

CREDIT OPINION

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New Issue

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Delaware (State of)

New Issue- Moody's assigns Aaa to \$225M Delaware GO bonds; outlook stable

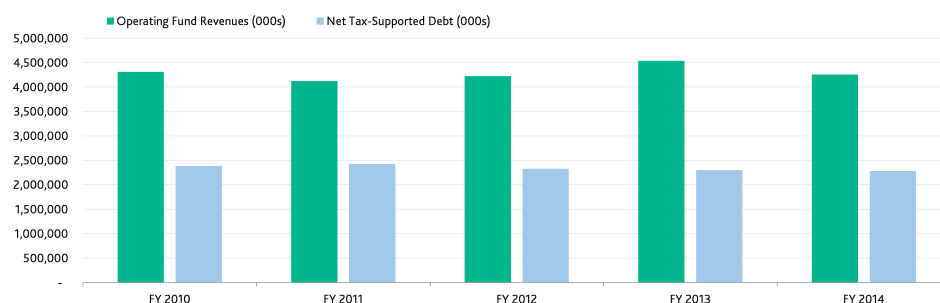
Summary Rating Rationale

Moody's Investors Service has assigned Aaa ratings to the State of Delaware's General Obligation Bonds, Series 2016A and 2016B. The bonds, expected to have a par amount of approximately \$225 million, will price on or around March 1.

Delaware's very strong financial management characteristics and history of maintaining ample budgetary reserves through recent economic cycles support a Aaa, the highest long-term debt rating, on the state's general obligation (GO) bonds.

Exhibit 1

Delaware revenues, debt stable



Source: Moody's Investors Service

Credit Strengths

- » Very strong reserve levels to stabilize state finances in the event of a future economic downturn
- » Financial management policies that include frequent revenue forecast updates and conservative budgeting

Credit Challenges

- » Large debt burden relative to population and income

- » Exposure to potential consolidation or downsizing in the financial services industry

Rating Outlook

Delaware's stable outlook is supported by its strong structural governance features (including frequent revenue forecast revisions) that will keep the state in a strong position relative to peers through future economic cycles.

Factors that Could Lead to a Downgrade

- » Significant increase in debt levels
- » Economic contraction that hurts Delaware more than other states
- » Erosion of trend of strong financial management

Key Indicators

Exhibit 2

Delaware	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Operating Fund Revenues (000s)	4,309,067	4,125,326	4,223,865	4,538,384	4,255,647
Balances as % of Operating Fund Revenues	23.9%	24.9%	22.8%	22.6%	18.5%
Net Tax-Supported Debt (000s)	2,385,363	2,425,352	2,325,311	2,300,239	2,280,579
Net Tax-Supported Debt/Personal Income	6.7%	6.8%	6.2%	5.7%	5.5%
Net Tax-Supported Debt/Personal Income 50 State Median	2.8%	2.8%	2.8%	2.6%	2.5%
Debt/All Governmental Funds Revenue	39.0%	41.5%	39.8%	37.5%	34.2%
Debt/All Governmental Funds Revenue 50 State Median	23.4%	22.7%	24.3%	23.8%	23.0%
Adjusted Net Pension Liability/All Govt Funds Revenue	70.1%	48.2%	98.6%	76.6%	62.4%
Adjusted Net Pension Liability/All Govt Funds Revenue 50 State Median	57.1%	48.7%	63.9%	60.3%	59.2%
Total Non-Farm Employment Change (CY)	-0.6%	0.9%	0.3%	2.3%	2.2%
Per Capita Income as a % of US (CY)	102.1%	100.9%	99.6%	100.1%	99.6%

Source: Moody's Investors Service

Recent Developments

On December 11, DuPont (A3 negative), the state's third-largest private employer, announced that it would merge with Dow Chemical (Baa2 stable). The merger will cause the loss of up to 1,700, or 28%, of DuPont jobs in Delaware.

On December 22, Delaware revised its fiscal 2016 revenue growth projection up to 2.1% from a 0.1% decline projected in September and revised its fiscal 2017 projection to a 0.3% revenue decline compared to a 0.1% decline projected in September, which reflects lower personal income taxes collected as a result of anticipated layoffs at DuPont.

On January 28, the governor proposed a \$4.1 billion fiscal 2017 general fund operating budget. The structurally balanced budget maintains the constitutional limitation on appropriations of 98% of projected revenues, which would act as a cushion should economic conditions deteriorate this year. Cost drivers include a \$33 million increase for employee healthcare and an \$18 million increase in salaries.

Detailed Rating Considerations

Economy and Tax Base

The state's economy has been stable, but growth slowed down in 2015. The state added 2,200 in the 12 months ending December, at 453,500, surpassing its prerecession peak by 7,800. The state's outsized financial sector, 10% of the employment base and 40% of the gross state product, continues to grow. Health and education has provided stability and jobs growth through the recession. The national resurgence in auto manufacturing largely bypassed Delaware and the state's manufacturing employment is stagnant.

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Financial Operations and Reserves

The state's accumulation of significant reserves insulates it from potential future revenue downturns or unanticipated spending pressures. The \$763 million unassigned general fund balance as of fiscal 2015 represented 18% of revenues, the largest such balance among non-energy states. The balance has declined from a recent peak of 29% in fiscal 2010, but we expect the state to maintain high levels of reserves through tight controls on spending, facilitated by its frequent revenue forecast revisions.

LIQUIDITY

Delaware has very strong liquidity in a robust \$1.7 billion cash and investments, or 40% of general fund revenues, as of June 30, 2015.

Debt and Pensions

DEBT STRUCTURE

Delaware's debt burden is high relative to other states, with net tax-supported debt per capita of \$2,438, compared to the national median net tax-supported debt per capita of \$1,419. Delaware's debt amounts to about 5.5% of the state's personal income, based on the 2015 Debt Medians Report. This puts Delaware eighth in the ranking of the states for this measure. The state's relatively high debt burden reflects its role in financing facilities, such as schools and prisons, which in other states would receive capital through local entities.

State law imposes several constraints on Delaware's debt, including a requirement that in any fiscal year the state can only authorize new debt equal to as much as 5% of budgetary general fund revenue projected for the year. Although these limits appear fairly generous, the state's debt burden has decreased since they were enacted.

The state has no outstanding variable-rate debt and has not issued bond- or revenue-anticipation notes since the 1970s.

DEBT-RELATED DERIVATIVES

Delaware is not party to any debt-related derivatives.

PENSIONS AND OPEB

Delaware's fiscal 2014 adjusted net pension liability, \$4.2 billion, amounted to 62% of state governmental revenues, ranking 24th-highest among states, compared with a 59% median.

Delaware had the highest other post-employment benefit (OPEB) contributions as a percentage of revenues, 3.4%, as of fiscal 2013. To address OPEB liabilities, the state created a dedicated trust for OPEB-related payments. The fund had \$312 million as of June 30, 2015. Although this represents only 5% of the actuarial accrued liability, most states have not begun to fund OPEB liabilities. In 2011 the state enacted a law that made significant modifications to employee health care insurance and pension programs. The legislation established a fixed cost share in the state's health insurance programs for both active employees and retirees and increased the time to vest for retiree health benefits. Benefit reforms reduced the actuarial liability down to \$6.0 billion from \$6.8 billion

Management and Governance

The highest rating level assigned to Delaware's general obligation bonds is based in large part on legal provisions that Moody's believes will lead the state to maintain a strong financial profile over a long period. Delaware's constitution requires the state to budget expenditures at 98% of available resources, which helps maintain budgetary balance. There is also a constitutional mandate that unencumbered, budgetary general fund resources, as much as 5% of general fund revenue in any fiscal year, be transferred to a budget reserve (rainy day fund) at the end of the fiscal year. This funding may be accessed only by a three-fifths vote of the members of each chamber of the legislature and may be used only to close a general fund deficit or to provide funds needed as a result of the enactment of legislation reducing revenue. The rainy day fund contained \$212.5 million at the end of fiscal year 2015. It has never been used, and the state at this time does not plan to use it.

A panel of 33 gubernatorial appointees, known as the Delaware Economic and Financial Advisory Council (DEFAC), provides the state's revenue estimates. This panel, which includes officials from the public and private sector, meets six times a year and issues revenue and expenditure forecasts used by both the executive and legislative branches of government during the budget process. The state's requirements for consensus forecasts, well-managed expenditure growth, and a limit on appropriations support long-term prospects

for financial strength. Delaware's otherwise strong management profile is tempered by a constitutional requirement that tax increases be approved by a three-fifths legislative majority, which reduces the state's financial flexibility.

Legal Security

The bonds are direct obligations of Delaware to which the full faith and credit of the state will be pledged.

Use of Proceeds

Bond proceeds will be used to fund various capital projects in the state and to refund certain outstanding debt obligations.

Obligor Profile

Delaware is the 45th-largest state by population and 42nd-largest by state gross domestic product. Per capita personal income was 101% of the US level as of 2014.

Methodology

The principal methodology used in this rating was US States Rating Methodology published in April 2013. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 3

DELAWARE (STATE OF)

Issue	Rating
General Obligation Bonds, Series 2016A	Aaa
Rating Type	Underlying LT
Sale Amount	\$203,500,000
Expected Sale Date	03/01/2016
Rating Description	General Obligation
General Obligation Bonds (AMT), Series 2016B	Aaa
Rating Type	Underlying LT
Sale Amount	\$21,500,000
Expected Sale Date	03/01/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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