MOODY'S INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aaa RATING TO DELAWARE'S $175 MILLION GENERAL OBLIGATION REFUNDING BONDS

Global Credit Research - 30 Apr 2010

STABLE OUTLOOK APPLIES TO CURRENT ISSUE AND MORE THAN $2.28 BILLION IN NET TAX-SUPPORTED DEBT OUTSTANDING

State
DE

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2010A	Aaa

Sale Amount	$172,295,000
Expected Sale Date	05/03/10
Rating Description	General Obligation

Opinion

NEW YORK, Apr 30, 2010 -- Moody's Investors Service has assigned a rating of Aaa and a stable outlook to the State of Delaware General Obligation Bonds, Series 2010A, in the amount of approximately $175 million. The refunding bonds are expected to price the week of May 3. The state is taking most of the debt service savings in fiscal year 2012, but has savings in each year and is not extending any maturities. In addition, Moody's has affirmed the Aaa rating on the state's outstanding general obligation bonds.

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.

CREDIT STRENGTHS

* Strong financial management and fiscal policies, including frequently updated revenue forecasts and conservative budgeting

* Fully funded pension plan

* Proactive management of declining revenues

CREDIT CHALLENGES

* Economic recession leading to declines in revenues and increasing expenditure needs

* Large debt burden relative to population and income

* Exposure to further consolidation or downsizing in the financial services industry

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 $186 million.

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, meets six times per year and 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 the state's long-term prospects for sustained financial strength. Delaware's otherwise strong management profile is tempered by a constitutional requirement that tax increases be approved by a three-fifths majority in the legislature.

2010 BUDGET SOLVED GAP WITH RECURRING SOLUTIONS

For fiscal year 2010, the state had to find solutions for a gap of $800 million, which represents 25% of General Fund revenues. Measures taken to close the gap included spending cuts (over $300 million), federal stimulus funds (over $150 million), and almost $200 million in new revenues. Of the new revenues, the state enacted tax increases and changes through a broad spectrum of taxes and sectors, including personal income taxes, cigarette taxes, public utility taxes, and the sports lottery.

The Professional and Amateur Sports Protection Act of 1992 exempts Delaware (as well as Nevada, Montana, and Oregon) from the ban of organized betting on sporting events. Delaware decided to start a sports lottery to increase revenues. The National Football League (NFL) sued the state on the grounds that the sports lottery wasn't constitutional; an appellate court decided to limit Delaware's sports lottery to parlay betting (a single bet that links several individual bets and is dependent on all bets winning together) on NFL games. The state has three existing racinos in place in which to operate the sports lottery.

The state has a constitutional Rainy Day Fund, which is currently fully funded at $186 million (the fund is capped at 5% of estimated General Fund revenues). It has never been used, and the state at this time does not plan to use it. The state may access the fund by appropriation to cover a budget deficit or to compensate for revenue reductions; the use of the Rainy Day Fund requires a three-fifths majority vote.

ECONOMY SEEING EFFECT OF NATIONAL 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.

Many economic indicators for the state, such as housing indicators, are still tracking above the national average. Housing permits in February 2010 were up 60% in Delaware, versus an increase of 19% for the U.S. The unemployment rate in Delaware was 9.2% in March 2010, versus the national rate of 9.7%. Employment figures are more negative for the state than for the nation as a whole, in large part due to the effects of the closure of auto manufacturing plants in the state. Moody's Economy.com, however, is expecting that the state will grow out of the recession at the same rate as the nation.

DEBT BURDEN HAS GROWN AT PACE BELOW 50-STATE MEDIAN

While Delaware's debt burden is high relative to other states, it has increased at a slower pace than the 50 states overall in recent years. Its net tax-supported debt totaled $2,128 on a per-capita basis in Moody's 2009 State Debt Medians report, compared with $1,599 in the 2003 report. This 33% increase compares with 43% growth in the median level for all states' debt per capita for the same time period. Delaware's debt amounts to about 5.4% of the state's personal income, based on the 2009 debt medians report. This puts Delaware sixth 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. 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.

The state has no outstanding variable rate debt.

MAIN PENSION PLAN IS FULLY FUNDED

Delaware benefits from a well-funded pension system. The Delaware Employees Pension Plan is 99% funded (as of the end of fiscal year 2009). To address other post-employment benefits (OPEB) liabilities (estimated at $5.6 billion), the state created a dedicated trust for OPEB-related payments. $85 million had accumulated in the fund as of December 31, 2009.

Outlook

The outlook for Delaware is stable. The combination of the state's strong structural governance features (including frequent revenue forecast revisions), speedy actions to deal with downward revenue revisions, the use of recurring solutions to solve gaps, a low-risk debt profile and high pension funding ratio will result in the state coming out of this recession in a strong position relative to its peers.

What could move the rating--DOWN:

o Significant increase in debt levels relative to the economy

o Significant economic contraction that is worse than most states

o Erosion of trend of strong financial management

MOST RECENT RATING ACTION AND PRINCIPAL METHODOLOGY

The most recent rating action with respect to the State of Delaware was on October 6, 2009, when the rating of Aaa with a stable outlook was assigned to the State of Delaware's General Obligation Bonds.

The rating assigned to the State of Delaware was issued on Moody's global rating scale. Market participants should not view the recalibration of municipal ratings as rating upgrades, but rather as a recalibration of the ratings to a different rating scale. This recalibration does not reflect an improvement in credit quality or a change in our credit opinion for rated municipal debt issuers. For further details regarding the recalibration of Moody's U.S. municipal ratings to its global scale please visit www.moodys.com/gsr.

The principal methodology used in assigning the rating was Moody's State Rating Methodology, published in 2004 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

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