

Delaware

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Credit Profile

US\$225. mil GO bnds ser 2009 due 01/01/2029

Long Term Rating	AAA/Stable	New
Delaware		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating, and stable outlook, to Delaware's general obligation (GO) debt, series 2009. We also affirmed our 'AAA' long-term rating, with a stable outlook, on the state's previously issued GO bonds.

The rating reflects our view of the state's:

- Excellent financial management;
- Consistently strong general fund reserve levels and liquidity;
- Strong local economy despite current weakness in the financial services sector; and
- Moderate overall debt burden.

Delaware's financial position continues to be strong in Standard & Poor's opinion, and is greatly enhanced by the Delaware Economic and Financial Advisory Council (DEFAC), which provides the state with objective and frequently updated financial and economic projections. Comparisons of historical revenue estimates illustrate DEFAC's conservative forecasting nature, as actual year-ending revenues typically exceed projections. In addition, Delaware maintains an array of prudent fiscal and debt policies to ensure sustained healthy financial performance.

Fiscal 2007 ended, on a generally accepted accounting principles basis, with a \$30.97 million general fund-operating reduction, bringing the ending general fund balance to \$1.34 billion, or in our view a still-strong 38.7% of operations. Of that amount, \$956 million is

unreserved, representing what we see as a very strong 27.6% of operating expenditures. This is the first operating reduction since fiscal 2003 and, according to management, given Delaware's high fund balance level a decision was made to use some of the state's fund balance for one-time capital projects and for operations instead of reducing services. According to the state, Delaware plans to maintain its strong financial position and does not plan on relying on its fund balance for operations in the future. On a Government Accounting Standards Board 34 basis, Delaware's primary government net assets increased by \$276 million to \$5.84 billion in fiscal 2007 from \$5.56 billion in fiscal 2006.

Based on the state's actual yet unaudited numbers, the fiscal 2008 general fund revenue rose by 2% in fiscal 2007 to \$3.36 billion. The 2008 general fund appropriations totaled \$3.4 billion, a 0.9% increase in fiscal 2007. The 2008 general fund operating budget totaled \$3.28 billion or a 3.1% decrease in fiscal 2008. Grants in aid appropriations were \$47.7 million and the budgetary general fund contribution to the capital budget was \$77.9 million, which brought total appropriations to \$3.4 billion, still within the constitutional limit of 98% of estimated revenues. Fiscal 2008 ended with a cumulative cash balance of \$525.9 million, or, in our opinion, a very strong 15.5% of expenditures. The budget reserve was fully funded at \$182.8 million, or 5% of budget. An additional \$234.8 million was set aside for continuing encumbered appropriations resulting in an unencumbered cash balance of \$108.3 million.

Like all states, Delaware has revised its revenues projections downward for fiscal 2009. Based on the Dec. 15, 2008, DEFAC revenue forecasts, net budgetary general fund revenues are now projected to be \$3.2 billion, a decrease of 3.9% from fiscal 2008 actual results. The fiscal 2009 budget totaled \$3.36 billion, a 2.4% increase over fiscal 2008. Grants in aid were \$45.2 million and the general fund appropriation to capital was budgeted at \$83.4 million, bringing total appropriations to \$3.49 billion. The state is working on reducing the budget by \$180 million, or 6.5%. To balance the budget, Delaware has implemented a hiring freeze, a purchase order review, and a hold on upgrades; as well, the state is exploring options for a 7% reduction in state agency budgets and is asking the assembly to deauthorize capital projects. However, the state still expects the rainy-day reserve fund to be at \$186.4 million at fiscal year-end.

Delaware's management practices are considered "strong" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA of strong indicates that practices are strong, well embedded, and likely sustainable. The state's financial management highlights include regular general fund revenue reports, multi-year revenue forecasting, a formal general fund reserve policy, and three debt issuance guidelines.

The state's annual unemployment rate has been below that of the nation for more than 20 years. For 2006, the unemployment rate was 4.0%, down slightly from the 2005 unemployment average of 4.2%, and remains below national levels to date. Delaware's income levels remain above the national average, but the impact of the slowdown in the financial sector is affecting the state's revenues. Delaware expects Chrysler to close its Newark plant by the end of 2008. However, the state reports that Sallie Mae, the student loan company, is moving into the state and bringing with it 1,100 jobs.

Compared with other states, facets of Delaware's overall debt burden (through fiscal 2007) are above average; however, about 36% of that is supported by the local school district's property tax revenue. When including that support, state overall debt burden is reduced to \$2,234 per capita and 4.7% of personal income. As well, debt service carrying charges are low at 4.2% of fiscal 2007 general fund expenditures. Moreover, amortization is very rapid, with 75% of forthcoming and existing GO

debt retired over 10 years and 100% over 20 years. Delaware remains well within its three-part debt-affordability guidelines in Standard & Poor's opinion.

Outlook

The stable outlook reflects our view of Delaware's excellent financial management, robust general fund reserves and liquidity, healthy economy, and moderate overall debt position. The stable outlook also signifies Standard & Poor's expectation that the state's prudent fiscal and debt management practices will lead to sustained sound financial operations. We believe the state's economy is strong and diverse, and despite the near-term economic issues surrounding the slowdown of financial sector, Standard & Poor's expects the state to be able to manage its financial position throughout the downturn.

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