FITCH RATES DELAWARE'S $225MM GO BONDS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-18 December 2008: Fitch Ratings assigns an 'AAA' rating to the State of Delaware's $225 million general obligation (GO) bonds, series 2009. Bonds will be offered to retail buyers beginning Jan. 12, 2009 with the remainder to be sold competitively Jan. 14. Fitch also affirms the 'AAA' rating on the state's approximately $1.4 billion outstanding GO bonds. The Rating Outlook is Stable.

Delaware's premier credit standing centers on its considerable economic and financial resources, as well as institutionalized protections designed to ensure surplus operations. The state's economy, diversified through deliberate policies that created a climate attractive to banking and related business services as well as pharmaceuticals, has slowed like much of the nation. There is no state sales tax, aiding in the state's comparative cost advantage. An above-average debt burden is tempered by a rapid rate of amortization, with 78% of GO bonds due in 10 years.

Delaware is a historically wealthy state. Its personal income per capita ranks 14th in the U.S. at 104% of the national average, although recent personal income performance has been weak. Unemployment levels are well below the U.S. average (83% of the U.S. rate at 5.4% in October 2008), although, like the nation, the rate is markedly increased from a year ago (up from 3.5% in October 2007). The pace of employment growth, which had slowed as compared to the U.S. in 2006, dropped to just 0.2% in 2007 compared to 1.1% growth for the U.S. Employment was flat in October 2008 compared to a year earlier, compared to a 0.9% decline for the nation. The state's December forecast projects employment down 1.4% for fiscal 2009 and another 1.1% for fiscal 2010.

The Delaware Economic and Financial Advisory Council (DEFAC) reviews revenue forecasts at least six times each fiscal year. The most recent forecast, from Dec. 15, 2008, lowered the general fund revenue estimate for fiscal 2009 to $3.2 billion, 3.9% below the prior year, and projected an additional 4.3% decline in fiscal 2010. This follows growth of 2% in fiscal 2008, which itself was a lean budget year. The estimate assumes a 0.3% decline in personal income tax withholding revenue in fiscal 2009, a significant deterioration in expectations compared to the November 2008 forecast.

The December forecast projects a $109 million fiscal 2009 shortfall, assuming the budget reserve fund remains fully funded at 5% as it has since it was created in 1980. The governor has announced agency spending cuts and other measures to address the fiscal 2009 gap and is expected to present an executive budget by Jan. 15, 2009 that incorporates significant spending cuts to address a projected $560 million fiscal 2010 gap. The governor-elect will take office on Jan. 20, 2009.

Recent challenges for the state have included the January 2006 Bank of America purchase of MBNA, the state's largest private employer, the December 2008 closing of the state's Chrysler plant in Newark, Delaware (a year earlier than expected), and the downsizing and probable closure of the state's General Motors plant. In addition, lottery revenues (currently 7.5% of general fund revenues) have been negatively affected by the start of video lottery operations in Pennsylvania. Consistent with prior practice, the state has enacted legislation to enhance its competitive position; however, the November 2008 voter approval of gaming in Maryland is expected to significantly reduce lottery revenues starting in fiscal 2011. The state relies on abandoned property for more than 10% of general fund revenues; this variable revenue stream could be negatively affected by the current downturn in financial markets.

As a small state with a minimal number of local governments, Delaware's service functions are highly centralized, leading to an upper moderate debt burden. Net tax-supported debt equals about $2.3 billion, or 6.6% of personal income, with about 44% of debt issued through the transportation authority. This ratio remains well below the double-digit levels experienced in the state's very weak fiscal period of the mid-1970s, reflecting steps taken by the state to reduce its bonding for capital.

The state employees' pension system is overfunded.

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