Tax Supported
New Issue

State of Delaware

Rating

General Obligation Bonds .... AAA

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New Issue Details

$132,000,000 General Obligation Bonds, Series 2005D, are scheduled for competitive bids on Sept. 8. Bonds will be due Sept. 1, 2006–2025 and are callable beginning Sept. 1, 2013.

Security: The bonds are general obligations of the State of Delaware, for which its full faith and credit are pledged.

■ Outlook

Delaware's premier credit standing centers on its considerable economic and financial resources, the latter of which is buttressed by institutionalized protections designed to ensure surplus operations. Historically wealthy, although dependent on chemical and auto manufacturing, the state's economy has diversified through deliberate policies that have created a climate attractive to banking and related business services, as well as pharmaceuticals. The burden of debt on resources, albeit above average, has declined steadily and is further tempered by an extremely rapid rate of amortization, with 80% of general obligation bonds due in 10 years. Revenue performance was solid in fiscal 2005, with particular strength in personal income and corporate taxes, and further growth is forecast for the current fiscal year. A 5% budget reserve has been fully funded since inception in 1980.

■ Rating Comment

Revenue forecasts by the Delaware Economic and Financial Advisory Council (DEFAC) have been consistently revised upward. With employment and personal income growth expected at 1.8% and 6.5%, respectively, in fiscal 2006 and 1.5% and 5.6% for fiscal 2007, the fiscal 2006 budget is based on a June revenue estimate of $3.006 billion after adjustments for subsequent tax changes, or a 4.5% increase over fiscal 2005. The DEFAC revenue estimate for fiscal 2007, adjusted for subsequent tax changes, is $3.097 billion, a 2.9% increase over fiscal 2006.

Fiscal 2005 is reported to have closed with a budget reserve and unencumbered cash equal to 13.0% of revenues, down from 14.8% at the end of fiscal 2004. The budget for fiscal 2006 is expected to reduce the combined balances to $223 million at year-end, about 7.4% of revenues based on the June revenue forecast adjusted for subsequent tax changes. The fiscal 2006 budget included a significant reduction in the gross receipts tax, which is paid by most businesses in the state. The reduction is effective Jan. 1, 2006, and the full-year revenue impact of the cut is estimated at $47.1 million. The budget also includes a county seat fiscal relief program, primarily focused on the city of Wilmington.

After three weak years, employment grew 2.3% in 2004, more than double the national rate. July 2005 employment was 2.1% above the same month of the prior year, compared with 1.6% for the U.S. Manufacturing employment fell 4.3%, and financial activities employment was essentially flat; all other sectors added jobs. Unemployment remained well below the national average in 2004, at 4.1%, or 75% of the U.S. rate. At 4.2%, July 2005 unemployment was 84% of the U.S. rate. Personal income levels have grown faster than the U.S. rate for the last five years. In first-quarter 2005, the 7.8% personal income growth rate for Delaware was 114% of the U.S. rate.

The state's personal income per capita is the eighth highest in the country, at 109% of the U.S. average.

The impact of the Bank of America purchase of MBNA remains uncertain. MBNA is the state's largest private employer, with 10,700 jobs in the state, and Bank of America employs an additional 1,300. Significant job cuts are expected to result from the purchase, but no decisions on where the cuts will be made have been announced. Other companies recently have increased their commitment to the state.

A small state with a minimal number of local governments, Delaware's service functions are highly centralized, leading to an above-average, albeit moderate, debt burden. Net tax-supported debt is now $2,163 per capita and 5.7% of personal income, with almost 50% of debt issued through the transportation authority. The state returned to a substantially larger pay-as-you-go level in fiscal 2004, compared with the prior two years, and fiscal 2005 levels increased the amount to $235 million, or about 8% of revenues. The fiscal 2006 capital budget of $835 million includes $282 million from general fund support. The governor's fiscal 2006 budget had proposed $109 million of pay-as-you-go funding as partial support of a $631 million capital plan; revenue overperformance has allowed expansion of the plan.

As in many states, transportation is a funding pressure. Delaware is exploring a variety of options to generate additional resources for the department of transportation, including privatizations. A report from the governor-appointed committee on this issue is expected by the end of the year.

For more information on the State of Delaware, see Fitch Research dated Jan. 12, 2005 and Feb. 28, 2005, available on Fitch's web site at www.fitchratings.com.