Fitch Ratings-New York-22 February 2008: Fitch Ratings assigns an 'AAA' rating to the State of Delaware's $215,705,000 general obligation (GO) bonds, series 2008. Up to $45 million in series 2008 bonds will be offered to retail buyers beginning Feb. 29, with the remainder to be sold competitively March 4. Fitch also affirms the 'AAA' rating on the state's approximately $1.3 billion outstanding GO bonds. The Rating Outlook is Stable.

Delaware's premier credit standing centers on its considerable economic and financial resources, as well as institutionalized protections designed to ensure surplus operations. The state's economy, historically wealthy but dependent on chemical and auto manufacturing, has diversified through deliberate policies that created a climate attractive to banking and related business services, as well as pharmaceuticals. 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 78% of GO bonds due in 10 years.

Delaware's personal income per capita ranks 12th of the states at 106% of the nation. Unemployment levels are well below the U.S. average (76% of the U.S. rate at 3.8% in December 2007). The pace of employment growth slowed to 1.2% in 2006, below the nation's 1.8% for the year and the state's 2005 growth rate of 1.7%. Year-over-year monthly employment growth in 2007 ranged from 0.3% to 1.5%. The state forecasts employment growth of 0.6% for fiscal 2008 and 0.5% for fiscal 2009.

The Delaware Economic and Financial Advisory Council (DEFAC) reviews revenue forecasts six times each fiscal year. The most recent forecast, from December, estimates fiscal 2008 general fund revenue at $3.4 billion, 2.7% above the prior year as compared to growth of 3.8% in fiscal 2007 and 10.2% in fiscal 2006. The estimate of fiscal 2008 personal income tax revenue has been lowered over the course of the year and currently calls for growth of 2.5%. The December forecast projects that fiscal 2008 will close with a budget reserve and unencumbered cash total of about 6.9% of revenues, down from 7.8% in fiscal 2007. The 5% budget reserve has been fully funded since it was created in 1980.

It is likely that revenue forecasts for the current and upcoming fiscal years will be lowered at the next DEFAC meeting, currently scheduled for March. The governor's fiscal 2009 budget proposal was based on the December estimate of 4.3% revenue growth. The state is developing options for expenditure savings of $50 million - $75 million in fiscal 2008 and 3% in fiscal 2009, as compared to the executive budget proposal.

Recent challenges for the state have included the January 2006 Bank of America purchase of MBNA, the state's largest private employer. The associated job loss is estimated at 2,000 (out of about 10,000 pre-purchase). In addition, 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 enacted legislation to enhance its competitive position in both of these areas, although additional exposure exists if Maryland voters approve gaming in a referendum this November.

In February 2007, Chrysler announced that 700 employees at its Newark, Delaware plant would be eliminated in 2007 and that the plant will be idled in late 2009. The General Motors-United Auto Workers labor agreement assumes no vehicle production at the state's other auto plant after 2011, and the state expects cutbacks to occur in the nearer term. The two plants employ about 2,800.

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 equals about $2.1 billion, or 6.4% of 2006 personal income, with about 50% of debt issued through the transportation authority. This ratio remains well below the double-digit levels experienced in the
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 is overfunded, and Delaware has been at the forefront of states in evaluating ways to address its other post-employment benefits (OPEB) liability.

The bonds will mature March 1, 2009-2028 and are callable beginning March 1, 2016.


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