

MOODY'S ASSIGNS A1 RATING TO CITY OF DOVER'S (DE) \$3.42 MILLION GENERAL OBLIGATION REFUNDING BONDS, SERIES 2003

AFFIRMATION AFFECTS \$3.8 MILLION OF OUTSTANDING PARITY DEBT, POST REFUNDING

Dover (City of) DE
Municipality
Delaware

Moody's Rating

Issue	Rating
General Obligation Refunding Bonds, Series 2003	A1
Sale Amount	\$3,400,000
Expected Sale Date	09/29/03
Rating Description	General Obligation

NEW YORK, September 24, 2003 -- Moody's Investors Service has assigned an A1 rating to the City of Dover's \$3.42 million General Obligation Refunding Bonds, Series 2003. At this time, Moody's also affirms the rating on the city's \$375,000 of outstanding parity debt. Proceeds of the bonds, which are secured by the city's general obligation, unlimited property tax pledge, will refund the city's outstanding Series 1992 and 1995 bonds without change to the maturity structure, for a net present value savings of approximately 6% of refunded principal. The A1 rating reflects the city's economic stability and diversity, satisfactory financial performance with heavy reliance on utility transfers, and manageable debt position.

DIVERSE ECONOMIC BASE ADDS STABILITY

Moody's expects continued moderate tax base growth, given the diversity of economic activity in the city. Fully valued at \$1.7 billion as of fiscal 2003, the city's tax base has grown at an average annual rate of 4.9% over the past five years, including 13.4% growth following reassessment in fiscal 2003. The diverse local economy includes significant health care, retail/entertainment, and manufacturing concerns. The city, which is the state capital and Kent County (GO rated A1) seat, also includes a sizable government sector presence. In addition, the city is home to Dover Air Force Base, which includes the C5 fleet, the world's largest freight aircraft and houses 25% of the nation's airlift capacity. The base is considered to be well-positioned with regards to the Department of Defense's upcoming base realignment. Unemployment, at 4.2% as of July 2003, mirrors the 4% state unemployment rate. Median family income and per capita income are at 87.5% and 83.4% of the state levels, respectively.

STABLE FINANCIAL PERFORMANCE; FORMALIZED BUDGET CONTROLS IMPLEMENTED

Moody's expects the city's financial condition to remain healthy, given strong revenue growth over the past five years, and the recent implementation of various budget controls which are expected to restrain expenditure growth going forward. The city ended fiscal 2002 with a \$2.02 million General Fund operating surplus, bringing total General Fund reserves to \$3.6 million, equivalent to 18.2% of General Fund revenues, of which approximately \$2.4 million is undesignated. Undesignated reserves, combined with the city's \$685,000 contingency reserve, represent 15.2% of revenues, which Moody's believes provides the city with adequate financial flexibility. Fiscal 2001, in contrast, had ended with a \$2.5 million decrease in reserves, due primarily

to the purchase of an office building, which was subsequently sold to the Electric Fund during fiscal 2002. Unaudited results for fiscal 2003 indicate a \$1.7 million operating surplus, which is estimated to bring General Fund balance to nearly \$5.4 million, or 25.6% of revenues, a return to the city's fiscal 2000 reserve level. Undesignated reserves are estimated to reach \$2.9 million as of fiscal 2003. Budget assumptions for fiscal 2004 are conservative, including revenue growth of 2.8% over fiscal 2003 levels, and expenditures remaining essentially flat, excluding the impact of the reallocation of certain internal service functions into the General Fund. Management has implemented a variety of policies to maintain the city's financial health, including implementing an undesignated General Fund reserve levels minimum of 8% of operating revenue, strengthening budgetary controls, adjusting salary levels to stay in line with neighboring communities, and increasing the frequency of actuarial analyses so that the city is more proactive in funding liabilities.

The city relies heavily on transfers from its electric utility (rated A1), and to a lesser extent, its water and sewer utility (rated A3). Utility transfers have provided approximately 30% of annual General Fund revenues over the past five years. Electric system operations have historically remained stable, and the utility maintains working capital reserves equal to more than 100% of the utility's budget, which Moody's believes somewhat mitigates the risks associated with reliance on utility transfers.

DEBT BURDEN EXPECTED TO REMAIN AFFORDABLE

Moody's expects the city's debt burden to remain affordable, given ongoing property tax base growth and rapid retirement of debt. Direct debt burden is a nominal 0.4%, with overall debt burden at 1.6%, including the overlapping debt of Kent County and the Capital School District. Amortization of debt is above average, with 81.2% of principal repaid within ten years. The city's capital improvements plan (CIP) is primarily focused on electric utility (39%) and water and sewer utility (19%) improvements, with general government projects comprising approximately 18% of the CIP.

KEY STATISTICS

2001 Population: 32,135

FY 2004 Full Valuation: \$1.7 billion

FY 2003 Full Value Per Capita: \$53,098

1999 Median Family Income as % of State Average: 87.5%

1999 Per Capita Income as % of State Average: 83.4%

Unemployment, July 2003: 4.2%

Overall Debt Burden: 1.6%

Payout of Principal (10 years): 81.2%

FY 2002 General Fund Balance: \$3.6 million (18.2% of General Fund revenues/transfers)

Post-Sale Parity Debt Outstanding: \$3.8 million

ANALYSTS:

MOODY'S ASSIGNS A3 RATING TO CITY OF DOVER'S (DE) \$7.96 MILLION WATER AND SEWER REVENUE REFUNDING BONDS, SERIES 2003

UPGRADE TO A3 FROM Baa1 AFFECTS \$7.96 MILLION IN OUTSTANDING PARITY DEBT, POST-REFUNDING

Dover (City of) DE
Water/Sewer
Delaware

Moody's Rating

Issue	Rating
Water and Sewer Revenue Refunding Bonds, Series 2003	A3
Sale Amount	\$8,000,000
Expected Sale Date	09/29/03
Rating Description	Water & Sewer Revenue

NEW YORK, September 24, 2003 -- Moody's Investors Service has assigned an A3 rating to the City of Dover's (DE) \$7.96 million Water and Sewer Revenue Refunding Bonds, Series 2003. Proceeds of the bonds, which are secured by a pledge of the net revenues of the city's water and sewer system, will refund all of the system's outstanding revenue debt without change to the maturity structure, for a net present value savings of approximately 5.2% of refunded principal. The refunded debt carried a rating of Baa1. The current offering also includes \$1.6 million of new money, which will finance the replacement of the Division Street water main and the construction of the U.S. 13 Interceptor, a gravity sewer line to connect Dover Downs to the system's Schwartz pumping station. Assignment of the A3 rating reflects the utility's improved financial performance; concentrated, yet stable customer base; adequate system capacity to support moderate customer base growth and modest debt position. Adequate bondholder legal protections include 1.2 times rate covenant and 1.2 times additional bonds test.

PLEDGED REVENUES PROVIDE SATISFACTORY DEBT SERVICE COVERAGE

Moody's expects system financial performance to provide satisfactory coverage of debt service requirements, given average revenue growth of approximately 6.3% annually over the past five years, while expenses have increased at an average annual rate of 1.8% during that time period. Revenue growth was driven primarily by rate increases in recent years. Net revenues provided 2.38 times annual debt service coverage in fiscal 2002, and are expected to provide 2.39 times coverage in fiscal 2003, according to unaudited results. Pro-forma projections through fiscal 2008 estimate annual debt service coverage and peak debt service coverage ranging from 2.63 times to 2.97 times. Moody's considers these projections to be reasonable, as revenue increases incorporate only 1% growth in the customer base, which is below actual growth levels in recent years, and expense projections reflect historic patterns. The system's fiscal 2002 operating ratio of 65.6% is just above the 63.9% national median. While officials estimate that this will increase to 71.2% in fiscal 2003, pro-forma projections indicate that the operating ratio will be at or below the national average during fiscal years 2005 through 2008.

MODESTLY GROWING CUSTOMER BASE IS CONCENTRATED, BUT STABLE

While the system's customer base is somewhat concentrated, Moody's believes that the largest customers are stable, somewhat mitigating concentration risk. The ten largest customers are estimated to have generated 27.4% of system

revenues in fiscal 2003. The system is not overly dependent on any one industry sector, however. The largest customers include Procter and Gamble (Sr. Unsecured rated Aa3), which accounted for 9.1% of estimated revenues, and has reportedly made recent investments at its Dover plant; Duke/Fluor Daniels, the city's power plant; Dover Downs, a racetrack and video lottery casino; and Delaware State University. The system serves 11,670 customers in the city and contiguous portions of Kent County (GO rated A1). Customer growth has been stable, averaging 1.6% per year over the past five years.

Water supply and treatment capacity are projected to meet customer demands through 2015. Water supply is from fifteen deep wells and seven shallow wells. Current permitted capacity at the city's Long Point Road Water Treatment Facility is 10 MGD, with production capacity of 12 MGD. Average daily demand is 5.25 MGD, and peak demand during fiscal 2003 was 8.19 MG. Wastewater treatment is provided by contract with Kent County. The county's wastewater treatment plant has a permitted capacity of 15 MGD, as compared with average daily flow of 11 MGD. The county is currently evaluating options to increase treatment capacity. Officials report that current wastewater treatment capacity exceeds the city's growth projections. The contract between the city and county is unlimited as to flow quantities.

DEBT POSITION EXPECTED TO REMAIN MANAGEABLE

Moody's expects the system's debt position to remain manageable, given no additional planned borrowing through fiscal 2008. The system's debt ratio is moderate at 25.4% as of fiscal 2002, compared with a national median of 31.6%. Retirement of debt is rapid, with 70.4% of principal retired within ten years. Proceeds of the current issue will refund all of the system's outstanding revenue debt without change to the maturity structure, for a net present value savings of 5.2% of refunded principal, and will provide \$1.6 million for the replacement of the Division Street water main and the construction of the U.S. 13 Interceptor, a gravity sewer line to connect Dover Downs to the system's Schwartz pumping station.

KEY STATISTICS

2002 customers: 11,670

Top ten customers as a % of revenue: 27.4%

FY 2002 operating ratio: 65.6%

FY 2002 debt service coverage: 2.38x

FY 2002 maximum annual debt service coverage: 2.37x

FY 2002 debt ratio: 25.4%

Amortization of principal (10 years): 70.4%

Post-sale parity debt outstanding: \$7.96 million

ANALYSTS:

Lisa Cole, Analyst, Public Finance Group, Moody's Investors Service
Patrick Mispagel, Backup Analyst, Public Finance Group, Moody's Investors Service

CONTACTS:

Journalists: (212) 553-0376