

## **FITCH RATES DELAWARE'S \$250MM GO BONDS 'AAA'; OUTLOOK STABLE**

Fitch Ratings-New York-23 January 2018: Fitch Ratings has assigned a 'AAA' rating to the following state of Delaware general obligation (GO) bonds:

- \$225 million GO bonds, series 2018A;
- \$25 million GO bonds, series 2018B (Port of Wilmington Projects).

The bonds are scheduled to be sold via negotiation on or about Feb. 7, 2018.

The Rating Outlook is Stable.

### **SECURITY**

General obligation, full faith and credit of the state of Delaware.

### **ANALYTICAL CONCLUSION**

Delaware's 'AAA' Issuer Default Rating (IDR) and GO bond rating is derived from its considerable economic resources, which have grown through deliberate policies to maintain a climate attractive to banking and related entities, and strong financial operations that are supported by proactive management and institutionalized protections designed to ensure surplus operations. Above-average debt levels incorporate state issuance for purposes that are addressed at the local government level in other states while pensions are well funded.

### **Economic Resource Base**

Delaware's economy is largely based on service-providing enterprises, including financial activities, professional and business services, and education and health organizations. Employment growth slowed in 2016 following several years of more robust growth following the Great Recession, a trend that continued in 2017. Both population and labor force growth remain strong and while per capita personal income is below the national average, recent quarterly growth in total personal income has been solid and above that of the U.S. Unemployment rates remain well below the U.S. average.

### **KEY RATING DRIVERS**

#### **Revenue Framework: 'aa'**

Financial operations are supported by a diverse array of revenue sources with the personal income tax (PIT) accounting for the largest share at almost one-third. Much of the balance of revenue sources reflect Delaware's leverage of its status as the legal home to over half of all publicly traded corporations in the U.S. and includes taxes on limited partnerships, franchises, and other business entities. This structure results in a revenue framework that is highly influenced by, and subject to, national economic trends.

#### **Expenditure Framework: 'aaa'**

While carrying costs are above the U.S. state average, Delaware has demonstrated ample expenditure flexibility and the broad expense-cutting ability common to most U.S. states. Moreover, the state is statutorily restricted to budgeting 98% of expected revenue, providing a cushion for revenue variability. Education is a key cost driver as the state is highly involved with

funding local education, including funding an equal share of employer pension contributions for school district employees.

#### Long-Term Liability Burden: 'aaa'

On a combined basis, the burden of the state's net tax-supported debt and unfunded pension obligations exceeds the median for U.S. states but remains a low burden on resources. Debt levels are above average for a U.S. state given the state's role in issuance for projects usually funded at the local level and have modestly ticked upward following years of decline. Pensions are well funded although other post-employment benefit (OPEB) obligations are sizable.

#### Operating Performance: 'aaa'

The state has exceptional financial resilience and institutionalized protections are designed to ensure surplus operations. Strong management of financial operations results in the maintenance of ample financial cushion even through economic downturns. The ongoing monitoring of revenues and operating expenditures offsets volatility in its revenue sources and provides for rapid gap closing.

#### RATING SENSITIVITIES

The rating is sensitive to shifts in the state's fundamental credit characteristics including continuation of the state's conservative budgeting practices and strong economic foundation.

#### CREDIT PROFILE

The currently offered series 2018 A and B bonds provide funds for various capital projects in the state, including projects at the state's Port of Wilmington. Net tax-supported debt as of June 30, 2017 was equal to \$2.4 billion, or 5.4% of personal income, with one-third of net debt issued by the transportation authority. Adjusting for a 6% return assumption for pensions, Fitch calculates the state's debt plus unfunded pension liability burden at 9.7% of 2016 personal income, well above the median for states but a low burden on resources.

Financial operations are supported by conservative fiscal policies, including a constitutional provision that limits appropriations to 98% of anticipated revenues in the forthcoming fiscal year, plus the unencumbered prior year budgetary General Fund balance. The state closely tracks revenue collections and expenditures during the year and forecasts are updated six times each fiscal year through comprehensive reviews by the Delaware Economic and Financial Advisory Council (DEFAC). The most recent DEFAC meeting occurred on Dec. 18, 2017 and largely affirmed the September forecast.

The state has maintained the budget reserve account (BRA) at the 5% target although unencumbered cash balances have fluctuated due to inconsistency in key revenue sources, particularly sources tied to corporations and businesses. The BRA was over-funded at 5.5% of revenues in fiscal 2017 and a similarly sized balance is anticipated in fiscal 2018. Combined, the unencumbered cash balance and the BRA equaled a strong 7.4% of fiscal 2017 revenues at year-end. The state expects this ratio to increase to 9.2% in fiscal 2018 as its cash balances are restored from expected positive results. Absent unanticipated actions, Fitch expects the balances to remain stable into fiscal 2019 as DEFAC currently anticipates balanced operations in that year. The governor is expected to present his executive budget proposal for fiscal 2019 on Jan. 25. The legislature will consider the proposal in its 2018 session.

For additional information on Delaware, please see "Fitch Rates Delaware's \$360MM GO Bonds 'AAA'; Outlook Stable" dated Nov. 22, 2017 and available at [www.fitchratings.com](http://www.fitchratings.com).

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Date of Relevant Rating Committee: Nov. 21, 2017

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.  
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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

#### Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017)  
<https://www.fitchratings.com/site/re/898466>

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