

New Issue: [Delaware \(State of\)](#)

MOODY'S ASSIGNS Aaa RATING TO DELAWARE'S \$216 MILLION GENERAL OBLIGATION BONDS

STATE HAS MORE THAN \$1.7 BILLION IN NET TAX-SUPPORTED DEBT OUTSTANDING

State
DE

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2008	Aaa
Sale Amount \$215,705,000	
Expected Sale Date 03/04/08	
Rating Description General Obligation Series 2008	

Opinion

NEW YORK, Feb 25, 2008 -- Moody's Investors Service has assigned a rating of Aaa and a stable outlook to the State of Delaware's approximately \$216 million of General Obligation Bonds - Series 2008, which are expected to price on March 4 and have a final maturity date of 2028. Moody's has also affirmed the Aaa rating on all Delaware outstanding general obligation debt. The highest rating assigned to the state's general obligation debt is based on strong financial management characteristics and a history of maintaining ample budgetary reserves throughout recent economic cycles. Proceeds of the bonds will be used to finance various capital projects, and a portion will be used to refund previously issued general obligation bonds.

Credit strengths:

- * Strong financial management and fiscal policies, including frequently updated revenue forecasts and conservative budgeting
- * Fully funded pension plan
- * Proactively managing declining revenue environment

Challenges:

- * Revenues coming in below forecast; further downward revisions expected
- * Large debt burden relative to population and income
- * Exposure to further consolidation or downsizing, respectively, in the financial services and domestic automobile manufacturing industries

HIGHEST RATING REFLECTS FINANCIAL MANAGEMENT STRENGTHS

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). 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 provide funds needed as a result of the enactment of legislation reducing revenue. The Rainy Day Fund is currently fully funded at over \$182 million.

Revenue estimates are made by a 29-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 of government during the budget process. These provisions for consensus forecasts, well-managed expenditure growth, and a limit on appropriations have led to year-end cash surpluses and contribute to the state's long-term prospects for sustained financial strength. The state's otherwise strong management profile is tempered by a constitutional requirement that tax increases be approved by a three-fifths majority in the legislature.

DECEMBER REVENUE PROJECTIONS SHOW WEAKNESS IN 2008

Based on the December 2007 DEFAC revenue forecasts, General Fund revenues for fiscal 2008 are projected to total \$3.378 billion, or 2.7% over fiscal 2007. While banking-related franchise tax revenues are still growing at a healthy pace, and revenue projections for the tax were revised upwards, many other tax revenues are showing signs of weakness. Total receipts were revised down in December 0.4% compared to September's DEFAC results. Personal income tax and gross receipts tax revenues were both revised downward. Lottery revenues for fiscal 2008 were brought down due to increased competition from Pennsylvania. To combat the increased competition, Delaware expanded the hours of video terminals, which essentially erased the effect of the competition from Pennsylvania; 2008 lottery revenue growth is now expected to be about 0%. As December and January estimated payments were both below forecast, it is likely that the next round of DEFAC revenue projections, which will be done in March, will show further downward revisions for fiscal 2008.

The December DEFAC forecasts project revenue growth of 5.2% in fiscal 2009, with healthy growth in personal income taxes, gross receipts taxes, and lottery revenues, as the economy begins to rebound from fiscal 2008's weakness.

FISCAL 2009 BUDGET RECOMMENDATION LIMITS SPENDING GROWTH

In January 2008 the governor proposed a fiscal 2009 budget that would increase spending by 3.8%, to \$3.4 billion. Spending on health and social services would increase 5.7% according to the proposed budget. Spending on public education would grow by 3.8%, and on higher education by 1.9%. Stresses on the budget include the state's rapidly increasing Medicaid enrollment. From 2004 through 2008 (estimated figures for 2008), Medicaid enrollment in the state is expected to increase 14%, placing additional needs on the budget for services. The proposed budget incorporates 4.3% tax revenue growth, as forecast by the December 2007 DEFAC meeting.

ECONOMY SEEING EFFECT OF NATIONAL HOUSING DOWNTURN

Delaware recovered more quickly from the 2001 recession than many other states. When the national economy returned to a job-creation mode in 2004, Delaware's non-farm employment growth rate was significantly faster, at 2.2% versus a 1.1% national pace. The rebound was enough for Delaware to surpass its pre-recession peak total non-farm employment level. The state has enjoyed a lower unemployment rate than the nation in recent years (3.8% versus the nation's 5% in December 2007), and wealth trends have also been positive. Delaware's increasing population is a reflection of this healthy employment base. Delaware's population growth in the 1990s exceeded that of both the mid-Atlantic region and the nation. Between 2001 and 2006, Delaware's population expanded by 7.3%, compared to 1.9% growth for the region and 5.0% for the nation as a whole.

While the Delaware economy has fared well in recent years, the state economy underwent a slowdown in fiscal 2007, in part due to national factors such as the declining housing market and high oil prices. Delaware home sales in the third quarter of 2007 were down 14% compared to the same quarter of the prior year, versus 13.7% for the U.S. Realty transfer tax collections were down 22% in fiscal 2007. Fiscal 2008 year-to-date, collections are down 2.5%. The state is expecting a decline of 7.5% for fiscal 2008, followed by a further decline of 2.5% in fiscal 2009. Employment growth has been sluggish in the state in recent months, with growth rates below the national average.

DEBT BURDEN HAS GROWN AT PACE BELOW 50-STATE MEDIAN

Delaware's debt burden has increased at a slower pace than the 50 states overall in recent years. Its net tax-supported debt totaled \$1,998 on a per-capita basis in Moody's 2007 State Debt Medians report, compared with \$1,650 five years earlier. This 21% increase compares with 37% growth in the median level for all states' debt per capita. Delaware's debt amounts to about 5.5% of the state's personal income, based on the 2007 debt medians report. This is relatively high and puts the state fifth in the ranking of the states for this measure. The state's relatively high debt burden reflects the state's role in financing facilities, such as schools and prisons, that in other states would receive capital through local entities. A 1991 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.

MAIN PENSION PLAN IS FULLY FUNDED

Delaware benefits from a well-funded pension system. The Delaware Employees Pension Plan is currently

funded at over 100%. To deal with other post-employment benefits (OPEB) liabilities (estimated at \$3.2 billion), the state created a dedicated trust to receive OPEB-related payments. Currently \$65 million has accumulated in the fund. The state expects to transfer \$15 million into the fund in fiscal 2009.

Outlook

The outlook for Delaware is stable. The state's relatively high debt burden must be balanced against strong financial management practices grounded in the state constitution, as well as the state's stable economic and fiscal situation and its financial flexibility.

What could move the rating down:

- o Significant increase in debt levels relative to the economy
- o Significant economic contraction
- o Erosion of trend of strong financial management

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