

# MOODY'S

## INVESTORS SERVICE

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250 Greenwich Street  
New York, NY 10007  
www.moody's.com

February 11, 2013

Ms. Stephanie Scola  
State of Delaware  
820 North French Street  
Wilmington, DE 19801

Dear Ms. Scola:

We wish to inform you that on February 11, 2013, Moody's Investors Service assigned a rating of **Aaa** to State of Delaware, General Obligation Bonds, Series 2013A

**Aaa** to State of Delaware, General Obligation Bonds, Series 2013B

In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure of current 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 at 212-553-7203.

Sincerely,



Emily Raimés  
VP-Sr. Credit Officer/Manager

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## INVESTORS SERVICE

### New Issue: Moody's assigns Aaa rating to Delaware's \$340 million Series 2013A and 2013B General Obligation Bonds

Global Credit Research - 11 Feb 2013

#### Stable outlook applies to current issue and more than \$2.4 billion of net tax-supported debt outstanding

DELAWARE (STATE OF)  
State Governments (including Puerto Rico and US Territories)  
DE

#### Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2013A	Aaa
<b>Sale Amount</b> \$115,010,000	
<b>Expected Sale Date</b> 02/19/13	
<b>Rating Description</b> General Obligation	

General Obligation Bonds, Series 2013B	Aaa
<b>Sale Amount</b> \$225,000,000	
<b>Expected Sale Date</b> 02/19/13	
<b>Rating Description</b> General Obligation	

#### Moody's Outlook

#### Opinion

NEW YORK, February 11, 2013 --Moody's Investors Service has assigned Aaa ratings to the State of Delaware's General Obligation Bonds, Series 2013A and 2013B. The 2013A bonds are expected to have a par amount of approximately \$115 million. The 2013B bonds are expected to have a par amount of approximately \$225 million (preliminary and subject to change). The bonds are expected to price the week of February 19 and have a 20-year final maturity.

#### SUMMARY RATING RATIONALE

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.

#### STRENGTHS

- \* Strong financial management and fiscal policies, including frequently updated revenue forecasts and conservative budgeting
- \* Healthy pension funded status
- \* Proactive management

#### CHALLENGES

- \* Economic recession caused declines in revenues and increasing expenditure needs
- \* Large debt burden relative to population and income

\* Potential exposure to further consolidation or downsizing in the financial services industry

## DETAILED CREDIT DISCUSSION

### 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 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 \$186.4 million at the end of fiscal year 2012 and currently has more than \$198.9 million. It has never been used, and the state at this time does not plan to use it.

A panel of 34 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 sectors, meets six times per 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.

### FISCAL 2014 BUDGET PROPOSAL

The governor's proposed General Fund budget for fiscal year 2014 totals \$3.7 billion, or about 3.5% over the prior year. The budget manages the beginning of the sunset of some tax increases the state passed in 2009 by lowering rates below what they are now, but keeping them above what they would be if they were allowed to sunset. The state lowered the top personal income tax rate effective January 2012, and it also lowered the rate on the gross receipts tax, the public utility tax and the bank franchise tax. The governor proposes reducing the top personal income tax rate from 6.75% to 6.6%, effective January 2014 (following the sunset schedule would lower the rate to 5.95% in January 2014). The budget proposes similar reductions, but not sunsets, of the estate tax and the gross receipts tax. The proposed budget maintains a fully funded rainy day fund.

### ECONOMY IMPROVING MODESTLY

Delaware's economy has stabilized after the recent downturn and is showing a very modest recovery. The unemployment rate, which has been below the national average for the whole downturn, was 6.9% in 2012 compared to 8.1% for the US. The state posted low employment growth in 2012, just 0.2% compared to the national average of 1.4%. Monthly housing starts in 2012 averaged growth of 32% on a year-over-year basis, versus 28% for the US. Moody's Analytics is expecting that the state's economic recovery will modestly outperform the nation.

### DEBT BURDEN HAS GROWN AT PACE BELOW 50-STATE MEDIAN

Delaware's debt burden is high relative to other states, with net tax-supported debt per capita of \$2,674, compared to the national median net tax-supported debt per capita of \$1,117. Delaware's debt amounts to about 6.8% of the state's personal income, based on the 2012 Debt Medians Report. This puts Delaware fifth 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.

### HEALTHY FUNDING LEVELS FOR MAIN PENSION PLAN; IMPROVEMENTS TO OPEB

Delaware benefits from a well-funded pension system. The Delaware Employees Pension Plan has a reported funded ratio of 91.5% (as of the actuarial valuation dated end of fiscal year 2012).

To address other post-employment benefits (OPEB) liabilities, the state created a dedicated trust for OPEB-related payments. The fund had \$174 million as of December 31, 2012. In 2011 the state enacted a bill that made significant modifications to

employee's health care insurance and pension plan 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 care benefits. Further reducing the state's OPEB liability was the state's participation, effective January 1, 2013, in an Employee Group Waiver Plan, or EGWP, which shifts the cost of retiree pharmacy benefits to the Centers for Medicare and Medicaid Services. This has brought the actuarial liability down from \$6.8 billion to \$5.8 billion.

#### 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 MAKE THE RATING GO DOWN

- o Significant increase in debt levels
- o Significant economic contraction that is worse than most states
- o Erosion of trend of strong financial management

#### PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Moody's State Rating Methodology published in November 2004. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

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