



**Moody's Investors Service**

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January 11, 2005

Mr. David Singleton  
Delaware (State of)  
820 N. French Street  
Wilmington, DE 19801

Dear Mr. Singleton:

We wish to inform you that on January 03, 2005, Moody's Rating Committee reviewed and assigned a rating of **Aaa** to the State of Delaware's General Obligation Bonds, Series 2005A.

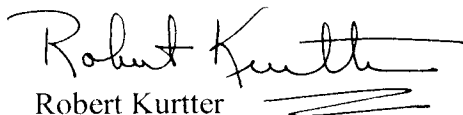
In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, including annual financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's ratings desk.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Caroline Cruise, at 212-553-7203.

Sincerely,

  
Robert Kurtter

RAK: CC: csf

cc:



New Issue: Delaware (State of)

**MOODY'S ASSIGNS Aaa RATING TO DELAWARE'S \$125 MILLION GENERAL OBLIGATION BONDS**

State  
DE

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
General Obligation Bonds, Series 2005A	Aaa
<b>Sale Amount</b> \$125,000,000	
<b>Expected Sale Date</b> 01/07/05	
<b>Rating Description</b> General Obligation Bonds	

**Opinion**

NEW YORK, Jan 3, 2005 -- Moody's has assigned a Aaa rating to the State of Delaware's general obligation bonds, Series 2005A. The rating reflects a state economy that held up better than that of many other states, tightly managed finances, and a debt burden that is among the highest in the country but that remains manageable. The state's economy outpaced the nation's during the 1990s expansion, enabling the state to shore up its reserves and balances, and insulating the state as the economy slowed. Delaware is now performing better than most of the Aaa-rated states in terms of its economic and revenue performances. The rating outlook for the state's general obligation bonds is stable.

**ECONOMY REMAINS SLIGHTLY AHEAD OF NATION**

Given Delaware's historic concentration in manufacturing, it is noteworthy during the nationwide manufacturing slowdown that many economic indicators held up. This is partly due to the state's improved economic diversity relative to historical norms. Because of its small size, Delaware's economy will always show less diversity than larger states, but trends are positive. The banking industry has served as a counterbalance to the state's two large manufacturing industries, chemicals and automobiles, both of which are cyclical industries and have endured cutbacks over recent years. Construction-related employment has also been strong in recent years, reflecting the state's dynamic real estate market. In addition, the growing presence of the biotechnology industry and commercial banks (including credit card banks) in the state have added to the economic diversity of Delaware and have offered many highly paid jobs which have in turn contributed significantly to the state's high personal income levels.

While state employment growth slowed during the recession, roughly tracking national trends, Delaware's economy has stabilized. As of November 2004, Delaware's year-to-date employment growth totaled 1.4%, remaining slightly ahead of the 1% US average. The state's unemployment rates have also remained at or below the country's in recent years. Most recently, Delaware's November 2004 unemployment rate of 4% was markedly below the 5.4% national rate. Delaware's personal income per capita remains high at 106% of the national figure, although down slightly from previous years.

**SOUND FINANCIAL MANAGEMENT**

Demonstrated sound financial management and sustained revenue growth through the 1990s are the strongest features of the state's credit and enabled Delaware to weather revenue softening better than some other states during the national recession. Delaware's constitution requires the state to budget expenditures at 98% of available resources, which helps achieve ongoing balance. There is also a constitutionally mandated budget reserve, requiring that unencumbered budgetary General Funds be transferred to the reserve account up to 5% of General Fund revenue. This funding may be accessed only by a three-fifths vote of the members of each house and may be used only to close a General Fund deficit or to make up for a

legislatively driven revenue shortfall.

Revenue estimates are made by a 31-member panel appointed by the governor, known as the Delaware Economic and Financial Advisory Council (DEFAC). This panel, which includes officials from the public and private sectors, issues revenue and expenditure forecasts that are used by both the Executive and Legislative branches during the budget process. This consensus forecasting, well-managed expenditure growth, appropriations limits, and consistent year-end cash surpluses all contribute to the state's financial strength.

#### REVENUE ESTIMATES REMAIN STRONG; RAINY DAY FUND FULLY FUNDED

After a couple of years of sluggish revenue growth, net general fund receipts in fiscal 2004 were up 12% over fiscal 2003, totaling \$2,735 million. In addition, the state ended the year with a fully funded Rainy Day Fund at \$136.5 million. While many states tapped or even depleted their Rainy Day Fund to address its revenue softening over the past few years, Delaware has consistently maintain it untouched.

The most recent December DEFAC forecast, however, decreased slightly its estimated tax receipts for fiscal 2005 from the previous forecast, reflecting higher than expected income tax refunds and a drop in projected franchise tax collections. Personal income tax receipts are still expected to increase 5.9% over fiscal 2004 and lottery revenues 3.2%. Increased competition of slots betting in neighboring states is anticipated over the next few years, but its expected impact on Delaware revenues has been delayed. In particular, while Maryland failed to legalize slot machines during its past legislative session, a bill will most likely reemerge in the next session. Pennsylvania, on the other hand, approved slots at racetracks, but will take some time for implementation, resulting in a delayed impact on Delaware revenues. Overall, fiscal 2005 net receipts are expected to increase 0.7% over fiscal 2004 receipts. More rapid growth of 4.6% growth is projected for fiscal 2006.

#### DEBT BURDEN REMAINS HIGH

Delaware's high debt position has always been its weakest credit factor. While the state does have various statutory debt limits, these limits are fairly generous and have not significantly decreased the state's debt burden. More specifically, total authorized debt may not exceed 5% of estimated General Fund revenues. While the state's debt ratios have inched down over the years, Delaware tax-supported debt as a percent of personal income ranks 7th among the fifty states at 5.6%, well above the 2004 state debt median of 2.4%. Delaware's net tax-supported debt per capita of \$1,800 also ranks 7th among states, well above the \$701 state median. In part, the high debt burden results from the state's role in funding public school construction, a role assumed by local school districts in most other states.

The marginal decline in debt ratios over the past few years reflects an informal state policy to whittle down its debt position through decreased authorizations, defeasances, and increased pay-go capital. This policy, which achieved some momentum in years prior to the recession, shifted by necessity as Delaware's revenue picture dimmed. In fiscal 2000, the state authorized \$40 million less of bonding capacity than the \$110.7 million that the 5% test would have otherwise allowed. However, for fiscal 2001 and 2002, the legislature authorized the maximum amount of general obligation debt allowable: \$117.2 million for 2001 and \$118.2 million for 2002 (plus an additional \$30 million of debt authorized from prior years). For fiscal 2003, the legislature also authorized the maximum general obligation debt allowable, \$118 million, to which \$40 million was added from previous years' unissued debt caps, totaling \$158 million. Similarly, in fiscal 2004, \$180,000 was added to the maximum allowable GO debt amount, totaling \$125.7 million. The contribution of pay-go capital has also played a critical role in paring state debt but diminished as revenues tightened. The level of pay-go decreased from \$197 million in fiscal 2001 to \$11.0 million in 2002 and \$19.3 million in 2003. For fiscal 2004, once again reflecting the improved revenue picture, the level of pay-go financing was increased to \$142 million.

Going forward through 2006, the state intends to further increase its GO debt levels. While Moody's anticipates Delaware's debt levels will remain significantly above the state median, they are expected to remain at the 5% test level, and still manageable for the state. It should be noted that while Delaware's debt burden is substantial, it does have conservative elements built into it, including declining debt service and a rapid amortization, with approximately 80% of general obligation debt scheduled to mature within ten years.

#### Outlook

The credit outlook for the state is stable. While the state's debt burden is likely to remain proportionately high among states, Delaware performed better than many states during the national economic slowdown and will

continue to experience economic and fiscal growth. The state's Aaa rating speaks to Delaware's financial flexibility, which will continue to give the state latitude in managing this significant debt burden.

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