

October 9, 2009

Summary:
Delaware

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Summary:

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Credit Profile		
US\$515.075 mil GO bnds ser 2009 C & D due 10/01/2029		
<i>Long Term Rating</i>	AAA/Stable	New
Delaware		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

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

The rating reflects the state's:

- Strong financial management;
- Consistently strong general fund reserves and liquidity;
- Diversified economy that has experienced a decline during the current recession due to weakness in the financial service and manufacturing sectors;
- Moderate overall debt burden with strong debt management policies in place; and
- Well-funded pension system -- Other postemployment benefit liabilities are significant, but the state has been actively managing the liability.

Delaware's financial position remains healthy despite ongoing revenue declines over the past year. The Delaware Economic & Financial Advisory Council (DEFAC) provides the state with objective and frequently updated financial and economic projections, which has allowed the state to manage revenue volatility proactively over the past year. In addition to DEFAC, Delaware maintains an array of prudent fiscal and debt policies that it has enhanced over time and that, in our view, have contributed to a strong overall budget management framework. DEFAC adjusts revenues six times throughout the fiscal year, which allows for the implementation of timely budget adjustments.

Delaware has a long history of implementing difficult and politically unpopular measures to balance its budget and maintain balance throughout the fiscal year. Given the duration of the current recession, this has been, in our opinion, an important credit factor. Although revenue declines have been pronounced over the past year, the state has left its budget stabilization fund intact. Given the state's forecast of a slow economic recovery and the elimination of federal stimulus funding after fiscal 2011, we believe this will provide flexibility to meet future budget challenges. The Delaware Constitution establishes the budget reserve, funded at 5% of estimated budgetary general fund revenues.

The state ended fiscal 2009 with a positive, albeit diminished, general fund cash balance after making significant budget adjustments throughout the fiscal year to address a cumulative gap of almost \$400 million, or 11% of budgeted revenues. As with most other states, Delaware identified a sizable budget gap of \$800 million to start fiscal 2010. The state closed the gap with a balance of revenue enhancements, federal stimulus funds, and expenditure

reductions. According to DEFAC's September 2009 revenue forecast, revenues were performing slightly below forecast. We would expect continued budget adjustments if the current revenue forecast proves optimistic based on current economic conditions.

Standard & Poor's considers Delaware's management practices "strong" under its Financial Management Assessment (FMA) methodology, indicating practices are strong, well embedded, and likely sustainable. The state's financial management highlights include regular general fund revenue reports, multiyear revenue forecasting, a formal general fund reserve policy, and three debt issuance guidelines.

Delaware's economy is relatively diverse following several decades of active economic development at the state level. Performance over time has been, in our view, relatively stable with unemployment consistently below the nation's rate for the past 20 years. Development initiatives have encouraged financial sector, business services, and pharmaceutical and biotech expansion; in our view, this has lessened the state's reliance on cyclical manufacturing. While unemployment has increased sharply in-line with national trends, the August 2009 rate of 8.1% was still below the nation's rate. State income levels remain above the national average.

Delaware has implemented various debt management policies over time to decrease the state's debt burden and limit bond issuance. These measures have been successful in reducing the state's debt level despite the broad role the state maintains in funding capital requirements for education and corrections, which are more traditionally done at the local level. Most of Delaware's debt limitations are imbedded in statute and strictly adhered to by the state. Current debt levels are elevated compared with Delaware's state peers when measured on a per capita basis at \$3,208, or 5.98% of personal income. Debt service carrying charges were a moderate 5.2% of fiscal 2008 general fund expenditures, and Delaware has always maintained a rapid amortization schedule for GO bonds outstanding.

Outlook

The stable outlook reflects Standard & Poor's expectation that the state's proactive budget management will contribute to balanced operations through the current economic downturn. Despite weakness in key sectors, the state's economic growth prospects remain, in our view, favorable. Strong controls on debt issuance and the state's well-funded pension system should, in our view, minimize budget pressures.

Related Research

USPF Criteria: "GO Debt," Oct. 12, 2006

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