.7 | 8.7 | 9.6 |
| Point Δ Since Great Recession Peak | -4.8 | -5.5 | -6.5 |

*Source: U.S Bureau of Labor Statistics*
*Not seasonally adjusted*

## 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.

## ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found here. Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

### Environmental Factors

Delaware's geography, with its low average elevation and extensive coastline along the Atlantic Ocean and Delaware Bay, subjects it to the risks of flooding and storm surge related to sea level rise and coastal storms. Among the economic activities that could be affected are the tourism industry along the Atlantic beach communities, the industrial centers and the State's major port on the Delaware river, and the agricultural sector. Climate change risks are addressed in the State's All-Hazard Mitigation Plan and other state and local plans and guidance. A web-based tool and alert system is in place to monitor the extent, timing and severity of predicted events that could cause coastal flooding.

The statewide Climate Action Plan, released in November 2021, outlines approaches needed to minimize greenhouse gas emissions and maximize resilience to climate change impacts. Through its commitment to the U.S. Climate Alliance, the State has adopted a goal of reducing its 2005 GHG emissions by 26% to 28% by 2025. The State is also a participant in the Regional Greenhouse Gas Initiative (RGGI), a multi-state cap and trade program through which it provides rebates for the purchase or lease of electric vehicles and the installation of charging stations in multi-unit dwellings. Delaware's renewable energy standards, established by 2021 legislation, require utilities to transition to 40% renewable energy by 2035.

The State plans to use federal funds for transportation under the Bipartisan Infrastructure Law to improve road system resiliency to climate change. Additionally, applications for federal grants to improve pedestrian, bicycle and bus systems in underserved areas near New Castle and Laurel were submitted in April, 2022.

### Social Factors

The State established a Division of Diversity and Inclusion in 2017. The Chief Diversity Officer reports to the Department of Human Resources. The Division's responsibilities include defining, assessing and cultivating access, equity, diversity and inclusion throughout state government. The State has also established a uniform anti-discrimination policy across state government.

The State's Office of Women's Advancement and Advocacy is responsible for overseeing the State's women's right work. Legislation signed into law in May 2022 creates a statewide paid family and medical leave insurance program that will extend the benefits afforded to State workers to the private sector, providing up to 12 weeks of paid leave effective January 1, 2025.

### Governance Factors

The State's information security program includes business continuity capabilities. Its cybersecurity risk management program includes employee training, vulnerability scanning, simulated phishing campaigns, web application security with vulnerability shielding and targeted third-party penetration assessments. Delaware's centrally managed cybersecurity team provides a threat detection and response service, using perimeter and internal protections across the State's centralized network. State computers are equipped with endpoint protection software with breach detection and response capabilities. The State self-insures its exposures when cost effective, and commercially insures against certain specialized risks.