MOODY'S
INVESTORS SERVICE

7 World Trade Center
250 Greenwich Street
New York 10007
www.moodys.com

February 20, 2014

Ms. Stephanie Scola
State of Delaware
820 North French Street, 8th Floor
Wilmington, DE 19801

Dear Ms. Scola:

We wish to inform you that on February 19, 2014, Moody's Investors Service assigned a rating of **Aaa** to the State of Delaware's General Obligation Bonds – Series 2014.

In assigning such rating, Moody's has relied upon the truth, accuracy and completeness of the information supplied by you or on your behalf to Moody's. Moody's expects that you will, on an ongoing basis, continue to provide Moody's with updated information necessary for the purposes of monitoring the rating, including 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 the analyst assigned to this transaction, Julius Vizner at 212-553-0334.

Sincerely,
Moody's Investors Service, Inc

Moody's Investors Service, Inc.

MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Delaware's $225M Series 2014 General Obligation Bonds; outlook stable

Global Credit Research - 19 Feb 2014

Delaware has $2.3 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 2014		Aaa
Sale Amount	$225,000,000	
Expected Sale Date	02/27/14	
Rating Description	General Obligation	

Moody's Outlook STA

Opinion

NEW YORK, February 19, 2014 --Moody's Investors Service has assigned a Aaa rating to the State of Delaware's General Obligation Bonds, Series 2014. The 2014 bonds are expected to have a par amount of approximately $225 million. The bonds are expected to price on or around February 27 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 $199 million at the end of fiscal year 2013 and currently contains $202 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 sector, 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 2015 BUDGET PROPOSAL

The governor's proposed General Fund budget for fiscal year 2014 totals $3.8 billion, $138 million or 3.0% over the prior year. Cost drivers include a 1% general salary increase ($16 million), increased enrollment in K-12 schools ($19 million) and increased health and social service spending ($13 million). The budget pays for increased spending with $90 million in cuts and $51 million in additional taxes levied on businesses incorporated in Delaware.

The governor has also proposed investing $1.1 billion in transportation over the next five years, an increase of $500 million over the current financial plan. Half of the proposed increase is paid for with a ten-cent gas tax increase and indexing it to inflation, which will bring in an additional $50 million annually. The other half is debt financed.

ECONOMIC RECOVERY ACCELERATES

Delaware's economy is looking better than it has since the 2007-2009 recession. Payrolls are finally expanding, rather than just stabilizing or stagnating. However, the state is still trying to recover ground lost during the recession. The state gained 8,900 jobs in the year ending December 2013, when it had 433,700 nonfarm jobs, which is 36,500 more than at its low-point in 2010 but remains 12,100 below its pre-recession peak. Financial activities, which make up 10% of employment and almost half of the economy, has been growing. Health and education, as in most states, has provided stability and jobs growth through the recession and subsequent recovery. Manufacturing employment, however, continues to stagnate as the national resurgence in auto manufacturing largely bypassed Delaware.

DEBT BURDEN EASES RELATIVE TO 50-STATE MEDIAN

Delaware's debt burden is high relative to other states, with net tax-supported debt per capita of $2,536, compared to the national median net tax-supported debt per capita of $1,074. Delaware's debt amounts to about 6.2% of the state's personal income, based on the 2013 Debt Medians Report. This puts Delaware seventh 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.

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.

PENSION FUNDING SLIPS IN FISCAL 2013; STATE ADDRESSES OPEB LIABILITY

Delaware does not have an exceptionally large unfunded pension liability compared to other states. Its adjusted net pension liability of $5.8 billion as of fiscal 2012 was 98.6% of state governmental revenues, ranking 15th-highest of all states, for whom the median is 63.9%. On an as-reported basis, the funded ratio of the state employees portion of the Delaware Public Employees' Retirement Plan decreased slightly to 91.1% in fiscal 2013 from 91.5% in fiscal 2012. Delaware regularly contributes 100% of the annual pension cost.

To address other post-employment benefits (OPEB) liabilities, the state created a dedicated trust for OPEB-related payments. The fund had $222 million as of July 1, 2013. Although this represents only 3.7% of the actuarial liability, the state is ahead of other states that have not yet begun to fund this liability. 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 $6.0 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

The principal methodology used in this rating was US States Rating Methodology published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Julius Vizner
Lead Analyst
Public Finance Group
Moody's Investors Service

Emily Raimes
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376

Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA