Fitch Rates Delaware's $124MM GO Bonds 'AAA'; Outlook Stable Ratings

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Fitch Ratings-New York-30 April 2010: Fitch Ratings assigns an 'AAA' rating to the following general obligation (GO) bonds of the State of Delaware:

--124.025MM GO bonds, series 2010A.

In addition, Fitch affirms the following ratings:
--$1.6 billion in outstanding go bonds at 'AAA'.

The Rating Outlook is Stable. The bonds are expected to sell via negotiation on May 4th.

On April 5, 2010, Fitch Ratings recalibrated its U.S. public finance credit ratings for states as well as the District of Columbia, New York City, and the Commonwealth of Puerto Rico; the above rating(s) reflect this recalibration. Fitch announced the recalibration in the "Recalibration of U.S. Public Finance Ratings" special report, which was published on March 25, 2010 and is available at 'fitchratings.com' under the following headers: Sectors >> Public Finance >> U.S. Public Finance >> Research. For more detail on the rating adjustments, please see the March 25, 2010 report. Fitch will revise the remaining tax-supported ratings along with water and sewer, public power distribution-only, and public higher education ratings April 30, 2010, as detailed in the March 25, 2010 report.

RATING RATIONALE:

--Delaware is a wealthy state with considerable economic and financial resources.
--Financial practices are solid and longstanding constitutional protections are designed to ensure surplus operations.
--The state employees' pension system is fully funded and the state has taken steps to begin funding its other post-employment benefits (OPEB) liability.
--Although the state debt burden is above average, it reflects centralization of many local government functions and is mitigated by extremely rapid amortization.

KEY RATING DRIVER(S):
Continuation of sound financial practices, including proactive response to current economic and fiscal challenges.

SECURITY:
General Obligation, full faith and credit of the State of Delaware.

CREDIT SUMMARY:
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 as is 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 76% of GO bonds due in 10 years.

Delaware is a wealthy state, illustrated by personal income per capita that ranks 17th of the states at 102% of the nation, although recent personal income performance has lagged the U.S. Unemployment levels are typically well below the U.S. average (87% of the U.S. rate at 8.1% in 2009). However, like the nation's rate, its rate is markedly increased from a year ago and was 95% of the national average in March at 9.2%. 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 0.4% drop for the U.S. Employment declined 3.9% in 2009 comparing favorably to a 4.5% decline for the nation. Job losses are abating with March non-farm employment down 1.8% compared to one year ago; the comparable U.S. rate was a decline of 1.8%. The state's April forecast projects employment down 3% for fiscal 2010 and recovery beginning in 2011 with .7% growth.

The Delaware Economic and Financial Advisory Council (DEFAC) reviews revenue forecasts at least six times each fiscal

year. The most recent forecast, from April 2010, raised modestly the general fund revenue estimate for fiscal 2010 (by $39 million), reflecting an acceleration in collections of abandoned property primarily associated with a change in the required dormancy - or holding - period from five years to three. Estimated revenues for fiscal year (FY) 2010 had been reduced in earlier estimates but are now expected to be 2.9% higher than FY 2009 revenues, which declined 6.2% over the prior year. Personal income tax revenue declined 9.6% in FY 2009 and is expected to decline a further 5.7% in FY 2010, despite tax increases included in the budget. However, the tax increase is evident in the estimate for FY 2011 when personal income tax revenue is expected to increase 10.2%.
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 de-authorizing 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 two-year $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. The state again expects to end FY 2010 with its budget reserve fund intact.

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 8% to 10% of general fund revenues; this variable revenue stream has been negatively affected by the downturn in financial markets but the state's decision to shorten the dormancy period on held securities is resulting in an increase in these collections.

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 as of Dec. 31, 2009, equals about $2.3 billion, or 6.6% 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 was overfunded until the 2009 when investment losses resulted in the development of a small unfunded liability.

Applicable criteria available on Fitch's website at www.fitchratings.com includes:
--'Tax-Supported Rating Criteria', dated Dec. 21, 2009.
--'U.S. State Government Tax-Supported Rating Criteria', dated Dec. 28, 2009.

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Additional information is available at 'www.fitchratings.com'.