

## **NOTE 5. GENERAL OBLIGATION BONDS**

General Obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for State administrative operations, public and higher education, public and mental health, correction and conservation purposes and for maintenance and construction of highway facilities.

The State Constitution provides that the State may issue general obligation bonds for specific purposes in amounts approved by the General Assembly. The enabling acts pursuant to which the bonds are issued provide that all bonds issued shall be direct obligations of the State of Delaware; that is, the bonds are secured by the pledge of the full faith and credit of the State. General Obligation bonds are redeemed over a period not to exceed 20 years, generally from available resources in the General fund. Accordingly, the State of Delaware has generally issued 10 and 20-year serial bonds with equal amounts of principal maturing each year. Bonds outstanding have call provisions providing for early redemption at the option of the State, generally beginning 8 or 10 years following the date of issue in the inverse order of maturity, in whole or in part, at a redemption price not to exceed 101% to 103% of par value.

On July 23, 2002, the State issued \$261,645,000 of general obligation bonds. These serial bonds mature between July 1, 2003 and July 1, 2023, and bear average annual interest rates of 4.58%. A portion of these proceeds, amounting to \$133,645,000 was used to advance refund \$132,740,000 of general obligation bonds. Investments were purchased and placed in an irrevocable trust with an escrow agent. The investments and fixed earnings on the investments are sufficient to fully provide for all future debt service on the refunded bonds. The refundings resulted in an economic gain of \$6,459,000 and a debt service cash savings over the next 16 years of \$10,843,000. The remaining proceeds of these bonds were used to provide funds for capital improvements to various State facilities.

On January 8, 2003, the State issued \$133,050,000 of general obligation bonds. These serial bonds mature between July 1, 2003 and July 1, 2023, and bear average annual interest rates of 3.87%. A portion of these proceeds, amounting to \$33,050,000, was used to advance refund \$34,530,000 of general obligation bonds. Investments were purchased and placed in an irrevocable trust with an escrow agent. The investments and fixed earnings on the investments are sufficient to fully provide for all future debt service on the refunded bonds. The refundings resulted in an economic gain of \$2,135,000 and a debt service cash savings over the next 8 years of \$2,215,000. The remaining proceeds of these bonds were used to provide funds for capital improvements to various State facilities.

On December 18, 2002, the State issued \$760,000 in General Obligation Qualified Zone Academy Bonds (QZABs). The QZABs are debt instruments that carry a substantial federal tax credit to the lending financial institution. The lender receives no interest payment from the borrower but receives an interest tax credit. The lender benefits from the tax credit that provides a greater return than bond interest would provide, while the State benefits because the loan is essentially interest free. Proceeds were used for renovation of public schools. The bonds mature in 2016.

Bonds issued and outstanding totaled \$854,261,900 at June 30, 2003. The State is authorized to issue an additional \$229.2 million of general obligation bonds at June 30, 2003. Interest rates and maturities of the outstanding General Obligation Bonds are detailed on the following page.

**General Obligation Bonds**

Sale #	Description	Interest Rates	Maturity Date (Fiscal Year)	Balance	
				Outstanding June 30, 2003	
				(Expressed in Thousands)	
188	GO Refunding 2003B	4.0% - 5.0%	2012	\$	33,050
187	GO 2003A	2.625% - 5.0%	2023		100,000
186	QZAB 2002B	0%	2017		760
185	GO 2002A G.O. + Refund	4.0% - 5.25%	2012		261,645
184	QZAB 2001B	0%	2011		649
183	GO + Refunding 2001A	4.0% - 4.75%	2021		144,547
182	GO 2000 A	5.0% - 5.5%	2020		57,500
181	GO 1999 A	4.0% - 4.625%	2019		77,000
179	GO + Refunding 1998A	4.5% - 4.75%	2018		83,415
178	GO 1997 B	5.0%	2017		19,500
177	GO 1997 A	5.0%	2017		24,000
176	GO 1996 A	4.5% - 5.125%	2016		22,500
175	GO 1994 B	5.25% - 6.125%	2015		6,750
174	GO 1994 A	4.6% - 5.2%	2014		12,210
173	GO Refunding 1993 B	2.5% - 5.0%	2012		315
172	GO 1993 A	4.25% - 5.0%	2013		1,500
171	GO Refunding 1992 C	2.75% - 5.75%	2010		4,285
170	GO 1992 B	4.7% - 6.1%	2013		4,636
					4,636
				\$	854,262

In prior years, the State has defeased certain general obligation bonds by creating separate irrevocable trust funds. New debt has been issued or cash appropriated and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt. Accordingly, the debt has been considered defeased and therefore has been removed as a liability from the Government-wide financial statements. As of June 30, 2003, a total of \$166.7 million of defeased bonds were outstanding.

The table presented on the following page sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2003.

**TOTAL GENERAL OBLIGATION BONDS**  
(Expressed in Thousands)

<b>Fiscal Year Ending June 30</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>Total</b>
2004	\$ 94,312	\$ 38,358	\$ 132,670
2005	89,945	34,501	124,446
2006	86,261	30,379	116,640
2007	81,324	26,167	107,491
2008	72,240	22,446	94,686
2009-2013	267,825	69,888	337,713
2014-2018	111,635	23,659	135,294
2019-2023	50,720	5,541	56,061
Totals	<u>\$ 854,262</u>	<u>\$ 250,739</u>	<u>\$ 1,105,001</u>

Changes in general obligation bonded debt during the year ended June 30, 2003, are summarized in Note 10.