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FITCH RATES DELAWARE'S $515MM GO BONDS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-05 October 2009: Fitch Ratings assigns an 'AAA' rating to the State of Delaware's $515 million general obligation (GO) bonds, series 2009, consisting of:

--$345,125,000 series 2009C, including $305,125,000 tax-exempt refunding and $40 million in new money, and

--$169,950,000 series 2009D (federally taxable-Build America Bonds).

The bonds are expected through negotiation the week of Oct. 20, 2009. Fitch also affirms the 'AAA' rating on the state's approximately $1.5 billion outstanding GO bonds. The Rating Outlook is Stable.

Delaware's premier credit standing centers on its considerable economic and financial resources, supported by 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, and pharmaceuticals, is showing the effects of the deep recession 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 wealthy state, illustrated by personal income per capita that ranks 14th of the states at 104% of the nation, although recent personal income performance has been on par with the U.S. Unemployment levels are typically well below the U.S. average (84% of the U.S. rate at 8.1% in August 2009); although, like the nation, the rate is markedly increased from a year ago (up from 5.1% in August 2008). The pace of employment growth, which had slowed as compared to the U.S. beginning in 2006, began to decline midway through 2008 and declined 1% in 2008 compared to a .4% drop for the U.S. Employment declined 5.2% in August 2009 compared to a year earlier, compared to a 4.4% decline for the nation. The state's September forecast projects employment down 2.6% for fiscal 2010 and recovery beginning in 2011 with .8% growth.

The Delaware Economic and Financial Advisory Council (DEFAC) reviews revenue forecasts at least six times each fiscal year. The most recent forecast, from September 2009, slightly lowered the general fund revenue estimate for fiscal 2010 (by $47 million), reflecting slower than previously assumed historical economic performance and reduced expected revenues from sports betting following a court ruling that limited the type and extent of sports betting that is permitted under the state constitution. Over the past year, estimated revenues for fiscal year 2010 (FY 2010) have been reduced approximately $308 million (8.9%) and are now expected to be approximately flat to FY 2009 revenues, which declined 6.2% over the prior year. This follows growth of 2% in fiscal 2008, which itself was a lean budget year. Personal income tax revenue declined 9.6% in FY 2009 and is expected to rise just .1% in FY 2010, primarily due to tax increases included in the budget.

The state addressed revenue shortfalls during FY 2009 totaling $215 million as the forecast was repeatedly lowered over the course of the year. To match spending to the lowered revenues, the governor instituted a statewide hiring freeze and announced midyear budget reductions of 7% for all state agencies, excluding schools and higher education. Other expenditure reduction measures included deauthorizing cash-funded capital projects and shifting Medicaid payments by one day into FY 2010. The state was able to close the budgetary gap without using its budget reserve fund, which remains fully funded at $186.4 million (5%) of prior year appropriations.

In developing the FY 2010 budget, the state was facing an estimated $800 million revenue gap, which it closed through a combination of budget reductions, revenue increases, and use of federal stimulus funds. Various tax and fee increases are expected to generate an additional $182 million in FY 2010 and $223 million in FY 2011, reflecting increases in corporate franchise, personal income and cigarette taxes.

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 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 $2.5 billion, or 7% of personal income, with about 46% 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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