FitchRatings

One State Street Plaza
New York, NY 10004

T 212 908 0500 / 800 75 FITCH
www.fitchratings.com

February 24, 2014

Ms. Stephanie M. Scola
Director of Bond Finance
State of Delaware
Dept. of Finance
Carvel State Office Building
820 North French Street
Wilmington, DE 19801

Dear Ms. Scola:

Fitch Ratings has assigned one or more ratings and/or otherwise taken rating action(s), as detailed in the attached Notice of Rating Action.

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Fitch seeks to continuously improve its ratings criteria and methodologies, and periodically updates the descriptions on its website of its criteria and methodologies for securities of a given type. The criteria and methodology used to determine a rating action are those in effect at the time the rating action is taken, which for public ratings is the date of the related rating action commentary. Each rating action commentary provides information about the criteria and methodology used to arrive at the stated rating, which may differ from the general criteria and methodology for the applicable security type posted on the website at a given time. For this reason, you should always consult the applicable rating action commentary for the most accurate information on the basis of any given public rating.

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The assignment of a rating by Fitch does not constitute consent by Fitch to the use of its name as an expert in connection with any registration statement or other filings under US, UK or any other relevant securities laws. Fitch does not consent to the inclusion of its ratings nor this letter communicating our rating action in any offering document.

It is important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason Fitch deems sufficient.

Nothing in this letter is intended to or should be construed as creating a fiduciary relationship between Fitch and you or between us and any user of the ratings.

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We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time.

Jeff Schaub
Managing Director, Operations
U.S. Public Finance /
Global Infrastructure & Project Finance

JS/mb

Enc: Notice of Rating Action
(Doc ID: 188411)

Notice of Rating Action

Bond Description	Rating Type	Action	Rating	Outlook/ Watch	Eff Date	Notes
Delaware, State of (DE) GO bonds ser 2014	Long Term	New Rating	AAA	RO:Sta	21-Feb-2014	

Key: RO: Rating Outlook, RW: Rating Watch; Pos: Positive, Neg: Negative, Sta: Stable, Evo: Evolving

FitchRatings

Fitch Rates Delaware's $225MM GO Bonds 'AAA'; Outlook Stable

Ratings Endorsement Policy
21 Feb 2014 4:25 PM (EST)

Fitch Ratings-New York-21 February 2014: Fitch Ratings assigns an 'AAA' rating to $225 million state of Delaware general obligation (GO) bonds - series 2014.

The series 2014 bonds are expected to sell via competitive bid on Feb. 27, 2014.

In addition, Fitch affirms the following ratings:
--$1.76 billion in outstanding GO bonds at 'AAA'.

The Rating Outlook is Stable.

SECURITY

General obligation, full faith and credit of the state of Delaware

KEY RATING DRIVERS

CONSERVATIVE FISCAL MANAGEMENT AND STRONG OVERSIGHT PROTECTIONS: Delaware's conservative fiscal management and longstanding constitutional protections designed to ensure surplus operations result in the maintenance of solid fund and cash balances and budgetary reserve funds.

GENERALLY STABLE ECONOMIC BASE: Delaware's economy is based in large part on service-providing enterprises, including financial activities, professional and business services, and education and health organizations. Slow economic growth coming out of the recession has recently picked up momentum while unemployment rates remain below national averages. Finances of the state benefit from its position as legal home of most U.S. corporations.

SOUND PENSION FUNDING: The state employees' pension system maintains solid funded ratios and the state consistently funds its actuarially calculated annual required contributions.

ABOVE-AVERAGE DEBT BURDEN: Although the state debt burden is above average, it reflects centralization of many local government functions and is mitigated by rapid amortization.

RATING SENSITIVITIES

The rating is sensitive to shifts in the state's fundamental credit characteristics including continuation of the state's conservative budgeting practices and strong economic indicators.

CREDIT PROFILE

Delaware's 'AAA' GO bond rating is derived from its considerable economic and financial resources supported by proactive management and institutionalized protections designed to ensure surplus operations. Above-average debt levels incorporate the state's issuance for purposes that are handled at the local government level in other states. Pensions are well funded.

CONTINUED ECONOMIC IMPROVEMENT

The state's economy, diversified through deliberate policies to maintain a climate attractive to banking and financial services, has emerged from its slow growth coming out of the recession to more recent solid growth. Year-over-year (yoy) employment growth trailed the nation in calendar years (CYs) 2011 and 2012 (0.9% and 0.3%, respectively, compared to 1.2% and 1.7%, for the U.S.) and the state is forecasting growth below the national average for CY 2013 (1.3% compared to 1.6% for the nation). However, more robust growth was recorded toward the latter part of 2013, reflected by 2.1% yoy employment growth in December 2013 compared to the national average of 1.7%, which the state believes will continue to carry into CY 2014.

The sectors exhibiting the most yoy positive trends in December included professional and business services (up 5.4%), financial activities (up 4.7%), and leisure and hospitality (up 4.5%). These positive trends were offset by a 0.8% yoy decline in manufacturing in December, reflecting a continued contraction in this sector in the state. The state's current economic forecast anticipates 1.9% annualized growth in 2014 compared to 1.7% for the U.S., with moderating growth of 1.7% and 1.5% for CYs 2015 and 2016, respectively, compared to 1.8% national growth forecast in each of those years.

Historically, Delaware's per capita personal income (PCPI) has modestly surpassed that of the nation and that trend continued through 2012 with PCPI at 101.1% of the national average, ranking Delaware 23rd amongst the states. On a yoy quarterly basis, the state's personal income growth in 2013 was very solid; yoy third-quarter personal income growth of 5.4% compared favorably to 3.6% for the U.S. and was above the 3.3% recorded for the region, while metrics for the first two quarters of 2013 were also above these comparables.

Employment remains concentrated in the banking and services industries; 10.2% of jobs in December 2013 were in financial activities (compared to 5.7% for the U.S.), 14.5% were in business and professional services (compared to 13.7% for the U.S.), and 16.4% were in education and health services (compared to 15.5% for the U.S.) Unemployment levels are typically well below the U.S. average, 6.2% in December 2013 compared to the U.S. rate of 6.7%; an improved rate from one year prior but still well above rates in the mid-3% range prior to the recession.

WELL-MANAGED AND CONSERVATIVE FINANCIAL OPERATIONS
Delaware's financial operations are conservatively managed and ongoing monitoring of both revenues and expenditures by the independent Delaware Economic and Financial Advisory Council (DEFAC) ensures timely knowledge of operating trends; DEFAC reviews the revenue and expense forecast six times a year. Delaware's revenue mix reflects its position as legal home of most U.S. corporations, with various fees and taxes as well as abandoned property revenue all linked to companies being legally domiciled in the state. Abandoned property typically accounts for over 10% of general fund (GF) revenues with collections a high 15% in fiscal 2013; this variable revenue stream was negatively affected by the downturn in financial markets but the state's decision to shorten the dormancy period on held securities has resulted in an increase in these collections.

Following healthy 9% budgetary revenue growth in FY 2011, GF revenues in FY 2012 were initially expected to grow at a 2.3% rate, allowing for personal income, bank franchise, public utility, and gross receipts tax cuts, various fund allocations, and a 2% state employee salary increase to be effective Jan. 1, 2012. Multiple negative revisions to DEFAC's revenue forecast resulted in about $170 million (4.9%) lower revenue for FY 2012 as compared to FY 2011. When combined with 9.8% growth in GF appropriations, GF operations produced a $233 million operating deficit for the fiscal year. The state drew on excess cash balances in the GF to fund the deficit but the budget reserve fund remained fully funded. The unrestricted GF balance was a notable 34% of GF revenue on a GAAP basis in FY 2012.

Strong financial results in fiscal 2013 were fueled by yoy growth in personal income taxes (up 9.4%) that included the push forward of personal income into CY 2012 due to uncertainty over federal tax legislation, as well as yoy growth in corporate income taxes (up 57.8%) and yoy growth in abandoned property revenue (up 77.3%) resulted in an 11% overall increase in revenue from FY 2012. A modest increase of 1.8% in GF appropriations provided for a $71.3 million operating surplus for the fiscal year, increasing cash balances in the GF to $635.9 million, equal to just over 17% of GF revenue for the year. On a GAAP basis, the unrestricted GF balance was a considerable 32.7% of GF revenue for FY 2013.

The enacted $3.8 billion GF budget for FY 2014 incorporated 4.2% growth in public education expense and 5.6% growth in the state's Medicaid program. As a budget balancing measure, the state included several changes and/or extensions to state taxes that were otherwise scheduled to sunset, including maintaining a 4% gross receipts tax rate, reducing the top PIT rate to 6.6% from the prior 6.75% rate but above the 5.95% roll-back rate, and maintaining the statewide estate tax and the corporate franchise tax at the then current maximum levy of $180,000. Total GF revenues in support of the budget were expected to grow by a modest 0.3%, and DEFAC forecast a $187.2 million use of cash balances to fund operations, bringing the cumulative cash balance to $448.7 million (12% of GF revenue).

In December 2013, DEFAC updated the forecast of state revenues and expenditures and lowered the estimated overall appropriation growth in FY 2014 from actual FY 2013 to 3.7%, as well as lowered expected revenue growth to equal that achieved in FY 2013 ($3.7 billion). Budgetary expenditure growth is expected to be supported by 2.9% growth in the PIT, 2.5% growth in gross receipts taxes, and 2.9% growth in corporate income taxes from FY 2013. Abandoned property revenue is expected to decline by 9.3% from FY 2013 due to the state's designation that beginning in FY 2014, any revenue received in excess of $514 million will be considered as special funds and applied outside GF operations. DEFAC currently anticipates the year ending with a reduced use of cash reserves from budget (now $64.7 million) and the cumulative cash balance is expected to equal $571.1 million (15.3% of GF revenue). The budgetary reserve fund is expected to equal $201.7 million.

The governor's proposed budget for FY 2015 totals $3.9 billion; a 3.1% increase from anticipated expenditures in FY 2014. The budget proposal builds on DEFAC's December 2013 revenue estimate for FY 2015 of $3,775 million and allows for the statutory 98% of forecast revenue to be budgeted. The governor has proposed increasing the annual tax on limited liability companies, limited partnerships, and general partnerships and increasing the minimum annual corporation franchise tax. The budget proposal also includes redirecting $40 million in abandoned property revenue back to the GF from the transportation trust fund (TTF) with a proposed $.10/gallon increase in the motor fuels tax providing offset, as well as contributing to a five-year $500 million capital improvement program for transportation purposes. The legislature will review the governor's proposal in the current legislative session.

ABOVE-AVERAGE DEBT BURDEN; SOLID PENSION FUNDING LEVELS
As a small state with a minimal number of local governments, Delaware's service functions are highly centralized, leading to an upper-moderate debt burden. Net tax-supported debt as of June 30, 2013 equals about $2.9 billion, or 6.7% of personal income, with about 42% of debt issued through the transportation authority. This ratio remains below the double-digit levels experienced in the state's very weak fiscal period of the mid-1970s, reflecting steps taken by the state to reduce its bonding for capital. However, the ratio is well above the average debt burden for U.S. states. Debt is still a moderate burden on state resources; debt service was approximately 5.7% of revenues in FY 2013 and a rapid rate of amortization is noted as well.

The state employees' pension system was overfunded until 2009 when investment losses resulted in the development of a small unfunded liability. Pension reforms effective Jan. 1, 2012 aimed to bolster funding ratios through targeted reductions in new employee benefits and increased contributions by new employees. The state also implemented changes to retirees' prescription drug plans for significant annual cost savings to the state. The reported funded ratio was 91.1% as of June 30, 2013 and the state anticipates the ratio to improve in future years due to recent healthy investment returns. Using Fitch's more conservative 7% discount rate assumption (as compared to the state's 7.5% assumption), funding as of June 30, 2013 declines to a still solid 86.3%.

Contact:
Primary Analyst
Marcy Block
Senior Director
+1-212-908-0239
Fitch Ratings, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Eric Kim
Director
+1-212-908-0241

Committee Chairperson
Laura Porter
Managing Director
+1-212-908-0575

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from IHS Global Insight.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria

Additional Disclosure
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