Moody's Investors Service

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January 5, 2004

Mr. David Singleton
State of Delaware
820 N. French St.
Wilmington, DE 19801

Dear Mr. Singleton:

We wish to inform you that on January 5, 2004, Moody's Rating Committee assigned a **Aaa** rating to the State of Delaware's General Obligation Bonds, Series 2004 A.

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 rating 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,

Renee Boicourt

Renee Boicourt
Managing Director (cak)

cc: Robert Rich
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Moody's Investors Service

Global Credit Research
New Issue
6 JAN 2004

New Issue: Delaware (State of)

MOODY'S ASSIGNS Aaa RATING TO DELAWARE'S $158 MILLION GENERAL OBLIGATION BONDS

State
DE

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2004A	Aaa

Sale Amount $157,935,000
Expected Sale Date 01/07/04
Rating Description General Obligation Bonds

Opinion

NEW YORK, Jan 6, 2004 -- Moody's has assigned a Aaa rating to the State of Delaware's general obligation bonds, Series 2004A. A portion of the proceeds, approximately $120 million, will fund various capital projects around the state and the balance will refund previously issued bonds. The rating reflects a state economy that slowed in the context of the national recession but held up better than that of many other states, tightly managed finances, and a debt burden that is among the highest in the country. 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.

DELAWARE ECONOMY STABILIZING

Delaware kept pace with the stellar growth rates posted by the nation during 1990s by most economic indicators and showed more resilience than many states to the national slowdown. While Delaware and its neighboring mid-Atlantic states suffered a higher rate of job losses than the country overall during the early 1990s, Delaware added proportionately more jobs than the nation each year between 1995 and 1999. In 2000, the state and the nation posted a similar growth of about 2.0%, and then both slowed in 2001 with flat growth for the year. Similarly, both experienced a 1% decline in 2002. Through November 2003, the state has experienced relatively flat employment growth relative to the same period the prior year. The state's unemployment rates have also remained at or below the country's in recent years. Most recently, Delaware's November 2003 unemployment rate of 3.7% was markedly below the 5.6% national rate. Delaware's personal income per capita remains high at 106% of the national figure, although down slightly from previous years.

IMPROVED ECONOMIC DIVERSITY HELPS DELAWARE'S POSITION

Given Delaware's historic concentration in manufacturing, it is noteworthy during the nationwide manufacturing slowdown that many economic indicators are holding 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. According to Economy.com's diversity index, Delaware's economy has been diversifying since the mid-1980s, now standing at 0.69 on a 0 to 1.00 scale, compared to 0.20 in 1985. 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. 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.

STRONG FINANCIAL MANAGEMENT

Demonstrated sound financial management and sustained revenue growth through the 1990s are the strongest features of the state's credit and have enabled Delaware to weather revenue softening better than some other states. 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.

FISCAL 2004 REVENUE ESTIMATES UP, REFLECTING SIGNS OF ECONOMIC RECOVERY

While faring better than most states in the nation, Delaware's revenue growth remained sluggish in fiscal 2003, with net receipts up a modest 0.4% from fiscal 2002. The state, however, ended the year with a cumulative cash balance of $464 million, and a fully funded Rainy Day Fund at $129 million. Consistent with the state's tradition of tight financial management, the governor balanced the fiscal 2004 with a revenue package totaling $180 million, which consisted of both recurring and non-recurring measures, including cigarette tax and incorporation tax and fee increases, as well as the expansion of video lottery, but left the rainy day fund untouched. While many states have tapped or even depleted their Rainy Day Fund, Delaware has not dipped into its own to address its revenue softening.

The most recent December DEFAC forecast, however, increased its estimated tax receipts for fiscal 2004 and 2005 from the previous forecast, with 7.5% and 4.7% growth for those years respectively, reflecting initial signs of the state's economic recovery. Since the previous September forecast for fiscal 2004, estimated lottery revenues have declined, but significant revenue increases in abandoned property, personal income and cigarette taxes resulted in a $32 million increase in estimated net receipt increase for the year. In fiscal 2004, while bank franchise tax revenues are expected to decline 3.8% and corporation income tax revenues are projected to remain relatively flat at 0.9% from fiscal 2003, personal income tax, franchise tax and abandoned property revenue are projected to increase by 4.7%, 17.2% and 5.9% respectively over fiscal 2003. Based on these new estimates, the state forecasts ending fiscal 2004 with $475.8 million cumulative cash balance and a fully funded rainy day fund. In addition, in keeping with the state's conservative financial management, the estimated $50 million federal Flexible Aid for fiscal 2004 is to be set aside in a separate fund and not recognized as General Fund revenue.

DEBT BURDEN REMAINS HIGH; CONTINUED INCREASE EXPECTED OVER THE NEXT TWO YEARS

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, especially in years of high revenue growth such as the late 1990s, 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 4.9%, well above the 2003 state debt median of 2.2%. Delaware's net tax-supported debt per capita of $1,599 ranks 6th among states, well above the $606 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 the last several years, has shifted by necessity as Delaware's revenue picture has 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 $125.88 million. The contribution of pay-go capital has also played a critical role in paring state debt but has diminished as revenues have tightened. The level of pay-go decreased from $197 million in fiscal 2001 to $11.0 million in 2002 and $19.2 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. Years of well-managed financial growth have enabled the state to weather the economic slowdown in a manner befitting Delaware's Aaa bond rating. While the state's debt burden is likely to remain proportionately high among states, Delaware has performed better than many states in the nation in the context of the national economic slowdown and is now experiencing signs of economic recovery. 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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