

State of Delaware – G.O.

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METHODOLOGY

[Public Finance: U.S. State General Obligation Rating Methodology](#)

Ratings

Description	Rating Action	Rating/Outlook or Watch
Issuer: State of Delaware		
General Obligation Bonds	Affirmed	AAA/Stable

Rating Summary

The long-term rating for the State of Delaware’s (the “State’s”) General Obligation (G.O.) Bonds is underpinned by the State’s conservative financial management policies and procedures including a statutory requirement for consensus revenue estimates; formal process for updating revenue and expenditure estimates five times annually; a Constitutional appropriations limit at 98% of budgeted receipts; and, the utilization of multi-year budget forecasts and benchmark appropriation forecasts aimed at keeping budget growth in line with that of the underlying economy. Also reflected in the rating are the State’s moderate debt and additional continuing obligations profile, large financial reserves and liquidity, and diverse, growing economy.

G.O. bonds are direct obligations of the State to which its full faith and credit is pledged. Payment of principal and interest is made when due, pursuant to legislative appropriation. In the unlikely event that the State fails to make sufficient provision for payment, or sufficient funds are unavailable, State law requires the State Treasurer to set aside funds for payment from the first State revenues received thereafter.

The State has a long history of conservative financial management. Moreover, over the last five years, it accumulated especially large reserves as a result of its receipt of substantial pandemic-related federal funds and very favorable performance of economically sensitive receipts. As of FYE 2025 (FYE June 30), amounts reserved for the State’s budgetary reserve account (BRA) and budgetary stabilization fund (BSF) had increased to \$366.5 million and \$469.3 million, respectively, which together with a \$3.24 billion unassigned fund balance, provided reserves equivalent to 50.6% of general fund (GF) expenditures, up from a level of 13.7% as recently as FYE 2018.

Based on the Governor’s Proposed budget from January and the Delaware Economic and Financial Advisory Council’s (DEFAC) March 2026 revised revenue estimate, KBRA estimates that the State is on track to end FY 2026 (FYE June 30) with a \$105 million appropriation surplus equivalent to 1.5% of budgetary resources. General fund revenues, inclusive of \$441 million in carry-over balances and net of the Constitutional appropriations cap at 98% of budgeted receipts, are projected to increase 1.2% YoY to \$7.19 billion. Appropriations are projected to increase 3.8% YoY to \$7.09 billion, primarily reflecting growth in the operating budget from increased Medicaid spending and contractual state employee as well as K-12 and higher education salary increases. The BRA is expected to remain fully funded relative to the Constitutional cap at 5% of budgeted appropriations, while the BSF funded level is projected to remain level YoY at a level equivalent to 6.6% of appropriations.



Governor Matt Meyer’s proposed budget for FY 2027 totals approximately \$7.24 billion in resources and appropriations. Total resources, net of the 98% spending cap and as adjusted for the March 2026 DEFAC revenue estimate, are up 0.7% from projected FY 2026 YoY including \$7.10 billion in current receipts (up 2.9% YoY) and \$295 million in carry-over appropriations. The budget addresses a baseline deficit of \$512 million with mostly structural solutions including critical evaluation of cost drivers and reductions as well as reallocation of expenses to special funds (collectively \$239 million); reductions in one-time expenditure capital reprogramming (\$169 million); and, proposed revenues enhancements (\$147 million). Proposed appropriations are up 2.3% YoY. The proposed revenue enhancements include increases and updates to certain business formation fees (\$81 million); increasing the amount of abandoned property/escheat revenue available for budget use (\$60 million); an increase in the tobacco tax (\$18.9 million); and, the establishment of the State film tax credit which would reduce revenues (\$10 million). Additional drivers of expense growth include growing healthcare cost pressures for Medicaid and other post-employment benefits (OPEB) as well as contractual wage increases for State employees and public education.

The State’s debt and continuing obligations profile is moderate, with tax-supported debt equivalent to 5.0% of personal income and \$3,593 per capita based on KBRA’s calculations. Pension funding progress with respect to the State’s largest defined benefit plans is solid, with the net pension liability correspondingly low at 2.3% of personal income. The State’s net other post-employment benefit (OPEB) liability is, in contrast, higher as a percentage of personal income (9.2%) than any other state. However, this includes benefits for local school districts, a portion of which are locally funded. To address the large OPEB liability, the State has deposited an amount equivalent to 1% of prior year appropriations each year since FY 2021 into a OPEB trust fund. The FY 2026 budget appropriates \$61.3 million for this purpose and the proposed FY 2027 budget continues this practice. Fixed costs pertaining to debt services as well as pension and OPEB contributions were moderate in FY 2025 at 10.5% of governmental expenditures.

Delaware’s population increased 12.2% over the last decade through 2025, which was faster than U.S. population growth (6.2%). Real gross state product in contrast increased just 14.5% over that period, which was well slower than that of the Nation overall (26.9%). Per capita personal income at \$71,357 in 2025 is a moderate 93% of the U.S. level. Seasonally adjusted unemployment was 5.4% in February 2026, somewhat higher than the nation overall at 4.4%.

Like other states, Delaware will face higher costs associated with certain social welfare programs as a result of federal policy changes implemented in Public Law 119-21, commonly known as HR 1 of 2025. The State has not provided specific year-by-year projections of the law’s budgetary impact but KBRA understands that many of the law’s most significant provisions will ratchet through FY 2028 while others such as required reductions to state hospital provider taxes must be phased in through FY 2032. KBRA views the State’s strong reserves as providing substantial financial flexibility to navigate the phase-in of these additional costs.

The Stable Outlook reflects KBRA’s view that the State’s conservative budget practices, large reserves, and moderate fixed costs relating to debt service, pension, and OPEB obligations, position the State well to manage through the full economic cycle.

Key Credit Considerations

The rating was affirmed because of the following key credit considerations:

Credit Positives

- Strong financial management policies and procedures, including comprehensive and timely process for revenue forecasting, facilitate consistent fiscal monitoring and long-term planning.
- Large reserves and strong liquidity support financial flexibility.





Credit Challenges

- The State’s revenue base, while diverse, is weighted toward business taxes, and thus more sensitive to secular economic and financial market downturns than many other states.
- Real GSP growth lags that of the Nation.

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Rating Sensitivities

- Not applicable at AAA rating level.
- Reduction in financial reserves and liquidity to a level no longer commensurate with the rating level.
- Secular decline in status as a dominant center for business incorporations leading to significant decline in the State’s employment and tax base.

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Key Ratios

Population (2025)	1,059,952
Population Growth 2015 to 2025:	
Delaware	12.2%
United States	6.2%
Per Capita Personal Income (2025)	\$71,357
<i>as a % of United States</i>	93%
Real GSP Growth 2015 to 2025	
Delaware	14.5%
United States	26.9%
Combined Unassigned Fund Balance, Budget Reserve Account, and Budget Stabilization Fund Balance as a % of General Fund Expenditures:	
FYE 2021	29.8%
FYE 2022	51.5%
FYE 2023	51.3%
FYE 2024	51.1%
FYE 2025	50.6%
Fixed Costs as a % of Governmental Expenditures (FY 2025)	10.5%

Rating Determinants

Rating Determinants (RD)	
1. Management Structure, Budgeting Practices and Policies	AAA
2. Debt and Additional Continuing Obligations	AA
3. Financial Performance and Liquidity Position	AAA
4. State Resource Base	AA+



A discussion of each rating determinant and KBRA's bankruptcy assessment can be found in prior KBRA reports, the most [recent](#) of which is dated May 5, 2025.

RD 3: Financial Performance and Liquidity Position

Figure 1

General Fund Summary Statement of Income and Balance Sheet					
FYE June 30 (Audited, GAAP Basis) (dollars in thousands)					
	2021	2022	2023	2024	2025
Statement of Income					
REVENUES					
Personal Income Taxes	\$1,710,881	\$1,945,182	\$2,164,548	\$2,237,948	\$2,372,854
Business Taxes	2,996,453	3,314,726	4,031,260	3,911,560	3,938,979
Other Tax Revenue	425,325	502,224	89	119	111
Licenses, Fees, Permits and Fines	516,986	561,696	541,387	549,084	523,113
Rentals and Sales	101,289	91,298	81,752	83,125	94,377
Grants	34,048	27,723	30,048	29,286	30,410
Interest and Other Investment Income	78,245	24,397	50,748	181,355	238,663
Other	210,947	162,804	114,907	153,068	276,736
Total Revenues	6,074,174	6,630,050	7,014,739	7,145,545	7,475,243
EXPENDITURES					
Current:					
General Government	1,163,208	520,995	1,182,248	637,105	1,405,180
Health and Childrens' Services	1,495,672	1,594,461	1,749,813	1,953,980	1,967,776
Judicial and Public Safety	783,223	850,925	812,351	1,052,738	1,049,744
Natural Resources and Environmental Control	156,613	160,329	165,267	230,448	249,991
Labor	31,294	32,718	32,989	20,277	48,968
Education	1,902,248	2,100,555	1,984,115	2,714,857	2,573,176
Unrestricted Payments to Component Unit - Education	184,097	210,726	237,514	263,120	298,858
Capital Outlay	-	33,707	96,542	41,585	16,054
Debt Service:	-	-	-	-	-
Principal	166,202	205,610	222,660	240,953	242,346
Interest and Other Charges	94,386	102,284	109,843	117,276	119,036
Total Expenditures	5,976,943	5,812,310	6,593,342	7,272,339	7,971,129
Excess (Deficiency) of Rev. Over Exp.	97,231	817,740	421,397	(126,794)	(495,886)
Other Financing Sources (Uses)	333,159	369,160	519,122	622,181	443,783
Net Change in Fund Balance	430,390	1,186,900	940,519	495,387	(52,103)
Fund Balance (Deficit) - Beginning	1,709,541	2,141,577	3,328,477	4,268,996	4,764,382
Fund Balance (Deficit) - Ending	2,139,931	3,328,477	4,268,996	4,764,383	4,712,279
Balance Sheet					
ASSETS					
Cash and Cash Equivalents	\$29,145	\$56,356	\$39,462	\$48,299	\$72,225
Pooled Cash and Investments	3,302,548	4,349,298	5,202,401	5,588,191	5,175,858
Accounts Receivable (Net)	106,056	111,257	182,705	260,933	238,973
All Other	398,759	501,519	623,093	756,110	1,035,460
Total Assets	3,836,508	5,018,430	6,047,661	6,653,533	6,522,516
LIABILITIES					
Accounts Payable and Accrued Liabilities	704,245	692,132	729,450	763,518	746,140
Due to Other Funds	98,179	22,029	69,325	74,648	41,152
All Other	775,811	835,119	776,296	757,956	751,081
Total Liabilities	1,578,235	1,549,280	1,575,071	1,596,122	1,538,373
Deferred Inflows of Resources	118,342	140,673	203,595	293,029	271,864
FUND BALANCES					
Nonspendable (Receivables, Inventory)	47,444	45,198	42,347	58,828	85,843
Restricted	289,202	376,752	436,944	740,819	548,054
Committed	422,867	452,590	901,243	846,532	648,140
Assigned	142,952	159,589	179,240	183,165	187,722
Unassigned	1,237,466	2,294,348	2,709,221	2,935,038	3,242,520
Fund Balance (Deficit) - Ending	2,139,931	3,328,477	4,268,995	4,764,382	4,712,279

Source: ACFRs



Figure 2

Reserves					
FYE June 30 (dollars in thousands)					
	2021	2022	2023	2024	2025
Unassigned General Fund Balance (GAAP)	\$1,237,466	\$2,294,348	\$2,709,221	\$2,935,038	\$3,242,520
Reserved for:					
Budgetary Reserve Account (Budgetary Basis) (Limited to 5% of Budgeted Revenues)	280,300	316,400	328,700	348,700	366,500
Budget Stabilization Fund (Budgetary Basis)	287,300	402,600	410,100	469,200	469,300
Total	1,805,066	3,013,348	3,448,021	3,752,938	4,078,320
Total Reserves as a % of GF Expenditures and Transfers Out	29.8%	51.5%	51.3%	51.1%	50.6%

Source: ACFRs and KBRA calculations.

Figure 3

General Fund Budget Projections			
FYE June 30 (Budgetary Basis) (dollars in thousands)			
	Actual 2025	Projected 2026	Projected 2027
RESOURCES			
Carry-Over	\$553,000	\$440,500	\$294,500
Net DEFAC FY Revenue*	6,694,300	6,896,500	7,095,400
Total Resources @ 100%	7,247,300	7,337,000	7,389,900
Total Resources @ 98%	7,102,354	7,190,260	7,242,102
APPROPRIATIONS			
Operating Budget	6,129,200	6,580,800	6,909,400
Grant-In-Aid	98,500	98,300	85,500
One-Time Supplemental Bill	168,400	37,600	29,000
Cash to Capital	427,500	368,300	221,200
Total Appropriations	6,823,600	7,085,000	7,245,100
Appropriation Surplus (Deficit) vs 98% Limit**	278,754	105,260	(2,998)

*Figure for FY 2027 includes \$146.9 million from proposed revenue enhancements.

**The Governor's proposed FY 2027 is balanced but a small deficit is shown here because it has not been updated since the March 2026 DEFAC revenue estimate. The enacted budget is expected to be balanced.

Source: FY 2027 Proposed Budget, March 2026 DEFAC Revenue Estimates, Rating Agency Presentation dated April 8, 2026, and KBRA calculations



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