

**STANDARD  
& POOR'S**

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**REVISED COPY**

January 3, 2005

State of Delaware  
Carvel State Building  
Department of Finance  
820 N. French Street  
Wilmington, DE 19801  
Attention: Mr. David W. Singleton, Secretary of Finance

Re: ***US\$125,000,000 State of Delaware, General Obligation Bonds, Consisting of: \$32,425,000 Series 2005A and \$92,575,000 Series 2005B, dated: February 1, 2005, due: February 1, 2025***

Dear Secretary Singleton:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned a rating of "AAA". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

Mr. David W. Singleton

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To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

Please send all information to:

Standard & Poor's Ratings Services  
Public Finance Department  
55 Water Street  
New York, NY 10041-0003

Standard & Poor's is pleased to be of service to you. For more information on Standard & Poor's, please visit our website at [www.standardandpoors.com](http://www.standardandpoors.com). If we can be of help in any other way, please call or contact us at [nypublicfinance@standardandpoors.com](mailto:nypublicfinance@standardandpoors.com). Thank you for choosing Standard & Poor's and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services  
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By: Steven J. Murphy  
Managing Director

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enclosures

cc: Mr. Robert A. Rich, Senior Managing Consultant  
Public Financial Management

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## Delaware

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### Credit Profile

US\$125. mil GO bnds ser  
2005A dtd 02/01/2005 due  
02/01/2025  
AAA

Sale date: 10-JAN-2005

AFFIRMED  
Outstanding GO bnds  
AAA

OUTLOOK: STABLE

### Rationale

The 'AAA' rating on Delaware's GO bonds series 2005A and outstanding GO debt reflects the state's:

- Long history of strong financial management, including long-range planning, prudent debt policies, and conservative budgeting practices;
- Resilient local economy centered on financial services;
- Above-average per capita income levels; and
- Low debt burden, with manageable projected bonding requirements.

Delaware's financial position continues to be strong. Audited fiscal 2004 results show a \$1.2 billion fund balance, equal to more than 39% of expenditures, up from a seven-year low of \$762.5 million, or 23%, in fiscal 2001. The unreserved fund balance also increased from \$350 million, or 10% of expenditures in fiscal 2001, to \$929 million, or 31% of expenditures, in fiscal 2004. On a GASB 34 basis, the state's net assets increased from approximately \$4.65 billion in fiscal 2003 to \$4.98 billion in fiscal 2004. The increase is due to an increase in the primary government's net assets of more than \$331 million, coupled with a net asset decline in business-type activities of roughly \$64 million. Unrestricted primary government net assets increased for the second consecutive year by nearly \$200 million: to \$1.285 billion at fiscal year-end 2004 from \$1.030 billion at fiscal year-end 2003. Given the fiscal 2005 adopted budget of \$2.6 billion, unrestricted net assets are strong. In fiscal 2005's budget, the budget reserve fund, a "rainy day" account, was funded at \$148.2 million, the full constitutional limit of 5.0% of budgeted revenues.

Revenues in fiscal 2005 through the December 2004 Delaware Economic and Financial Advisory Council (DEFAC) meeting are coming in ahead of fiscal 2004 actual results. DEFAC recognized an additional \$1.1 million (a 1.1% increase) in projected revenues for fiscal 2006 over the September DEFAC estimates, bringing the total anticipated revenues available for the fiscal year to \$2.88 billion.

The state's annual unemployment rate has been below that of the nation for more than 20 years. The September 2004 unemployment rate of 3.9% is well below the nation's 5.1% rate. Median income remains well above the national average, and income growth has mirrored national trends.

Delaware's GO debt burden is a low \$1,221 per capita and 1.5% of market value, with \$1.01 billion in GO debt outstanding. When \$761.6 million of gas tax-supported Delaware Transportation Authority debt and \$117.0 million of appropriation-backed debt are included, debt ratios are even higher at \$2,311 per capita. Amortization remains rapid, with about 75% of debt retired over 10 years and 100% over 20 years. The state remains well within its debt-affordability model guideline.

### Outlook

The stable outlook reflects the expectation that the state's prudent financial and debt management practices will lead to continued sound financial operations.

## **Economy**

Delaware has the highest concentration of finance employment in the nation, with 61 banks and trust companies based in the state. Delaware has passed a number of laws to make the state more favorable for banking and financial firms to locate there, beginning with the 1981 Financial Center Development Act. MBNA America Bank, the largest credit card lender in the world and the leading employer in the state (roughly 11,000 employees), anchors Delaware's credit card industry. ING is continuing to grow in the state, with the renovations of a second building in Wilmington, ING expects to fill 700 new positions. J.P. Morgan Chase & Co (2,900 employees) is investing \$300 million in the state to create two new data centers, and the Wilmington facility is the world headquarters for the corporation's credit card business. Other major employers in the financial services industry in the state include: Bank One (2,400), Wilmington Trust Co. (2,200), and Discover Card (1,200).

E.I. du Pont de Nemours and Co., long the state's leading employer, is now second to MBNA, with roughly 9,400 employees, which is down from a high of 22,500 in 1992. Invista spun-off from DuPont in 2004, as a textile fibers manufacturer, but decided to keep the 350 management position jobs in Delaware. As DuPont continues to position itself to become a global leader in the life sciences, it will attempt to achieve greater economies of scale and contain costs, but as a result, the company is shifting some manufacturing operations from Delaware to the Far East. Growth industries such as biotechnology and pharmaceuticals are expected to offset losses in the state's chemical manufacturing industry over the long term.

The diversified manufacturing sector also includes two automobile plants--DaimlerChrysler Corp. and General Motors Corp. (GM)--which employ a total of 3,000. DaimlerChrysler's Newark, Del. plant, where the newly redesigned Durango sports utility vehicle is assembled, employs 2,100. The GM plant (1,900 employees) was recently retooled to produce the midsize Saturn, but with that model ceasing production, the future of the plant was uncertain. GM recently announced that two new models will be produced at the plant over the coming years, so many jobs will be retained.

Health services firms in the state have experienced steady employment gains. The state's demographic expansion has driven, and is expected to continue to drive, the health industry's long-term expansion. AstraZeneca, the world's third-largest pharmaceutical company, with Wilmington as the site of its North American headquarters, currently employs 4,900 in the state, and continues to build on its campus.

Per capita household effective buying income improved to 111% of the national average in 2003, up from a low of 107% in 2001. Per capita effective buying income is 106% of the national average.

## **Finances**

Delaware's strong financial operations continue, with the financial position very healthy. The audited fiscal 2004 unreserved general fund balance was \$929.2 million and 30.5% of expenditures, including a rainy day fund that was fully funded at \$136.5 million at the start of fiscal 2005. The total general fund balance remained strong at \$1.2 billion, or 39.8% of expenditures, in fiscal 2004. On a GASB 34 basis, net assets grew over \$330 million or 7.1% to \$4.98 billion.

The adopted \$2.60 billion fiscal 2005 operating budget is balanced, and 5.4% greater than the fiscal 2004 budget. The budget adds to the rainy day fund and maintains the conservative practice of budgeting just 98% of revenues. Through the December Delaware Economic and Financial Advisory Council (DEFAC) meeting, total revenues are up 0.7% and expenditures are on target to again close with surplus operations.

Looking ahead to fiscal 2006, the state remains conservatively optimistic, with revenues currently projected to be roughly 4.6% over the fiscal 2005 budgeted estimates. Delaware is also concerned over casino approvals in neighboring Pennsylvania and Maryland. Pennsylvania approved video lottery terminals (VLT) in July 2004, and Maryland has been actively discussing gaming legislation. Delaware estimates that Pennsylvania will affect the state's \$229 million in VLT revenue by \$30 million in fiscal 2006 and Maryland's impact could be as great in the out years.

Delaware has completed two separate actuarial valuations to determine the impact of GASB 45 on the state budget in 2007. GASB 45 address new accounting standards for other post-employment benefits (OPEB), and Delaware projects the impact on the budget to be \$209 million in additionally required budgeted expenditures. The \$209 million is roughly 7% of the fiscal 2007 projected total revenues and although no specific corresponding revenues have been identified to meet this new obligation, the state is ahead of the curve in working to address the OPEB issue.

### **Debt**

Delaware's GO debt burden is favorable at \$1,221 per capita and 3.7% of personal income. Debt ratios are higher at \$2,312 per capita when \$761.6 million of gas tax-supported Delaware Transportation Authority debt and \$117.0 million of appropriation debt are factored in. Delaware maintains the practice of issuing debt for political subdivisions. The state pays between 60% and 80% of the cost of capital improvement for public school districts upon approval of such costs. The district pays the remaining portion. The state also issues bonds on behalf of the school district and pays 100% of the cost, if authorized. State statutes prescribe strict debt limits, with GO and lease debt limited to 5% of estimated general fund revenues. As of June 30, 2004, Delaware's state employee pension plan was overfunded by \$158 million, with a 103% funding ratio.

The fiscal 2005 capital budget is \$772.5 million. Of this, \$138.3 million is allocated for statewide nontransportation projects, \$393.6 million is for transportation trust fund projects, and \$235 million is allocated for pay-as-you-go capital contributions, mainly for transportation projects. Future debt includes another roughly \$100 million issuance in August 2005.

### **Delaware Economic & Financial Advisory Council**

Created in 1977 in response to fiscal challenges of the mid-1970s, the Delaware Economic and Financial Advisory Council (DEFAC) meets at least six times a year to forecast revenue and expenditures. DEFAC is a 36-member council appointed by the governor; historically, however, it has been bipartisan and has had representation from all branches of government, various business community representatives, and state academics. Mandated by executive order, DEFAC must submit annual budgetary general fund and transportation fund revenue forecasts to the governor and state Legislature in September, December, March, April, May, and June for the current fiscal year and succeeding two years. In times of economic uncertainty, DEFAC can meet more frequently. A five-year revenue forecast is to be generated once a year by October. Corresponding expenditure forecasts are required in December, March, April, May, and June. The DEFAC process is open to the public.

Regular DEFAC forecasting has allowed Delaware to take early action in recent years, as revenues have tightened. With the current makeup being bipartisan and representative, the branches of government can then take action on resolving any revenue shortfall or expenditure excess without the common debate over the size of the problem. With 25 years of history, the DEFAC process has become part of the prudent and conservative culture of Delaware's financial management.

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