

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 15, 2017

NEW ISSUE

**Ratings: Fitch “AAA”
Moody’s “Aaa”
S&P “AAA”**

In the opinion of Bond Counsel, interest on the Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, subject to the condition described in “TAX MATTERS” herein. Interest on the Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes. However, under the Internal Revenue Code of 1986, as amended, interest on the Bonds may be subject to certain other taxes affecting corporate holders of the Bonds. In addition, under existing statutes, interest on the Bonds is exempt from personal and corporate income taxes imposed by The State of Delaware. For a more complete discussion, see “TAX MATTERS” herein.



THE STATE OF DELAWARE
\$225,000,000*
General Obligation Bonds,
Series 2017

Dated: Date of Issuance

**Due: March 1 as shown on
the Inside Front Cover**

The Bonds consist of The State of Delaware’s (the “State”) \$225,000,000* General Obligation Bonds, Series 2017 (the “2017 Bonds” or the “Bonds”). The Bonds are general obligations of the State and the full faith and credit of the State will be pledged for the payment of the principal of and interest on the Bonds.

Interest on the Bonds is payable semiannually on March 1 and September 1 of each year commencing September 1, 2017.

The Bonds maturing on or after March 1, 2028 are subject to redemption at the option of the State on or after March 1, 2027, and prior to maturity, in whole or in part at any time and from time to time, in any order of maturity and interest rate selected by the State (and within a maturity and interest rate by lot) at 100% of the principal amount of the Bonds to be redeemed, plus interest accrued and unpaid to the redemption date.

The Bonds will be issued in book-entry form as fully registered bonds in denominations of \$1,000 and integral multiples thereof. The investor will not receive physical delivery of Bond certificates. Principal and interest payments on the Bonds will be paid to The Depository Trust Company or its nominee as record owner of the Bonds and investors should look for payment to the institution from which their 2017 Bonds were purchased.

The Bonds are offered when, as and if issued and received by the Underwriters (as defined hereafter) subject to prior sale, to withdrawal or modification of the offer without notice, and subject to the approving legal opinion of Saul Ewing LLP, Bond Counsel, Wilmington, Delaware, and certain other conditions. It is expected that the Bonds will be available through the facilities of The Depository Trust Company for delivery in New York, New York, on or about March __, 2017.

The date of this Official Statement is February __, 2017.

* Preliminary, subject to change.

THIS PRELIMINARY OFFICIAL STATEMENT has been deemed final by The State of Delaware for the purposes of Securities and Exchange Commission Rule 15c2-12 subject to revision and completion as contemplated by said Rule. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

MATURITIES, AMOUNTS, RATES, YIELDS AND PRICES

2017 Bonds

<u>Maturity (March 1)</u>	<u>Principal*</u> <u>Amount (\$)</u>	<u>Interest</u> <u>Rate (%)</u>	<u>Yield (%)</u>	<u>Price (\$)</u>	<u>CUSIP</u> <u>Number⁽¹⁾</u> <u>(246381)</u>
2018	11,250,000				
2019	11,250,000				
2020	11,250,000				
2021	11,250,000				
2022	11,250,000				
2023	11,250,000				
2024	11,250,000				
2025	11,250,000				
2026	11,250,000				
2027	11,250,000				
2028	11,250,000				
2029	11,250,000				
2030	11,250,000				
2031	11,250,000				
2032	11,250,000				
2033	11,250,000				
2034	11,250,000				
2035	11,250,000				
2036	11,250,000				
2037	11,250,000				

* Preliminary, subject to change.

⁽¹⁾ Copyright 2006, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the State nor the Underwriters take any responsibility for the accuracy of such CUSIP numbers. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2017 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity.

No dealer, broker, salesperson or other person has been authorized by the State or by the Underwriters to give any information or to make any representation in connection with the Bonds or the matters described herein, other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied on as having been authorized by the State or by the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date thereof. Only the statements and information contained herein should be considered in making an investment decision with respect to the Bonds. This Official Statement is distributed in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

All estimates and assumptions herein have been made on the best information available at the time of issuance and are believed to be reliable, but no representations whatsoever are made that such estimates or assumptions are correct or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Neither the Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the holders of the Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

The Underwriters of the Bonds have provided the following sentence for inclusion in this Official Statement: The Underwriters of the Bonds have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters of the Bonds do not guarantee the accuracy, completeness or fairness of such information.

If and when included in this Official Statement, the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “assumes” and analogous expressions are intended to identify forward-looking statements, and any such statements are subject inherently to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such forward-looking statements speak only as of the date of this Official Statement. The State disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the State’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

All quotations from and summaries and explanations of provisions of laws and documents described herein do not purport to be complete and reference is made to said laws and documents for full and complete statements of their provisions.

Upon issuance, the Bonds will not be registered under the Securities Act of 1933, as amended (the “Act”), or under any state securities laws in reliance upon exemptions contained in such Act or under such state securities laws. The Bonds will not be listed on any stock or other securities exchange. Any registration or qualification of the Bonds in accordance with applicable provisions of securities laws of the states in which the Bonds may be registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency, except the State, will have passed upon the accuracy, completeness or adequacy of this Official Statement or approved the Bonds for sale. Any representation to the contrary may be a criminal offense.

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OFFICIAL STATEMENT
of
THE STATE OF DELAWARE

\$225,000,000*
General Obligation Bonds, Series 2017

INTRODUCTION

This Official Statement (including the cover page and the appendices, the “Official Statement”) has been prepared by The State of Delaware (the “State” or “Delaware”) and provides certain information about the State and its \$225,000,000* General Obligation Bonds, Series 2017 (the “2017 Bonds” or the “Bonds”). The Bonds are issued as tax-exempt obligations of the State under the Internal Revenue Code of 1986, as amended (the “Code”).

Brief descriptions of the State, the authorizing Resolution (as defined below) of the State's Issuing Officers (as defined below), and the Bonds are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Resolution and the Bonds are qualified in their entirety by reference to such documents. All such descriptions are further qualified in their entirety by reference to laws relating to or affecting generally the enforcement of creditors' rights and general principles of equity. Copies of such documents are available for inspection at the offices of the Secretary of Finance of the State.

DESCRIPTION OF THE BONDS

General Information

The Bonds are general obligations of the State to be issued pursuant to a resolution adopted on February __, 2017 (the “Resolution”) by the Governor, the Secretary of Finance, the Secretary of State and the State Treasurer (the “Issuing Officers”). The Bonds will contain a pledge of the State's full faith and credit for the payment of the principal of and interest on the Bonds. The Bonds are dated and bear interest from their date of delivery payable commencing September 1, 2017, and thereafter semi-annually on each March 1 and September 1 (each an “Interest Payment Date”) at the rate or rates per annum and shall mature, all as set forth on the inside cover page of this Official Statement. The Bonds will be issued as fully registered bonds in denominations of \$1,000 and integral multiples thereof.

Interest on the 2017 Bonds will be paid on each Interest Payment Date by the State by check or draft mailed to the holders of the 2017 Bonds on the Record Date (as described below) in respect of such Interest Payment Date to the registered addresses of such holders, as shown in the bond register, maintained by the State. The Record Date with respect to any Interest Payment Date for the 2017 Bonds is the fifteenth (15th) day of the calendar month preceding such Interest Payment Date. Principal on the 2017 Bonds will be payable upon presentation and surrender of such 2017 Bonds by the holders of the 2017 Bonds at the office of the State Treasurer, in Dover, Delaware, at maturity.

* Preliminary, subject to change.

Redemption

Optional Redemption

The Bonds maturing on or after March 1, 2028 are subject to redemption at the option of the State on or after March 1, 2027, and prior to maturity, in whole or in part at any time and from time to time, in any order of maturity and interest rate selected by the State (and within a maturity and interest rate by lot), at 100% of the principal amount of the Bonds to be redeemed, plus interest accrued and unpaid to the redemption date.

Notice of Redemption

Notice of redemption will be mailed to registered owners of the Bonds not less than 20 days nor more than 60 days prior to any optional redemption date in the manner and upon the terms and conditions set forth in the Resolution. The State, so long as a book-entry system is used for determining ownership of such Bonds, will send the notice of redemption to The Depository Trust Company (“DTC”). Any failure of DTC to mail such notice to any DTC participant will not affect the validity of the redemption of the Bonds. If at the time of mailing of a notice of redemption, the State shall not have deposited with the bank or depository acting as refunding escrow agent money sufficient to redeem all Bonds called for redemption, the notice of redemption may state that it is conditional, i.e., that it is subject to the deposit of sufficient redemption money with a refunding escrow agent not later than the redemption date, and such notice shall be of no effect unless such money is so deposited.

Authorization and Purpose

The Bonds are issued pursuant to the State Constitution, statutes of the State, including acts of the General Assembly (the “General Assembly”) authorizing the issuance of the Bonds (the “Authorization Acts”) and the Resolution. The proceeds of the Bonds will be applied to pay for various capital facilities of the State and to provide financing for other capital projects, as authorized by the Authorization Acts.

The State will allocate the debt service with respect to the Bonds to various capital facilities. All of such Bonds are authorized to be sold as twenty-year bonds and all of the Bonds will be sold as twenty-year bonds.

The State Constitution provides that any money borrowed by the State shall be used exclusively for the purpose for which it is borrowed, but that if any borrowed money remains after a project has been completed or abandoned, such money may be expended according to law. The Delaware Code provides that any funds borrowed pursuant to an Authorization Act and not expended for the purposes set forth therein shall be deposited in a special fund and applied with the approval of the Issuing Officers to the remaining costs of any project authorized by any prior Authorization Act.

Any premium from bonds or revenue notes, including the Bonds, shall, at the discretion of the Director of the Office of Management and Budget, Controller General and the Secretary of Finance:

- (1) Be deposited in a special fund of the State and applied for the purposes for which such bonds or notes were issued or as otherwise provided by law; or
- (2) Be deposited in any escrow fund to redeem, refund or defease debt service on existing bonds or notes of the State, or debt service on any debt or other obligation of an instrumentality of the State.

In the event that a deposit is made pursuant to paragraph (1) above, bond authorization shall be reduced by a corresponding amount.

SOURCES AND USES OF FUNDS

The sources and uses of funds to accomplish the purposes of the Bonds are expected to be as follows:

SOURCES:	<u>2017 Bonds</u>
Par Amount:	\$
[Net] Original Issue [Premium/Discount]	—
Total Sources:	<u>\$</u>
USES:	
Capital Projects	\$
Underwriters' Discount	
Other Financing Expenses*	—
Total Uses:	<u>\$</u>

* Includes Financial Advisor's fees, estimated fees and expenses of Bond Counsel, printing costs, rating agency fees and miscellaneous expenses.

SECURITY FOR BONDS

The Bonds are direct obligations of the State to which the full faith and credit of the State will be pledged. The payment of principal of and interest on debt obligations of the State is made pursuant to appropriations by the General Assembly of the State. Historically, the State has appropriated funds for and paid the principal of and interest on its debt obligations as they have come due.

If the State fails to make sufficient provision to pay the principal of and interest on the Bonds, or, at the time such amount is payable, sufficient funds are unavailable for such payment, a sufficient sum to pay such principal and interest is required by State law to be set apart by the State Treasurer from the first revenues thereafter received by the State. The State Treasurer may be required to set apart and apply such revenue to the payment of such principal and interest at the suit of any holder of the Bonds.

In the event the State fails to make timely payment of the principal of or interest on the Bonds, the owner of the Bond on which default in payment has occurred may also sue the State for breach of contract. In the opinion of the Attorney General of the State, the State may not successfully invoke the defense of sovereign immunity in an action alleging breach of contract by the State, and in the further opinion of the Attorney General, the Bonds pertaining thereto are such contracts. Any judgment against the State obtained in such an action, however, must be paid solely from funds appropriated by the General Assembly for the purpose of such payment.

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DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements of general obligation bonds of the State, prior to and after giving effect to the issuance of the Bonds.

General Obligation Bond Debt Service⁽¹⁾⁽²⁾

(expressed in millions)

Fiscal Year Ending June 30	<u>Prior to Issuance of the Bonds</u>				<u>After Issuance of the Bonds</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Principal Outstanding</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Principal Outstanding</u>
2017	172.1	79.3	251.4	1,730.8				
2018	165.5	73.3	238.9	1,565.2				
2019	148.2	66.1	214.2	1,417.1				
2020	130.9	59.7	190.6	1,286.2				
2021	128.8	53.6	182.4	1,157.4				
2022	128.5	47.7	176.2	1,028.9				
2023	126.9	41.4	168.3	902.0				
2024	120.1	35.4	155.6	781.8				
2025	106.8	30.5	137.4	675.0				
2026	103.0	26.2	129.2	572.0				
2027	97.7	21.9	119.6	474.3				
2028	88.5	17.7	106.2	385.8				
2029	81.4	14.1	95.5	304.4				
2030	82.0	10.3	92.3	222.4				
2031	64.4	7.4	71.8	157.9				
2032	53.9	5.0	58.9	104.1				
2033	42.0	3.3	45.3	62.1				
2034	30.2	1.9	32.0	31.9				
2035	21.9	0.8	22.7	10.0				
2036	10.0	0.3	10.3	0.0				
TOTAL	<u>\$1,902.9</u>	<u>\$595.8</u>	<u>\$2,498.7</u>					

(1) Totals may not add due to rounding.

(2) Outstanding gross debt service (excludes Federal Interest Subsidy on Build America Bonds and Qualified School Construction Bonds).

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BONDED INDEBTEDNESS OF THE STATE

Authorization of General Obligation Debt

General obligation bonds and bond anticipation notes of the State are issued and the proceeds thereof appropriated to various purposes pursuant to the Authorization Acts. Under the State Constitution, Authorization Acts become law upon the approval of three-quarters of all the elected members of each house of the General Assembly and the concurrence of the Governor. The Governor may veto a bill by returning the bill to the house of the General Assembly in which the bill originated within ten days of receipt, Sunday excepted. The General Assembly may override the Governor's veto by a three-fifths vote of all members in each house. No bill becomes law after final adjournment of the General Assembly unless previously approved by the General Assembly and approved by the Governor within 30 days after such adjournment. The Governor has veto power over line item appropriations.

Once an Authorization Act is enacted, the Issuing Officers are authorized by State law to issue bonds and bond anticipation notes thereunder. Bond anticipation notes may be issued for a term of one year and may be renewed, but all such renewal notes must mature not later than four years after the date of original issuance of such notes. No bond anticipation notes have been outstanding since fiscal 1978. All bonds are required to mature within 20 years from their date of issuance. Other than bonds issued in fiscal years 2010 through 2017, bonds may not provide for principal payments higher in later years than earlier years (except for refunding bonds, capital appreciation bonds, qualified zone academy bonds and retail bonds) and may have such other terms as the Issuing Officers may determine, subject to the limitations of the Authorization Acts and other provisions of law. The Qualified School Construction Bonds issued in fiscal year 2011 provided for a single maturity of \$59.6 million in fiscal year 2030.

The Issuing Officers are authorized to issue bonds to refund bonds in advance of maturity provided that the refunding results in a present value savings to the State.

The Issuing Officers may also issue revenue anticipation notes, in an amount they determine necessary, to meet a casual deficiency of revenue in the budgetary General Fund to pay budgetary General Fund obligations or to pay existing debts. Revenue anticipation notes may be issued at any time and from time to time prior to June 25 in any State fiscal year. There has not been a State issue of revenue anticipation notes since fiscal 1977. If at any time during the fiscal year prior to June 15 there is a casual deficiency of revenue in the budgetary General Fund to pay budgetary General Fund obligations or to pay existing debts, the State may draw upon available balances in the State's budgetary Special Funds to pay such obligations or debts. Such draws are required to be reimbursed to the appropriate budgetary Special Funds as soon as sufficient budgetary General Fund monies become available, and in any case, the budgetary General Fund cannot evidence a negative balance after June 15 of such fiscal year.

Debt Limits

There is no State Constitutional debt limit; however, the State has statutory debt limits as discussed herein.

In 1991, the State enacted legislation to replace the previous statutory debt limits with a three-part debt limit, effective July 1, 1991, as follows:

First, the aggregate principal amount of new "tax-supported obligations of the State" (hereinafter defined) which may be authorized in any one fiscal year (excluding refunding bonds) may not exceed 5% of estimated net budgetary General Fund revenue for that fiscal year, as determined by a Joint Resolution approved by a majority of the members elected to each house of the General Assembly and signed by the

Governor in conjunction with the adoption of the annual Budget Appropriation Bill for that fiscal year (the “5% Rule”). The June 2016 estimate of net general fund revenues for fiscal year 2017 was \$4,048.4 million, thus a total of \$202.4 million of new tax-supported general obligation debt was permitted under the 5% rule and was authorized.

The level of tax-supported debt permitted under the 5% Rule for the current and next four (4) fiscal years is set out in the following table. The fiscal year 2017 debt limit of \$202.4 million is based on Senate Joint Resolution No. 15. However, the December 19, 2016 meeting of the DEFAC reset the 2017 revenue estimates to 3,978.8 million. The revenue estimates for fiscal years 2018 and 2019 are estimates from the December 19, 2016 meeting of DEFAC. Estimates for fiscal years 2020 and 2021 are based on growth rates established at the September 19, 2016 meeting. See “STATE FINANCIAL OPERATIONS — Revenue Summary-Fiscal Year 2017E-Fiscal Year 2019E” herein. DEFAC projections are dependent on a variety of economic factors affecting the State’s projected revenues. See “STATE FINANCIAL OPERATIONS - Revenue and Expenditure Forecasting.”

	The 5% Rule (in millions)				
	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021
Estimated Net Budgetary General Fund Revenue	\$ 3,978.8	\$ 3,995.8	\$ 4,063.3	\$ 4,181.1	\$ 4,306.6
Projected New Tax- Supported Debt Authorizations	\$ 202.4	\$ 199.8	\$ 203.2	\$ 209.1	\$ 215.3

Second, no “tax-supported obligations of the State” and no “Transportation Trust Fund (“Trust Fund” or “TTF”) debt obligations” (each as hereinafter defined) of the Delaware Transportation Authority may be incurred if the aggregate maximum annual payments on all such outstanding obligations (plus certain lease obligations) exceed 15% of the estimated aggregate budgetary General Fund revenue, plus Trust Fund revenue for the fiscal year following the fiscal year in which such obligation is incurred (the “15% Test”). Any such debt incurred would have to comply with this test, as illustrated in the following table:

The 15% Test (in millions)		Fiscal 2017⁽¹⁾
General Obligation Debt Service		\$ 251.4
Less: Excluded Debt Service ⁽²⁾		(64.5)
Other Tax-Supported Debt Service ⁽³⁾		<u>35.7</u>
Total Tax-Supported Debt Service		\$ 222.6
Delaware Transportation Authority (TTF) Debt Service		<u>\$ 94.0</u>
Total Debt Service		\$ 316.6
Estimated Aggregate Budgetary General Fund and TTF Revenue ⁽⁴⁾		\$ 4,549.5
Total Debt Service as Percent of Total Revenue		7.0%

- (1) Year of maximum annual debt service. Totals in column may not add due to rounding.
(2) Portion of general obligation debt service to be reimbursed by local school districts and the Trust Fund.
(3) Includes projected payments on lease obligations of the State.
(4) Based upon December 19, 2016 revenue projections of DEFAC for fiscal year 2018. See “STATE FINANCIAL OPERATIONS - Revenue and Expenditure Forecasting.”

“Tax-supported obligations of the State” include a) all obligations of the State or any agency or authority thereof to which the State's full faith and credit is pledged; and b) all obligations of the State or any agency or authority thereof extending beyond one year with respect to the lease, occupancy or acquisition of property which are incurred in connection with debt financing transactions (for example, certificates of participation), and which are payable from taxes, fees, permits, licenses and fines imposed or approved by the General Assembly. Tax-supported obligations do not include a) obligations incurred to acquire a like principal amount of full faith and credit obligations issued by a local school district to the extent such local school district obligations are not in default; b) any obligations of the Delaware Transportation Authority; c) any tax or other revenue anticipation notes or bonds of the State; or d) obligations to the extent that the debt service with respect thereto is reasonably expected to be offset (as determined by the Secretary of Finance) by lease payments, user fees, federal grants or other payments from a non-budgetary General Fund source.

“Transportation Trust Fund debt obligations” include all debt obligations of the Delaware Transportation Authority, including all obligations extending beyond one year with respect to the lease, occupancy or acquisition of property which are incurred in connection with debt financing transactions (for example, certificates of participation), and which in any case are payable from the Trust Fund. Trust Fund debt obligations do not include any obligations to the extent that the debt service with respect thereto is reasonably expected to be offset (as determined by the Secretary of Finance) by lease payments, user fees, federal grants or other payments from a non-State source.

Third, no general obligation debt (with certain exclusions) may be incurred if the maximum annual debt service payable in any fiscal year on all such outstanding obligations will exceed the estimated cumulative cash balances (including all reserves) for the fiscal year following the fiscal year in which such obligation is incurred (the “Cash Balances Test”), as estimated by the Secretary of Finance. The Bonds also comply with the Cash Balances Test, as illustrated below:

The Cash Balances Test
(in millions)

	<u>Fiscal 2017</u> ⁽¹⁾
General Obligation Debt Service	\$ 251.4
Less: Excluded Debt Service ⁽²⁾	(64.5)
Net General Obligation Debt Service	\$ 186.9
Projected Cumulative Cash Balances ⁽³⁾	\$ 457.1

(1) Year of maximum annual debt service. Totals in column may not add due to rounding.

(2) Portion of general obligation debt service to be reimbursed by local school districts.

(3) As estimated by the Secretary of Finance based upon December 19, 2016 budgetary General Fund revenue projections by DEFAC for fiscal year 2018.

General Obligation Debt

As of June 30, 2016, the outstanding general obligation debt of the State, a portion of which is supported by budgetary General Fund revenue and a portion of which is supported by budgetary Special Funds, is expected to be as follows:

Outstanding General Obligation Debt
(in millions)

General Obligation Debt Supported by Budgetary General Fund Revenue

State Facilities	\$ 792.7
School Facilities (State Share).....	<u>592.8</u>
Subtotal.....	\$ 1,385.5 ⁽¹⁾

General Obligation Debt Supported by Budgetary Special Funds

School Facilities (Local Share).....	<u>\$ 517.4</u>
Subtotal.....	\$ 517.4 ⁽¹⁾

Total General Obligation Debt Outstanding.....	\$ 1,902.9 ⁽¹⁾
--	---------------------------

⁽¹⁾ Totals may not add due to rounding.

The State pays between 60% and 80% of the cost of capital improvements for public school districts upon approval of such cost by the State Board of Education. The public school districts pay the remaining percentage. In conjunction with aggregate construction spending of capital improvement projects, the State issues bonds for 100% of the cost of approved school district projects pursuant to Authorization Acts. Simultaneously, the school districts issue their own bonds (the “School District Bonds”) to the State for their 20% to 40% share of capital costs at an interest rate not exceeding 1/4 of 1% above the interest rate on the corresponding State bonds. As debt service payments on the State's bonds become due, school districts are required to pay debt service on the School District Bonds from their tax receipts into the State's budgetary Special Fund, and the State pays the total debt service from both the budgetary General Fund and Special Fund appropriations. This policy allows the local school districts to borrow capital funds at very competitive rates and to lessen the associated costs of issuance and market access.

No public school district has ever defaulted on any such obligation to the State.

Authorized but Unissued General Obligation Debt

Statutory authorization continues to exist for the issuance of additional general obligation debt of the State in the principal amount of \$404.9 million.

General Obligation Note Debt

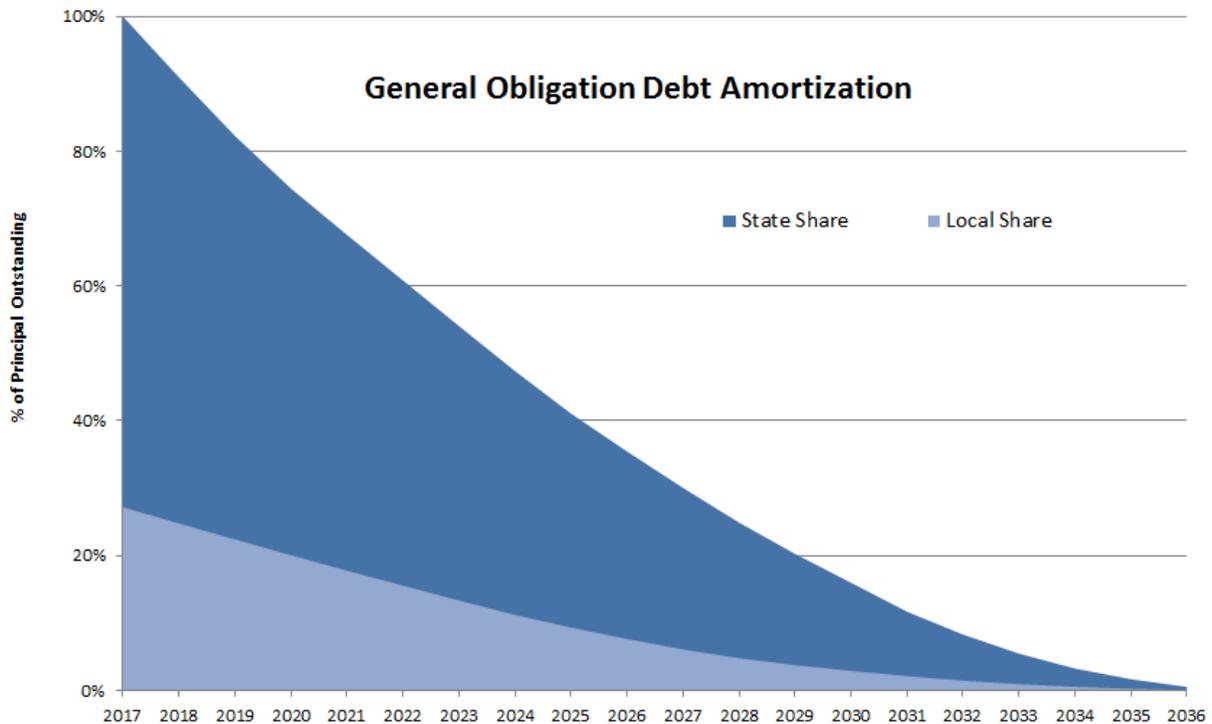
There are no outstanding State general obligation notes or any notes of any authority or agency for whose debt the State has a contingent liability as of the date of this Official Statement.

Future Financings

From time to time, the State enters the capital markets to finance various capital projects that have been authorized by the Authorization Acts. Historically, the State has financed its ongoing capital needs by issuing, when needed, general obligation bonds. At this time, the State does not anticipate entering the capital markets for new money needs until after calendar year 2017. The timing may change as the State updates its assessment of its capital program.

Debt Burden Comparisons

The State's general obligation debt outstanding was \$1,902.9 million as of June 30, 2016 with approximately 70% scheduled to mature within ten years. The following chart further demonstrates the State's commitment to the rapid retirement of its general obligation debt.



Delaware's debt burden reflects the centralized role of the State government in financing capital projects that are typically funded by local governments in other states, such as schools and correctional facilities. In the U.S. Census Bureau's Public Education Finances survey of 2014 issued in June 2016, Delaware ranked 13th in state spending per pupil in elementary – secondary public schools. Of the \$1,902.9 million of debt outstanding as of June 30, 2016, \$517.4 million or 27.2% was issued on behalf of local school districts. This debt is fully supported by the property tax revenues of those districts.

The State has instituted a number of measures designed to manage and reduce its indebtedness, as outlined below.

- **Aggressive Retirement of General Obligation Debt:** The State voluntarily retires its general obligation debt rapidly. Approximately 70.0% of current general obligation debt is scheduled to mature within ten years, as noted above.

- **Strict Debt Limitations:** In 1991, the State instituted new debt limits, one of which restricts new debt authorizations to 5% of budgetary General Fund revenue as projected for the next fiscal year. The debt limit also effectively eliminates the use of any “off balance sheet” financing instruments, such as certificates of participation. See “Bonded Indebtedness of the State - Debt Limits” for further information concerning the State's debt limits.

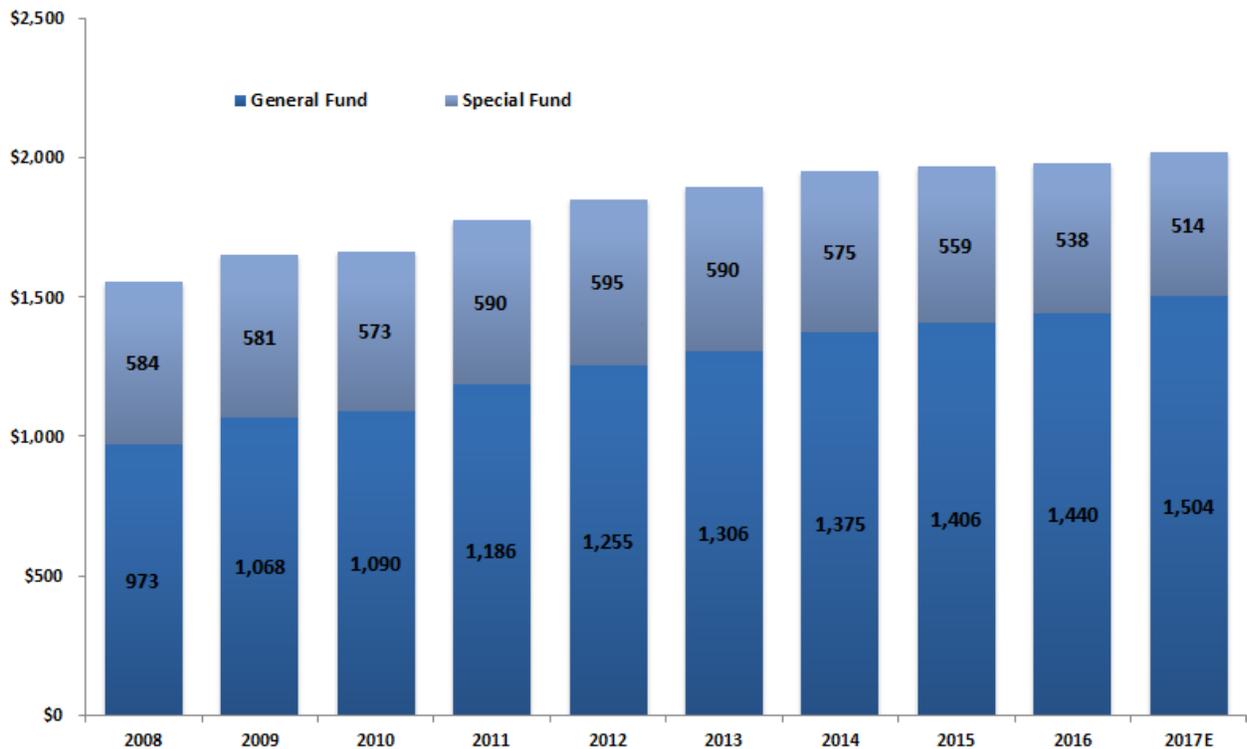
- **Significant “Pay-As-You-Go” Financing:** Over the years, the State has appropriated surplus cash for “pay-as-you-go” financing. Revenue surpluses between fiscal years 1993 to 2001 allowed the State

to appropriate cash on average at a rate of 52.6% of capital expenditures. With more modest revenue growth, cash contributions in fiscal years 2002 and 2003 were reduced. However, between fiscal years 2004 and 2017, the cash funding exceeded \$1.65 billion or 22.7% of capital expenditures.

- Numerous Bond Refundings:** The State has undertaken a series of bond refundings which have lowered the overall debt service on outstanding State general obligation debt. Since fiscal 2003, the State has refunded over \$1,212.0 million of its general obligation bonds for a combined present value savings of \$75.0 million. The State continues to monitor opportunities to refund its outstanding bonds to lower future debt service requirements.

The result of these initiatives has been to reduce the rate of growth in Delaware’s debt burden, as depicted on a fiscal year basis in the following three charts.

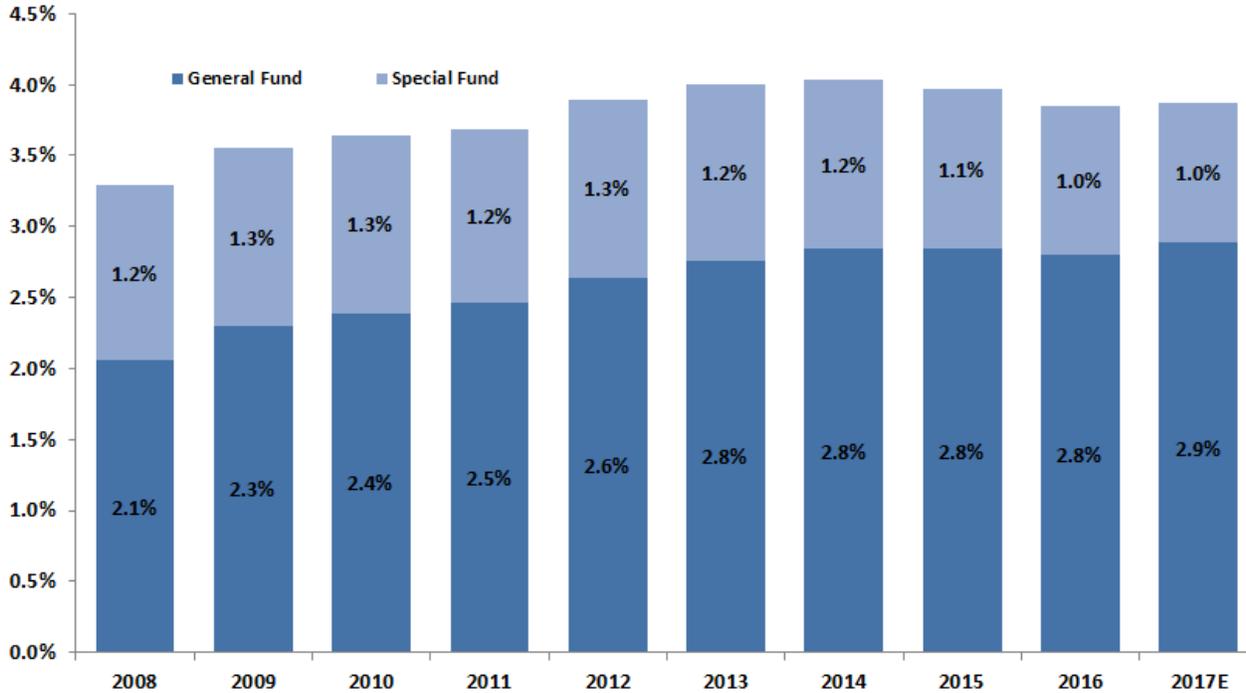
Debt Per Capita at June 30



Notes: The bottom portion of each column represents the portion of general obligation debt funded by the budgetary General Fund. The remainder is funded by budgetary Special Funds. 2017E data assumes a population growth rate of 0.77%.

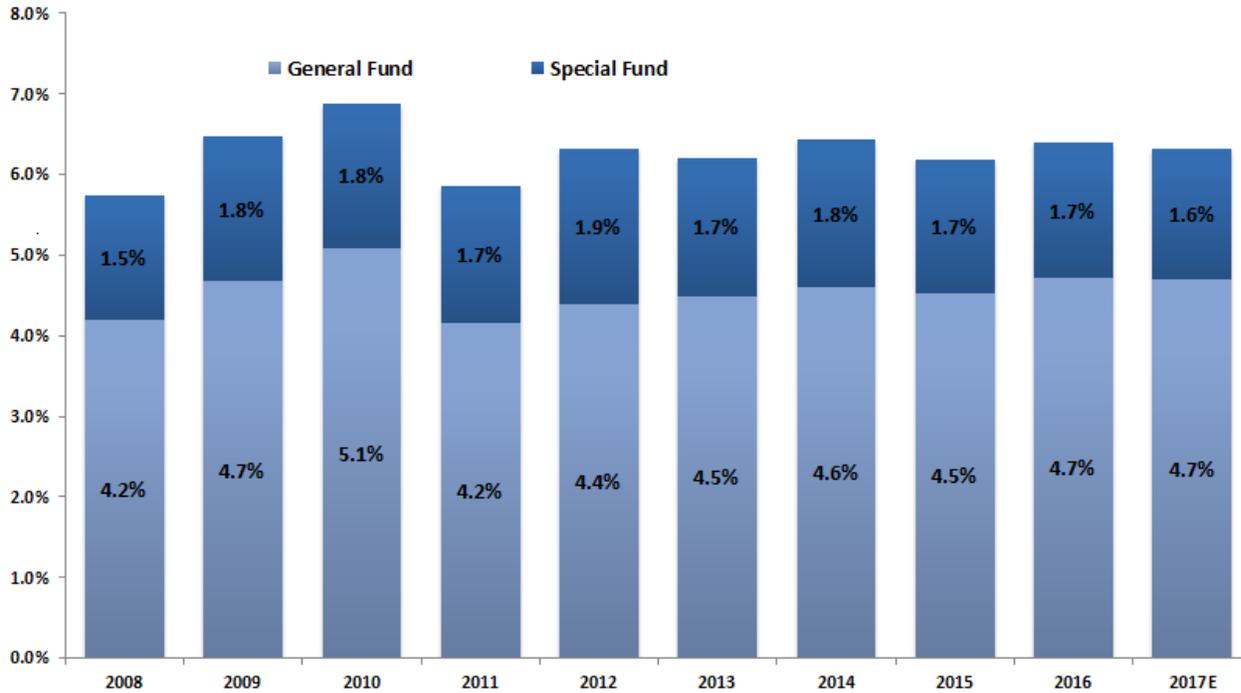
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Debt as a Percentage of Personal Income at June 30



Notes: The bottom portion of each column represents the portion of general obligation debt funded by the budgetary General Fund. The remainder is funded by budgetary Special Funds. Personal Income estimates provided by Global Insight and Delaware Department of Finance.

Debt Service as a Percent of Net Budgetary General Fund Revenue at June 30



Notes: The bottom portion of each column represents the portion of general obligation debt funded by the budgetary General Fund. The remainder is funded by budgetary Special Funds.

Build America Bonds and Qualified School Construction Bonds

“Build America Bonds” are taxable general obligation bonds backed by the full faith and credit of the State and could only be issued in calendar years 2009 and 2010 to finance capital expenditures for which the State could issue tax-exempt bonds. In calendar years 2009 and 2010, the State issued \$295,090,000 in aggregate principal amount of Build America Bonds and elected to receive periodic payments from the United States Treasury on each interest payment date equal to 35% of the corresponding interest payable on such Build America Bonds (the “BAB Subsidy Payments”).

“Qualified School Construction Bonds” are taxable general obligation bonds backed by the full faith and credit of the State and could be issued to finance the construction, rehabilitation, or repair of a public school facility or for the acquisition of land on which such a facility was to be constructed. For calendar years 2009 and 2010, the State received Qualified School Construction Bond allocations of \$29,784,000 and \$29,797,000, respectively. The State carried forward the entire \$29,784,000 from 2009 and issued \$59,580,000 in aggregate principal amount of Qualified School Construction Bonds in 2010 and elected to receive periodic payments from the United States Treasury on each interest payment date equal to the lesser of: (i) the amount of interest payable on the such Bonds on such date; or (ii) the amount of interest that would have been payable on the such Bonds if the interest were determined at the applicable tax credit rate pursuant to Section 54A(b)(3) of the Code published by the United States Treasury on the sale date of such Bonds (the “QSCB Subsidy Payments”).

Subsequent acts of Congress have reduced direct-pay bond subsidy payments by 6.9% in federal fiscal year 2017 and by rates that will be set from time to time through federal fiscal year 2024.

Neither the BAB Subsidy Payments nor the QSCB Subsidy Payments were pledged to the payment of the Build America Bonds or the Qualified School Construction Bonds, respectively. Such subsidy payments are paid directly to the State and the holders of such Build America Bonds and Qualified School Construction Bonds are not entitled to a tax credit related thereto, and interest paid to holders of such bonds is subject to federal income tax.

Sustainable Energy Utility, Inc. Energy Efficiency Revenue Bonds

In August, 2011, pursuant to the Delaware Energy Act, 29 Del. C. §8059, Energy Utility, Inc. (the “SEU”), a Delaware nonprofit corporation created by and for the benefit of the State issued \$67,435,000 of its Sustainable Energy Utility, Inc. Energy Efficiency Revenue Bonds, Series 2011 (the “SEU Bonds”).

The SEU has developed a program (the “SEU Program”) to issue bonds and utilize the proceeds to pay the costs of designing and implementing energy conservation measures (“ECMs”) at the facilities of agencies (defined to include the State, municipalities, school districts, and state and local governmental agencies and institutions of higher learning). The SEU Bonds were issued to finance the initial ECMs for several State agencies and departments participating in the SEU Program (the “Agencies” and each an “Agency”). Each Agency is obligated to make or cause to be made payments (the “Installment Payments”) to the SEU for the ECMs under an Installment Payment Agreement in accordance with the Energy Performance Contracting Act, 29 Del. C. §6971. Each Installment Payment Agreement is the several obligation only of the applicable Agency under which Installment Payments are payable by such Agency out of funds appropriated to such Agency by the State and available for such purpose.

The SEU Bonds are limited obligations of the SEU payable primarily from the Installment Payments to be made by, or on behalf of, the Agencies. The Agencies’ obligations to make Installment Payments are subject to appropriation by the State, and the State is not obligated to make any

appropriation to an Agency. Neither the State nor any political subdivision thereof shall be obligated to make payments on the SEU Bonds. Neither the faith and credit nor the taxing power of the State or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the SEU Bonds. The issuance of the SEU Bonds does not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor, or to make any appropriation for their payment.

Qualified Zone Academy Bonds

Qualified Zone Academy Bonds (“QZAB”) are general obligation bonds backed by the full faith and credit of the State for the repayment of principal, primarily through the use of a sinking fund with a bullet maturity. QZABs are taxable bonds the proceeds of which are limited to improving eligible public schools, such capital projects having been approved by the General Assembly. In lieu of receiving periodic interest payments from the State, an eligible QZAB holder is generally allowed annual federal income tax credits while the QZAB is outstanding.

On December 8, 2006, the State issued \$1,433,000 QZABs for the purpose of financing renovations of the following facilities in the Cape Henlopen School District, Sussex County, Delaware: the Lewes School, Milton Elementary School, Rehoboth Elementary School and H.O. Brittingham Elementary School. In conjunction with such QZAB, the State executed a forward delivery contract requiring that the State establish an escrow account to be funded with annual sinking fund deposits and which will be guaranteed interest at a rate of 2.72% per annum.

In 2004, the State issued \$908,000 QZABs and, in fiscal year 2005, issued \$224,177 QZABs to finance the renovations of the Charlton School in the Caesar Rodney School District, Kent County, Delaware. In fiscal year 2003, the State issued \$760,000 QZABs and, in fiscal year 2002, issued \$649,000 QZABs. The fiscal year 2003 QZAB proceeds funded the renovation of the Charlton School in the Caesar Rodney School District, Kent County, Delaware. The fiscal year 2002 QZAB proceeds assisted in the renovation of Georgetown and Showell elementary schools in the Indian River School District, Sussex County, Delaware. The 2002 QZAB bonds were fully paid off in December 2016.

State Revenue Debt

There is currently no State revenue debt outstanding, nor any plans to authorize any State debt other than State general obligation debt.

Lease Obligations

The State has entered into various property and equipment leases with terms in excess of one year. At June 30, 2016, aggregate remaining lease payments total approximately \$182.5 million with \$127.3 million payable through fiscal year 2021. Real estate rentals account for 86.4% of the aggregate payments and equipment rentals account for the remainder. In addition, the State has entered into long-term capital leases for energy and other equipment with terms in excess of one year and which aggregate remaining lease payments as of June 30, 2016 total approximately \$33.0 million. All payments are subject to annual appropriation. The State may not be held contractually liable for the payments in the event that such appropriations are not made. See “Notes to the Financial Statements - #9, Loans and Notes Payable and #10, Lease Commitments” in the State’s Basic Financial Statements included in its Comprehensive Annual Financial Report (the “CAFR”) for the fiscal year ended June 30, 2016, a link to which is provided under “INDEPENDENT AUDITORS” herein. Lease obligations are subject to one of the State's debt limits, the 15% Test. See “BONDED INDEBTEDNESS OF THE STATE - Debt Limits” for a further explanation.

INDEBTEDNESS OF AUTHORITIES, UNIVERSITIES AND POLITICAL SUBDIVISIONS

Oversight responsibility for the issuance of debt by the State and authorities deemed to be part of the State's financial reporting entity is centralized under the Secretary of Finance. The following section sets forth certain indebtedness of State authorities, Delaware State University, the University of Delaware and political subdivisions of the State. The State is not directly or contingently liable for debt service for any of the following indebtedness:

Authorities

Delaware Transportation Authority

The Delaware Transportation Authority (the "Authority") is a body corporate and politic constituting an instrumentality of the State. The Authority acts by resolution of the Secretary of the Department of Transportation (the "Department"), the Director of Finance of the Department and the Transportation Trust Fund Administrator. The Department has overall responsibility for coordinating and developing comprehensive, multi-modal transportation planning and policy for the State. The Authority assists in the implementation of this policy and has the power to develop a unified system of air, water, vehicular, public and specialized transportation in the State, subject to oversight by the Department and the State as hereinafter described.

To assist the Authority in financing a unified transportation system, the State created the Transportation Trust Fund (the "Trust Fund" or "TTF") within the Authority in 1987 to receive revenue and receipts of the Authority. The primary sources of funding of the Trust Fund are motor fuel taxes, motor vehicle document fees, motor vehicle registration fees, and other transportation-related fees, all of which are imposed and collected by the State and transferred to the Trust Fund. The State has irrevocably pledged, assigned and continuously appropriated these taxes and fees to the Trust Fund. The other major source of funding for the Trust Fund is toll and concession revenue of the Delaware Turnpike and the Route 1 Toll Road. The Authority may apply Trust Fund revenue for transportation projects, subject to the approval of the State, and may pledge any or all of this revenue to secure financings for these projects.

As of December 31, 2016, the Delaware Transportation Authority had outstanding \$630.9 million in Transportation System Revenue Bonds and \$76.0 million in Grant Anticipation Revenue Bonds, or "GARVEEs", which were issued to finance a portion of the costs of completing the final design and right-of-way acquisition activities for a new U.S. 301. The Authority may issue bonds to refund prior Authority obligations.

In December 2015, the Authority issued its U.S. 301 Project Revenue Bonds, Series of 2015 in an aggregate principal amount of \$212.535 million (the "Sr. 301 Bonds") and its Subordinated U.S. 301 Project Revenue Bonds, TIFIA Series of 2015 in a principal amount up to \$211.35 million (the "TIFIA 301 Bond"). Proceeds of the Sr. 301 Bonds and the TIFIA 301 Bond will be used to finance the costs of the construction and equipping of the new U.S. 301. Both the Sr. 301 Bonds and the TIFIA 301 Bond are secured by the revenues generated from the new U.S. 301 toll road as well as by a subordinate lien on the pledged revenues of the TTF that secure the TTF's senior bonds and junior bonds. As of December 31, 2016, no draws have been made on the TIFIA 301 Bond.

Additional bonds secured on parity with the TTF's senior bonds may be issued subject to the satisfaction of debt service coverage tests and certain other requirements. Under certain circumstances, additional revenue may be pledged by the Authority to secure its bonds, in which case such revenue may be taken into account in determining satisfaction of these debt service coverage tests. The Authority may also incur additional debt, which has a lien on revenue subordinate to the lien of other bonds. See "Notes to the Financial Statements - #8,

Revenue Bonds” in the State’s Basic Financial Statements included in its CAFR for the fiscal year ended June 30, 2016, a link to which is provided under “INDEPENDENT AUDITORS” herein.

In addition to debt service coverage tests and certain other requirements, future debt issues of the Authority are subject to one of the debt limits of the State. The debt limit mandates that the aggregate maximum annual payments on the State’s tax-supported obligations and the TTF debt obligations of the Authority (plus certain lease obligations) may not exceed 15% of total budgetary General Fund revenue, plus Trust Fund revenue for the fiscal year following the fiscal year in which such debt is issued. See “BONDED INDEBTEDNESS OF THE STATE - Debt Limits” for a further explanation.

The bonds of the Authority do not constitute a debt of the State or a pledge of the general taxing power or the faith and credit of the State or any political subdivision, agency or instrumentality thereof other than the Authority. The State's pledge and assignment to the Authority of motor fuel tax revenue, motor vehicle document fees, motor vehicle registration fees and other revenue pursuant to State law creates an obligation of the State, until there are no longer any Authority bonds remaining outstanding, to continue to impose and collect these taxes and fees at least at the rates in effect on the date of issuance of the Authority bonds and to transfer this revenue to the Authority. The State, however, has no obligation to increase these taxes or fees to provide sufficient revenue to meet payments of debt service on the Authority’s bonds.

Delaware State Housing Authority

The Delaware State Housing Authority (“DSHA”), created in 1968, had outstanding on December 31, 2016, \$233.5 million of tax-exempt revenue bonds and \$38.7 million of taxable revenue bonds. The total \$272.2 million of the outstanding bonds were issued to finance the purchase of single-family homes. The security for these bonds is mortgage loan repayments, reserve funds, bond proceeds and other revenue. The taxable bonds have been issued primarily to finance second mortgages, providing down payment and closing cost assistance to eligible homebuyers. See “Notes to the Financial Statements - #8, Revenue Bonds” in the State’s Basic Financial Statements included in its CAFR for the fiscal year ended June 30, 2016, a link to which is provided under “INDEPENDENT AUDITORS” herein.

Bonds issued by DSHA (“DSHA Bonds”) do not constitute a debt or liability of the State. The enabling legislation, however, provides that the General Assembly may, but is not obligated to, make appropriations to restore the DSHA’s capital reserve fund if such fund is drawn upon to meet debt service payments on certain of the DSHA Bonds. As of December 31, 2016, there were no DSHA Bonds outstanding which are entitled to the benefit of the capital reserve fund. To date, the General Assembly has not been requested to make any such “moral obligation” appropriations. The statutory debt limit of the DSHA is \$350.0 million in bonds carrying the moral obligation of the State.

Delaware Economic Development Authority

The Delaware Economic Development Authority and its predecessors had outstanding approximately \$751.7 million in economic development revenue bonds on June 30, 2016, none of which are backed by the full faith and credit of the State.

The following two Authorities are not part of the State's financial reporting entity. The State, however, exercises oversight regarding their debt activities.

Delaware Solid Waste Authority

The Delaware Solid Waste Authority (the “DSWA”) was created in 1975 and is the sole entity in the State responsible for the planning and administration of a comprehensive statewide program for the

management, storage, collection, transportation, utilization, processing (including resource recovery), and disposal of solid waste and sewage sludge. On June 1, 2016, DSWA had \$24.5 million outstanding solid waste revenue bonds.

Delaware Health Facilities Authority

The Delaware Health Facilities Authority (the “Health Facilities Authority”), established in 1973, is authorized to issue revenue bonds and notes to finance projects for health care facilities located in the State. As of December 31, 2016, there were outstanding \$554.0 million of revenue bonds issued for the benefit of these facilities. The Health Facilities Authority has no taxing power and no source of funds other than from the contractual obligations of participating health care facilities.

Universities

Delaware State University

There were outstanding on June 30, 2016, \$118.5 million of revenue bonds issued by Delaware State University. These bonds are secured by the Delaware State University's pledge of certain of its net operating revenue and net non-operating revenue, exclusive of gifts, grants, bequests, contributions and donations to the extent specifically restricted to a particular purpose inconsistent with their use for the making of debt service payments and any funds appropriated by the State.

University of Delaware

There were outstanding on June 30, 2016, \$478.8 million of revenue bonds issued by the University of Delaware for housing, dining and other auxiliary facilities. These bonds are secured by revenue generated by the facilities.

Political Subdivisions

The approximate aggregate principal amount of general obligation bond indebtedness of the three counties, the City of Wilmington, the other cities and towns and the school districts of the State, as of June 30, 2016, is outlined in the following table:

General Obligation Debt of Political Subdivisions
(in millions)

New Castle County	\$ 399.9
Sussex County.....	152.4
Kent County	58.6
Wilmington	324.4 ⁽¹⁾
Other Cities and Towns.....	173.9 ⁽²⁾
School Districts	<u>517.4⁽³⁾</u>
Total	<u>\$1,626.6</u>

Source: Chief fiscal officers of respective governmental entities.

- (1) Of this total, \$3.4 million in principal is supported by payments from the Diamond State Port Corporation, an instrumentality of the State. Excludes \$13.5 million of Wilmington Parking Authority bonds guaranteed by the City of Wilmington.
- (2) Excludes revenue bonds and anticipation notes.
- (3) Represents local shares sold by the State on behalf of the school districts (as reported in the earlier chart entitled “Outstanding General Obligation Debt”).

Indebtedness of counties, towns, and cities, other than the City of Wilmington, has been incurred primarily for water and sewer projects and general municipal purposes, subject to various debt limits. The State is not liable for any of this indebtedness. Unlike most other states, the State, rather than the local governments, is principally responsible for capital expenditures for schools and correctional facilities.

School districts may not issue bonds (excluding bonds sold to the State by school districts to fund the 20% to 40% share of capital costs), except to refund outstanding bonds, in an aggregate amount causing bonded debt of the district, less sinking funds on hand for payment of such bonded debt, to exceed 10% of the assessed value of the real property in the district.

ECONOMIC BASE

The State is located on the eastern seaboard of the United States and is bordered by the Atlantic Ocean and the Delaware Bay, as well as by the states of New Jersey, Pennsylvania and Maryland. It has a land area of 1,955 square miles, ranking 49th in area in the United States. The State is 96 miles long and varies from 9 to 35 miles wide, with elevations ranging from sea level to 442 feet. As the first state to ratify the United States Constitution on December 7, 1787, Delaware is known as “The First State.”

Recent History

Since emerging from the Great Recession, Delaware’s economic performance has largely mirrored national trends in terms of employment. Over this period, Delaware has generally posted lower unemployment rates than the United States. More recently, Delaware’s employment has expanded at a pace that exceeds regional and national averages and, while Delaware’s per capita personal income is 99% of the national average, cumulative growth since 2012 has exceeded that of the nation’s growth.

The State’s recent performance is due, in part, to the changing composition of its economic base. The State’s long-established manufacturing sectors, oil-refining and fibers, have suffered as a result of the worst economic downturn since World War II. In response to the shifts in the State’s economic base, however, the State has made important strides to reinvigorate and modernize its manufacturing base. The site of the former Chrysler plant was purchased by the University of Delaware to pursue science, technology and advanced research. The “STAR” campus now houses a health sciences complex dedicated to advanced healthcare research, education and delivery and 12 promising start-ups launched by ex-DuPonters, University of Delaware faculty and others. Bloom Energy now produces solid oxide fuel cells, “Bloom Boxes”, in a new, on-site manufacturing facility, and through a project with NRG Energy Inc., all-electric vehicles give and take power from an electric power grid using technology invented at the University of Delaware.

With a heavy concentration in financial services, the State’s economy could not avoid the effects of recent industry turmoil. The State’s major employers, however, Bank of America, N.A., JPMorgan Chase & Co., Citigroup, Capital One and Wilmington Trust Co, continue to maintain a major presence in the State and demonstrate the State’s importance as a financial center. JPMorgan, especially, continues to make significant investments in Delaware.

The Port of Wilmington boasts the nation’s largest dockside refrigerated complex and is the top importer of fresh fruit in North America. Renovations and a planned expansion will increase the capacity of the Port and dredging of the Delaware River will allow it to process cargo of larger ships.

Diversifying the State’s economy has consistently ranked among State policymakers’ highest priorities since the adoption of the Financial Center Development Act in 1981. The State’s economic development efforts have followed a two-pronged approach. Broadly speaking, the State has continually

improved its business climate using a combination of (i) prudent fiscal management, including judicious tax policy, and (ii) strategic investments in public education and infrastructure. When faced with specific challenges, alert and supportive policymakers have teamed with the business community to develop effective policy responses to a changing economic landscape. The recent activity at E.I. DuPont de Nemours and Company (DuPont) are prime example.

Late in December 2015, DuPont, a Delaware company, announced a merger with Dow Chemical Co., Inc. (Dow) in conjunction with a global cost savings and restructuring plan designed to reduce \$700 million in costs compared with 2015. Under the merger, Dow and DuPont would form DowDuPont, and then separate into three independent companies: (1) agriculture and chemicals, (2) material sciences and (3) specialty products. At the time of the merger announcement, DuPont announced that its specialty products business would remain in Delaware. With the passage of the Delaware Commitment to Innovation Act, which uncapped an R&D credit, made the credit refundable and reinstated the New Economy Jobs Credit, DowDuPont leaders opted to headquarter the agricultural and chemicals business in Delaware as well. The material sciences business is to be headquartered in Midland, Michigan. Subsequently, on December 30, 2015, DuPont announced layoffs accounting for 28% of its current Delaware workforce, notifying DuPont's 6,100 Delaware employees. Nearly 1,200 DuPont employees in Delaware were expected to be laid off in early 2016, with the remainder to be released later. The merger is currently under review by the European Commission, the European Union's anti-trust regulatory authority.

Chemours, a performance chemical company, was spun-off from DuPont in July 2015. With facilities in 11 countries and thousands of employees around the world, the decision to keep Chemours global headquarter in Wilmington, Delaware was, at least, partially based on the Delaware Competes Act. The Delaware Competes Act re-apportioned Delaware's corporate income tax to make Delaware more competitive with other states.

To enhance its position in an increasingly competitive gaming market and to increase employment across the State, Delaware diversified its gaming portfolio to include sports betting and Keno at off-track retail venues, and in November 2013, introduced i-gaming to in-state consumers via the internet. In fiscal 2014, the Governors of Delaware and Nevada signed a multi-state internet agreement that allows poker players from both states to participate in a combined player pool creating a larger marketplace. Delaware continues to explore additional gaming offerings and multistate compacts for online gaming.

The State continues to pursue high technology industries, including life sciences research and development, pharmaceuticals, agricultural biotechnology, human biotechnology, information technology and, more recently, alternative energy and other green industries. The State has made a significant investment to establish the Delaware Biotechnology Institute, a partnership involving State government, the State's higher education institutions and the private sector. The Institute is designed to expand the State's scientific base and create opportunities for the development of new technologies in the emerging life sciences field.

The State's business-friendly legal system continues to attract new incorporations. Even though initial public offering ("IPO") activity has suffered from economic and other factors, the State has continued to register a record number of business formations in the form of limited liability companies and limited partnerships. As of December 2016, new business entities formed in Delaware brought the total number of business entities registered in the State to more than 1,238,000, 61% higher than the number of business entities registered in 2006.

Population

Between 2015 and 2016, Delaware's population was estimated to have increased by 0.8 percent, to 952,065 inhabitants. In comparison, there was 0.1 percent growth in the Mid-Atlantic region and 0.7 percent growth in the nation over the same period.

The following table presents population trends for Delaware, the Mid-Atlantic region and the United States for 2010 through 2016.

Population (in thousands)

	<u>Delaware</u>		<u>Mid-Atlantic Region</u> ⁽¹⁾		<u>United States</u>	
	<u>Population</u>	<u>Change</u>	<u>Population</u>	<u>Change</u>	<u>Population</u>	<u>Change</u>
2010	900	0.9%	47,607	0.5%	309,348	0.8%
2011	908	0.9	47,857	0.5	311,663	0.7
2012	917	1.0	48,054	0.4	313,998	0.7
2013	925	0.9	48,211	0.3	316,205	0.7
2014	935	1.0	48,336	0.3	318,563	0.7
2015	944	1.0	48,414	0.2	320,897	0.7
2016	952	0.8	48,443	0.1	323,128	0.7

(1) Mid-Atlantic region consists of Maryland, New Jersey, Pennsylvania, New York and Delaware.

Source: U.S. Census Bureau.

Major Political Subdivisions

The State has three counties: Kent, New Castle, and Sussex. All of the cities and towns in the State are independent, incorporated municipalities. The U.S. Census Bureau has population data for cities up to 2015. There are three major cities: Wilmington, the largest city, with a 2015 estimated population count of 71,948; Dover, the State capital and the site of a major U.S. Air Force base, with a 2015 estimated population count of 37,522 residents; and Newark, the site of the University of Delaware, with a 2015 estimated population count of 33,817.

The following table shows the population of the State's three counties for the years 2010 through 2015. Nearly 60 percent of the State's population lives in New Castle County, the northernmost county. Sussex County, the southernmost county, and Kent County continue to show stronger growth, with Sussex more than three times New Castle County's growth rate and Kent more than one and a half times New Castle County's growth rate.

Population by County

	<u>New Castle</u>	<u>Change</u>	<u>Kent</u>	<u>Change</u>	<u>Sussex</u>	<u>Change</u>
2010	538,911	0.4%	162,990	1.8%	197,890	1.6%
2011	542,349	0.6	165,242	1.4	200,325	1.2
2012	546,211	0.7	167,611	1.4	203,277	1.5
2013	549,529	0.6	169,385	1.1	206,439	1.6
2014	553,347	0.7	171,773	1.4	210,848	2.1
2015	556,779	0.6	173,533	1.0	215,622	2.3

Source: U.S. Census Bureau.

Personal Income

Personal income is the income received by all persons from all sources. The State's total personal income rose by 6.3 percent from calendar 2014 to 2015. This compares with increases of 3.9 percent for the Mid-Atlantic region and 4.5 percent for the nation. Total State personal income in calendar 2015 was \$45.1 billion.

The following table provides per capita personal income comparisons for calendar 2009 through 2015. (Per capita personal income is the annual total personal income of State residents divided by the population.) Per capita personal income of Delaware residents rose by 5.1 percent from calendar 2014 to 2015 compared with 3.7 percent in the Mid-Atlantic region and 3.7 percent in the U.S. over the same period. In comparison, State per capita personal income was approximately equal to 99 percent of U.S. per capita personal income in calendar 2015.

	Per Capita Personal Income						
	<u>Delaware</u>	<u>Change</u>	<u>Mid-Atlantic Region⁽¹⁾</u>	<u>Change</u>	<u>United States</u>	<u>Change</u>	<u>Delaware as Percent of the United States</u>
2009	\$41,362	-1.3%	\$46,055	-2.7%	\$39,376	-4.2%	105
2010	41,081	0.7	47,174	2.4	40,277	2.3	102
2011	43,704	6.4	49,520	5.0	42,453	5.4	103
2012	43,571	0.3	51,688	4.4	44,267	4.3	98
2013	43,824	0.6	51,999	0.6	44,462	0.4	99
2014	45,293	3.4	54,021	3.9	46,414	4.4	98
2015	47,624	5.1	56,001	3.7	48,112	3.7	99

Source: U.S. Department of Commerce.

(1) Mid-Atlantic region includes Delaware, Maryland, New York, New Jersey and Pennsylvania.

Unemployment Rates

Delaware's average unemployment rate for 2016 fell to 4.3 percent from 4.9 percent in 2015. The region had an overall average unemployment rate of 5.0 percent in 2016, down from 5.3 percent in 2015.

The following table presents the average annual unemployment rates for Delaware, the region, and the U.S. from 2006 through 2015.

Unemployment Rates (%)

	<u>Delaware</u>	<u>Mid-Atlantic Region⁽¹⁾</u>	<u>United States</u>
2006	3.6	4.5	4.6
2007	3.4	4.3	4.6
2008	4.9	5.2	5.8
2009	8.3	8.2	9.3
2010	8.4	8.6	9.6
2011	7.5	8.3	8.9
2012	7.2	8.3	8.1
2013	6.7	7.6	7.4
2014	5.7	6.2	6.2
2015	4.9	5.3	5.3
2016	4.3	5.0	4.9

Sources: U.S. Department of Labor and Delaware Department of Labor.

(1) Mid-Atlantic Region consists of Delaware, Maryland, New York, New Jersey and Pennsylvania.

In 2016, Delaware’s annual unemployment rate of 4.3 percent was ranked 19th lowest in the nation. In the surrounding states, Maryland’s unemployment rate was 20th lowest at 4.4 percent, New York and New Jersey were tied for 28th at 4.9 percent, and Pennsylvania was tied for 38th at 5.4 percent.

Employment

The rate of non-agricultural job growth in Delaware increased 2.4 percent in 2016. There were also job gains in the region and the nation of 1.3 percent and 1.7 percent, respectively.

Non-Agricultural Employment Growth Rates (%)

	<u>Delaware</u>	<u>Mid-Atlantic Region</u>	<u>United States</u>
2007	0.2	0.9	1.1
2008	(0.5)	0.1	(0.5)
2009	(4.6)	(3.1)	(4.3)
2010	(0.7)	(0.2)	(0.7)
2011	0.8	1.0	1.2
2012	0.6	1.1	1.7
2013	2.2	1.1	1.6
2014	2.3	1.3	1.9
2015	2.3	1.4	2.1
2016	2.4	1.3	1.7

Sources: U.S. Department of Labor and Delaware Department of Labor.

Total Employment Growth (2007 = 100)



Source: Delaware Department of Labor

In terms of employment, Health Care and Social Assistance with 69,100 jobs is the single largest industry sector in Delaware gaining 1,800 jobs in 2016. Government ranks second, with the total employment across all federal, state and local government entities averaging 65,100 over the year, a decrease of 300 jobs in 2016. Retail Trade is the third largest industry sector with 52,400.

Eleven private industry sectors added jobs in 2016: Administrative and Support and Waste Management and Remediation Services (+3,200), Accommodation and Food Services (+2,600), Health Care and Social Assistance (+1,800), Professional, Scientific and Technical Services (+900), Transportation, Warehousing and Utilities (+900), Finance and Insurance (+600), Education Services (+400), and Art, Entertainment and Recreation (+400), Other Services (+300), Information (+200), and Manufacturing (+100).

Employment by Industry Sector
(in thousands)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Construction	19.3	18.5	19.7	20.5	21.2	21.1
Manufacturing	25.7	25.7	25.4	26.1	27.2	27.3
Wholesale Trade.....	12.5	12.4	12.2	12.0	11.8	11.6
Retail Trade	50.6	50.7	51.5	52.4	52.7	52.4
Transportation, Warehousing and Utilities ¹	12.3	12.8	14.0	15.3	16.7	17.6
Information.....	5.7	5.5	5.2	4.9	4.7	4.9
Finance and Insurance	36.8	37.0	38.4	39.7	41.3	41.9
Real Estate and Rental and Leasing	5.5	5.4	5.4	5.3	5.4	5.4
Professional, Scientific and Tech. Services.....	26.0	27.5	28.6	28.8	28.5	29.4
Management of Companies.....	7.8	6.8	5.8	5.1	4.8	4.8
Administrative and Support and Waste Management and Remediation Services.....	21.8	21.9	23.8	25.4	26.4	29.6
Educational Services	7.7	7.8	7.7	8.1	8.1	8.5
Health Care and Social Assistance	58.9	60.7	62.6	64.6	67.3	69.1
Arts, Entertainment and Recreation.....	10.2	9.9	9.8	9.9	10.1	10.5
Accommodation and Food Services	34.4	35.1	36.2	37.1	38.7	41.3
Other Services	18.2	18.3	18.5	18.6	18.6	18.9
Government.....	<u>63.7</u>	<u>63.6</u>	<u>64.0</u>	<u>64.8</u>	<u>65.4</u>	<u>65.1</u>
Total Nonfarm Employment	<u>417.1</u>	<u>419.4</u>	<u>428.6</u>	<u>438.5</u>	<u>448.8</u>	<u>459.4</u>

¹ Combines the industry sector Transportation and Warehousing with the sector Utilities.
Source: Delaware Department of Labor.

Chemical and Advanced Materials Industry

In Delaware, the business of chemistry is a vital part of the economy. Chemicals represent the leading export category for the State accounting for about 50% of Delaware’s total manufactured exports. The chemical manufacturing industry is a sector cluster in Delaware with more than a 200 year local history. The requirement for rapid chemical and material innovations has diversified and today thousands are employed in this vital industry.

The chemical industry in the State is diverse, going beyond the manufacturing of chemicals and includes advanced materials, instrumentation, research and development, marketing, distribution, intellectual property, and other capabilities that distinguish industry segments. Companies in Delaware continue to innovate for growth.

The global chemical and advanced materials industry is going through some of the most turbulent times in its history. The economic situation remains volatile, but many businesses are seeing a more stable environment for a continued recovery. Against this background, Delaware companies are making sure they are continually improving their processes and developing innovative solutions that meet the specific requirements of markets and consumers.

The importance of the chemical industry to Delaware’s economy historically stems from the establishment of E.I. du Pont de Nemours & Co., Inc. (DuPont) in 1802. DuPont (NYSE: DD) is a market-driven, science company and one of the State’s largest private employers. In July 2016, DuPont and Dow announced that stockholders of both companies have voted to approve all stockholder proposals necessary to

complete the merger of equals transaction. Following the consummation of the merger, the combined company will pursue the separation of the combined company's Agriculture, Material Science, and Specialty Products businesses into three independent, publicly traded companies. Two of these three businesses will be headquartered in Delaware.

Ashland Inc. ("Ashland") (NYSE: ASH) created a leading specialty chemicals company with the acquisition of Hercules in 2008. Ashland products are sold in over 100 countries worldwide and are used in architectural coatings, automotive, construction, energy, food and beverages, personal care, pharmaceuticals, tissues and towels. Its operations in Delaware are part of one of four main operating groups, Ashland Specialty Ingredients. Ashland employs over 10,500 worldwide and approximately 200 in Delaware. In July 2014, Ashland's water technology division was acquired by a fund managed by the private investment firm Clayton, Dubilier & Rice (CD&R) and included the Industrial Water and the Pulp and Paper business units. The resulting company is now named Solenis.

Solenis LLC ("Solenis") announced in 2015 that it would create their global headquarters in Wilmington, Delaware. Solenis is a leading manufacturer of specialty chemicals with a team of 3,500 professionals active in 118 countries across five continents. Solenis has two leading research and development facilities and one is located in Delaware. The North American Regional Customer Applications Laboratories is also located in Delaware. These facilities house extensive analytical capabilities, comprehensive paper-testing and water analysis resources, and innovative process testing instrumentation. Solenis transitioned from a commercial unit of Ashland Inc. to a stand-alone company in 2014. Solenis has about 340 employees in the state of Delaware.

BASF Corporation ("BASF") is the world's leading chemical company (BASF shares are traded on the stock exchanges in Frankfurt (BAS), London (BFA) and Zurich (AN)) and operates a synthesis plant, a finishing plant and a metalized film plant in Newport, Delaware. This site is a global supply point for Quinacridone pigments and for Diketo pyrrolo pyrrole pigments. Both are a red-shade family of high-performance pigments used in the automotive industry, inks, paints and plastics. The company has won numerous environmental awards for its advanced system of handling waste and storm water at the site, which is also home to BASF's Northeast Regional Service Center. Since the site was first acquired from DuPont in 1984, more than \$260 million has been invested in site improvements and BASF continues to value the site as a key supply point for customers around the world. In 2015, BASF employed more than 112,435 worldwide and posted global sales of about \$80 billion. In 2016, the Newport site became part of BASF Colors and Effects LLC, a wholly owned subsidiary of the BASF Corporation. Approximately 150 employees are employed in Newport, Delaware.

The Chemours Company (NYSE: CC) is a leading global provider of performance chemicals and began operating as an independent public company in 2015 after separating from E. I. du Pont de Nemours (DuPont). Chemours has approximately 8,000 employees across 35 manufacturing sites serving more than 5,000 customers in North America, Latin America, Asia-Pacific and Europe across a wide range of end markets in more than 130 countries. It is a world leader in titanium technologies, fluoroproducts, and chemical solutions. Chemours is focused on a differentiated portfolio of premium products positioned to help customers respond to developed and developing market needs. It is a new company with over 200 years of history, created from DuPont's performance chemicals businesses. In August 2016, Chemours announced its intent to locate its global headquarters in Wilmington, Delaware.

Dow Electronic Materials, a global supplier of materials and technologies to the electronics industry has a presence in Delaware with about 500 employees. Chemical mechanical polishing products are developed and manufactured in Delaware for the fabrication of almost every type of electronic chip made today. It is expected that Dow's Delaware site will continue to be responsible for products and develop R&D applications and customer support primarily in North America and Europe.

L' Air Liquide (OTC: AIQUY) is a worldwide leader in industrial and medical gases and related services. Founded in 1902, L' Air Liquide operates in more than 65 countries through 125 subsidiaries. L' Air Liquide has a state-of-the-art R&D facility in Delaware where it consolidated U.S. research and development operations along with some of its manufacturing engineering business. The total capital expenditures budget for this consolidated operation was nearly \$30 million. In addition, the company has two industrial manufacturing sites in Delaware.

Agilent Technologies Inc. ("Agilent") (NYSE: A) is a world leading provider of instrumentation, supplies, software and services to life science and chemical analysis markets. The Delaware site is the major location for the company's chemical analysis measurement R&D, marketing and manufacturing operations. In 2007, Agilent opened its East Coast Center of Excellence at the company's Delaware facility which employs almost 800 people.

Croda International Plc. ("Croda") (OTC: COIHF) is a world leader in natural based specialty chemicals which are sold to virtually every type of industry. The company has approximately 3,700 employees, working in 34 countries. The research and development center is located in New Castle, Delaware and is adjacent to its North American manufacturing plant. The facility helps to support Croda's global activities in the personal care, lubricants, polymers, oilfield, specialty cleaning, fibers and crop protection industries. Research activities are closely coordinated with the company's worldwide research program. Croda will be investing over \$150 million dollars in upgrades to its Delaware facility including building a bio-based ethylene oxide processing plant.

FMC Corporation (NYSE: FMC) is one of the world's leading specialty chemical companies that employs approximately 6,000 people world-wide, and had annual sales of about \$3.24 billion in 2015. FMC Health and Nutrition has a manufacturing plant located in Delaware which was originally opened for business in 1962. This site manufactures microcrystalline cellulose and has remained competitive on the world stage through a relentless focus on innovation, productivity and efficiency. The Delaware site has recently been selected to move forward with the company's new North American BioColors Division, which will involve making colorants from natural sources (primarily plant extracts).

TA Instruments ("TAI"), a subsidiary of Waters Corporation (NYSE: WAT), is the world-wide market leader in the field of thermal analysis and rheology. It provides thermal analysis, rheometry, and microcalorimetry instruments throughout the world which are used primarily in predicting the suitability of polymers, fine chemicals, and viscous liquids for various industrial, consumer goods and health care products. TAI is also a developer and supplier of software-based products that interface with the company's instruments as well as other instruments manufactured by other companies. The company is headquartered in New Castle, Delaware and has direct operations in 24 countries..

Kuraray Co., Ltd. ("Kuraray") (NEIKA: TYO) in 2014 successfully acquired DuPont Glass Laminating Solutions/Vinyls (GLS/Vinyls), a segment of DuPont Packaging & Industrial Polymers. With its many sales offices and plants in the United States, South Korea, Germany and the Czech Republic, GLS/Vinyls is a top global supplier of polyvinyl alcohol (PVOH)/vinyl acetate-derived products used in a variety of architectural, automotive and industrial applications. As part of the acquisition, Kuraray Co., Ltd transferred the majority of the assets and operations to the respective local subsidiaries. The Kuraray Interlayer Solutions Business has its headquarters in Wilmington.

Other companies in this industry have been investing in their Delaware facilities. Kuehne Chemical has seen its volumes grow and continues to spend capital at its site. ILC Dover, known for making spacesuits for NASA, the airbag system for the Mars Rover and personal protection equipment for military, homeland security and industrial users is growing. Solvay, a world leader in high performance polymers has

a facility in Delaware that has seen significant growth in the past few years. Linde LLC will spend over \$100 million to increase the production of its industrial gases plant located in Delaware.

Life Sciences

Delaware is uniquely positioned in the center of one of the nation's life science corridors, as recognized by Pharmaceutical Research and Manufacturers of America. Most of the world's top pharmaceutical companies have major operations within a 50-mile radius of the State capital. Delaware is also home to Christiana Care Health Systems, Helen F. Graham Cancer Center and Nemours A.I. DuPont Hospital for Children. These health providers actively participate in research and clinical trials and have co-founded the launch of a nationally recognized consortium known as the Delaware Health Science Alliance.

Delaware Health Science Alliance combines the priorities and assets of the member institutions, which are Christiana Care Health System, Nemours A.I. duPont Hospital for Children, Thomas Jefferson University and the University of Delaware. This coalition of leading education, healthcare and medical research institutions has been formed to nurture research and the development of advanced technology with the State. In January 2014, Delaware Health Science Alliance moved into 300,000 square feet of newly designed space at the University of Delaware's Science, Technology & Advanced Research ("STAR") campus.

Other private industry investments help drive Delaware's leadership in life sciences, such as AstraZeneca, Plc, DuPont, Agilent, Hologic, Inc., Siemens AG, Dentsply Caulk and Merck Animal Health. Examples include DuPont's Center for Collaborative Research & Education at its Wilmington-based Experimental Station. The Experimental Station has been the home to the discovery and development of virtually every major DuPont product since 1903. Delaware's reputation as an innovative, scientific community was born from this rich history and continues to thrive as diverse companies and technologies emerge.

Dentsply Caulk, a Division of Dentsply International, upgraded its equipment and facility and provided customized training to its employees resulting in improved productivity. Located in Milford, Delaware, Dentsply Caulk performs research, development and manufacturing of dental health composites and complementary instruments and works closely with researchers at the University of Delaware and Delaware State University. With a presence in more than 120 countries, patients and practitioners virtually everywhere in the world rely on Dentsply International to deliver dental and healthcare solutions with a strong focus on quality, innovation, and service.

Merck Animal Health ("Merck"), located in Millsboro, Delaware continues its legacy of research, development and manufacturing of vaccines, dedicated to preserving and improving the health, well-being and performance of animals through science. Merck continues to provide similar services and production for small and large animals with a special concentration on poultry vaccines. Although some of the backroom, office support functions were relocated soon after Merck acquired the Delaware facilities from Intervet/Schering Plough, it continues to create new, highly-skilled research and manufacturing jobs and to make significant capital investments in its Delaware facilities.

Hologic's 3D Mammography is growing in Delaware. In 2012, Hologic acquired a German-based coatings company, AEG Electrofotographie GmbH, and relocated that business to its Newark, Delaware site. In 2013, the company completed a building expansion to make room for new equipment and new highly-skilled workers. Hologic is a company that has been at the forefront of the industry's transformation from analog to digital mammography. Delaware is proud to be home to the research, development and manufacturing of the 3D panels.

In April 2007, the State and Siemens Healthcare announced the company's new Customer Solutions Center in Newark, Delaware. As a global powerhouse in electronics and electrical engineering, Siemens has always been synonymous with technological excellence, innovation, quality, reliability and internationality. By focusing its business on the industry, energy and healthcare segments, Siemens Healthcare is poised to respond to demographic change, urbanization, climate change and globalization - the megatrends of today and tomorrow.

Agilent, the world's largest maker of scientific equipment, operates its Center of Excellence, an 8,000 square foot state-of-the-art demonstration laboratory in Delaware. The Center of Excellence is the eighth in the world and redesigned the way the company markets its products on the East Coast.

New innovations continue to thrive in Delaware. One notable example is Incyte Corporation (Nasdaq: INCY) ("Incyte"). Since basing its headquarters in Delaware more than 11 years ago, Incyte has discovered, developed and commercialized Jakafi® (ruxolitinib), a medicine that was the first drug approved by the U.S. Food and Drug Administration for the treatment of a rare blood cancer and the first one in its class approved for any indication. Incyte is also developing Jakafi® as a potential treatment for additional cancers and has a broad product pipeline that includes multiple compounds that address a number of unmet patient needs. Incyte relocated to a newly renovated 190,800 square foot campus on 16.7 acres in North Wilmington in 2015 and construction is currently underway to further expand their footprint on that site.

In January 2016, Incyte and AstraZeneca (Nasdaq: AZN) announced a new collaboration to evaluate the efficacy and safety of Incyte's Janus-associated kinase (JAK) 1 inhibitor, INCB39110, in combination with AstraZeneca's next generation epidermal growth factor receptor (EGFR) inhibitor, Tagrisso® (osimertinib). The combination will be assessed as a second-line treatment for patients with EGFR mutation-positive non-small cell lung cancer (NSCLC), who have been treated with a first generation EGFR tyrosine kinase inhibitor (TKI) and subsequently developed the T790M resistance mutation.

There is increasing evidence that signaling through the JAK-STAT (signal transducer and activator of transcription) pathway could be a contributing factor in resistance to EGFR TKI treatment in patients with EGFR mutation NSCLC. Blocking both JAK and EGFR activity may therefore offer an improved targeted treatment benefit in some patients.

Under the terms of the agreement, AstraZeneca and Incyte will collaborate on a Phase 1/2 study, to be conducted by Incyte. The Phase 1 part of the trial is expected to establish a recommended dose regimen for the combination of INCB39110 and Tagrisso while the Phase 2 part of the study will assess the safety and efficacy profile. Results from the study will be used to determine whether further clinical development of this combination is warranted.

In addition, Delaware's colleges and universities continue to develop and update curriculum in direct support of the life sciences.

Delaware State University offers a Health Professions track in the BS degree in Biological Sciences that offers complete preparation for medical, dental, pharmacy, and veterinary schools, as well as other careers in health care.

Within the University of Delaware's College of Health Sciences (the "College"), research provides an evidence-based foundation for the education of the next generation of thought leaders and healthcare professionals. The College is also a place where partnerships play a key role in promoting health research and education. High-quality undergraduate and graduate programs, research seed grant programs, and clinical research projects provide the students with rich classroom, laboratory, and clinical experiences. The programs encompass a broad and dynamic collection of specialties, including medical laboratory science,

kinesiology, applied physiology, nursing, physical therapy, behavioral health and wellness, and nutrition. In each program, the College creates an experience that shapes changes in practice based on scientific evidence. The College's approach is to translate strong platforms in interdisciplinary science into health practices, therapies, and interventions that result in immediate improvements in people's lives.

Delaware Technical Community College ("DTCC") is Delaware's accredited and nationally recognized community college system. DTCC provides instruction through four campuses throughout the State, as well as through online instruction, offering associate degree and certificate programs designed to meet industry demand. In addition to traditional life sciences related to medical, dental, pharmacy and veterinary programs, DTCC offers degree programs related to basic biologics. DTCC graduates, along with those of other Delaware-based colleges and universities, provide a strong pipeline of highly-skilled workers for medical service providers, industrial, research and public health laboratories, as well as basic biotechnicians for a wide variety of laboratory settings. DTCC provides dual-enrollment through articulation agreements with Delaware's universities and colleges, as well as local high schools. This provides unique advanced education opportunities for students at all levels.

Research and Development

Delaware's economy has long been a source of innovation and technological growth. Some of the State's most prominent firms, such as Agilent, Air Liquide, Ashland, AstraZeneca, DuPont, Incyte, Invista, Siemens and W.L. Gore and Associates, are world renowned for their technical breakthroughs and resulting commercial success. The presence of these firms and others like them, as well as its highly capable research universities, have positioned Delaware as one of the leading states in the nation for industry investment and research and development as well as high wage service jobs. The Kauffman Foundation and the Information Technology & Innovation Foundation ranked Delaware 2nd overall in the 2014 State New Economy Index, which measures the ability of states to transform from an industrial economic model to one that creates and retains high value-added, high-wage jobs. Delaware has consistently ranked in the top 10 and currently ranks: 1st in the nation for high-wage traded services, industry investment in R&D and foreign direct investment; 3rd in the nation for information technology and patents; and 7th in the nation for scientists and engineers.

Delaware's high quality workforce and innovative research and development environment provide excellent opportunities for technology-based business growth and entrepreneurial ventures. The State provides a variety of technology resource programs and innovative business development support to enhance commercialization opportunities. This support includes Delaware's status as a Kauffman FastTrac Affiliate and its Kauffman FastTrac New Venture and Growth Venture Entrepreneurial Training Initiatives. In August 2012, Start It Up Delaware, Inc. ("Start It Up Delaware") was incorporated as a for-profit company operating through its wholly-owned subsidiary, coIN Loft Inc. Start It Up Delaware is a public-private partnership serving as a hub for entrepreneurship and job creation. The partnership brings together Delaware's financial, accounting, legal and real estate communities, as well as the University of Delaware, Delaware State University, Delaware Technical and Community College and other institutions of higher education.

Thriving research centers and institutes exist within Delaware's universities. There are several globally recognized centers of excellence and many more research centers increasingly becoming important state, national and international assets. The Center for Composite Materials is an interdisciplinary center of excellence for composites research and education. The Institute of Energy Conversion is a national center of excellence in photovoltaic research and education. The Center for Catalytic Science and Technology is recognized for its multidisciplinary research in the scientific and engineering principles of catalysis. The Optical Science Center for Applied Research is a state-of-the-art research facility focused on research and innovation in optical science and engineering. Delaware Biotechnology Institute is a partnership between government, academia and industry to help establish the First State as a center of excellence in biotechnology

and the life sciences. In December 2016, the Secretary of Commerce announced that a new institute to advance U.S. leadership in pharmaceutical manufacturing would be administered and headquartered at the University of Delaware. The Delaware-based National Institute for Innovation in Manufacturing Biopharmaceuticals (NIIMBL) will be the 11th Manufacturing USA Institute. Also in 2016 the Department of Energy selected University of Delaware to lead a major segment in its new Rapid Advancement in Process Intensification Deployment (RAPID) collaboration. Delaware researchers will focus on catalysis and reactors, looking to discover new less expensive, more energy efficient ways to manufacture chemicals.

A recent addition to the state is the University of Delaware's 272-acre Science, Technology and Advanced Research (STAR) Campus located at a former Chrysler site. STAR Campus is growing into a center of innovation that blends cutting-edge research, top-notch academics and thriving businesses in one location. Future research and development at the STAR Campus is planned in the health science, cyber security, and alternative energy sectors.

Nemours Biomedical Research, the nation's largest group medical practice devoted to pediatric care, education, and research and headquartered at the Nemours Alfred I. DuPont Hospital in Wilmington, Delaware, has more than 40 different research programs and laboratories to support the medical and surgical staff in restoring and improving the health of acutely and chronically ill children. Based on dollars received from the National Institutes of Health, Nemours Biomedical Research would rank 16th in overall awards to freestanding children's hospitals. According to the American Hospital Association Guide, there are about 250 such children's hospitals.

Christiana Care Health System, headquartered in Wilmington, Delaware, is one of the country's largest health care providers, ranking 21st in the nation for hospital admissions. Christiana Care is a major teaching hospital with two campuses and more than 250 Medical-Dental residents and fellows. Christiana Care provides research as a key element to providing quality health care in every medical specialty. There are hundreds of multicenter national, regional and locally based studies in progress led by Christiana Care investigators on the hospital campuses and other patient care facilities, as well as at affiliates throughout the region. Many research trials are open for enrollment.

The Delaware Technology Park ("DTP") is part of Delaware's commitment to attracting both established businesses and promising high-tech companies. With a combination of government, academic and industry partners, it is now home to 54 high-tech companies, including the Delaware Biotechnology Institute. The mission behind DTP is to promote economic development and innovation and, to that end, has developed an integrated system of technology focused facilities and services. Since its inception, DTP has housed more than 75 companies, including 25 companies that have matured and graduated from DTP. There has been \$300 million invested in DTP and an additional \$300 million given to DTP organizations through research grants. In 2016, DTP opened their newest incubator facility on the University of Delaware's Science, Technology and Advanced Research (STAR) campus. STAR campus is home to University of Delaware's College of Health Sciences as well as Bloom Energy's R&D and manufacturing facility of solid oxide fuel cells. The incubator facility is a 10,000 square foot space that includes individual laboratories for entrepreneurs as well as shared space to foster collaboration.

Biotechnology

Delaware is one of only a few states with a specialization in all four bioscience subsections: (1) agriculture, feedstock and chemicals; (2) drugs and pharmaceuticals; (3) medical devices and equipment; and (4) research and testing. With its roots in the research and development standards established by the original DuPont Company more than 200 years ago, Delaware is currently home to bioscience firms ranging from incubator start-ups to multinational giants with a supportive environment for creativity and innovation.

Delaware is uniquely positioned geographically and scientifically to maximize the biotechnology industry across all spectrums. Delaware's location at the center of the East Coast of the United States provides excellent access to world markets. Delaware lies in the eastern megalopolis where approximately one-third of the United States' population resides. A 350-mile radius circle, drawn around the City of Wilmington, Delaware, encompasses every major population center from Boston, Massachusetts to Raleigh, North Carolina, and as far west as Cleveland, Ohio. Modern highways, railroads, airports, ports, and public transit systems facilitate the movement of products and people.

The Delaware Biotechnology Institute ("DBI"), located in Delaware Technology Park, is an academic unit of the University of Delaware and a partnership among government, academia and industry to help establish Delaware as a center of excellence in biotechnology and the life sciences. DBI's mission is to build a biotechnology network of people and facilities to enhance academic and private sector research, catalyze unique cross-disciplinary research and education initiatives and to foster the entrepreneurship that creates high quality jobs. DBI's 72,000 square foot research facility is designed to house 140 faculty and student researchers and features 25 dedicated research laboratories, 10 common research laboratories, six state-of-the-art research instrumentation centers, and several large and small conference areas. Some of the companies launched at DBI are: the Fraunhofer Center for Molecular Biotechnology, LLuminari, Neurologix, InfoQuest Systems, iBio, Occam BioLabs and Quantum Leap Innovations. DBI contributes at all levels to Delaware's innovation in Science, Technology, Engineering and Math (STEM) by leading the State's annual BioGENEius Challenge, by collaborating with the national Biotechnology Industry Organization (BIO) and by augmenting K-12 biotechnology education with programs for teachers as well as students throughout the school year.

DBI led Delaware's effort to gain Experimental Program to Stimulate Competitive Research ("EPSCoR") status with the National Science Foundation's Experimental Program Status Competitive Research. EPSCoR status provides Delaware and 30 other qualifying states and U.S. Territories with a better chance for federal funding dollars. Eight federal agencies, including the National Institutes of Health ("NIH") and the National Science Foundation ("NSF"), participate in this program as co-funders in Interdisciplinary Research (IDR).

Over the past five years, DBI has successfully built a capability in plant molecular biology to better understand the basic processes that control plant development on the genetic level. Combined with the highly regarded genomics-based poultry disease research located at DBI, this newly developed capability has direct applications to serve Delaware's agricultural industry.

Leading-edge interdisciplinary research is at the core of DBI's work. Successful partnerships are already underway involving biology, biochemistry, engineering, marine, materials science and computational biology. Encompassing 12 academic departments at the University of Delaware alone, collaborations are also state-wide, national and international, with the participation of scientists from Delaware State University, Delaware Technical Community College ("DTCC"), and Wesley College. DBI-affiliated researchers are principal investigators in a growing portfolio of federal research grants from NSF, NIH, the U.S. Department of Agriculture ("USDA") and numerous other government agencies and private foundations.

In 2012, with support from the State, DBI launched The Bioscience Center for Advanced Technology ("The Bioscience CAT"), which synergizes efforts among the academic and industrial community to address the technology innovation gap and promote economic development in Delaware. The Bioscience CAT links researchers in Delaware institutions with Delaware bioscience companies with the goal of investing in the bioscience community to ensure Delaware competes on the world stage in biotechnology innovation. The Bioscience CAT has three key components: a grant program funded by the State, a technology access program, and an annual symposium. The Technology Access Program ("TAP")

provides Delaware bioscience businesses with access - at a reduced fee - to high-end technology platforms available as part of the DBI network. Many businesses routinely send samples to these facilities for analysis and pay a certain rate for this service. Under TAP, businesses will be able to continue to do their work, but receive a discounted rate that is subsidized by The Bioscience CAT.

Delaware's investments serve as seed funding for private investments, as found in the example of Fraunhofer Center for Molecular Biotechnology ("CMB"). Established in July 2001 as a partnership between the Fraunhofer Society in Germany and the State, CMB conducts research in the area of plant biotechnology, developing cutting edge technologies to assist the diagnosis, prevention and treatment of human and animal diseases. With the addition of CMB manufacturing capability and the successful completion of two successful Phase I clinical trials, CMB's plant-based, protein production technology achieved several important developmental milestones. The advancement of CMB's work, as measured by the U.S. Department of Defense, has evolved from Level 1- Basic technology research, through proof of feasibility, technology development and demonstration to level 8 – System and subsystem development, which has made CMB eligible for new funding from various government departments including the NIH. This is a major accomplishment which both externally validates CMB's innovative technology and enables the organization to move closer to the goal of improving sustainability.

After several rounds of funding from the Bill and Melinda Gates Foundation to support the development of transmission-blocking vaccines against malaria, CMB recently received funding from the National Institute of Allergy and Infectious Diseases to advance development of candidate vaccine components and technologies that accelerate the immune response for use following intentional release of Bacillus anthracis or in response to naturally occurring outbreaks.

Another project, funded by the U.S. Defense Threat Reduction Agency, is designed to develop a cost-effective, high throughput, ex-vivo, lung tissue-based system for evaluating vaccine safety and immunogenicity directly in human tissue. This three year contract addresses one of the largest obstacles in the current system of evaluating vaccine safety and immunogenicity - the lengthy testing in animal models that preceded clinical drug development.

To ensure Delaware's continued voice in regional biotechnology industry opportunities, the Delaware BioScience Association ("DBA") was formed in 2006 and celebrated its 10-year anniversary last year. DBA is a non-profit trade association dedicated to promoting and expanding Delaware's bioscience industry by establishing a unified voice in order to accelerate the growth of human, animal, plant, and industrial bioscience, advocating on behalf of the industry in support of public policies that advance bioscience in the State, supporting initiatives that help attract bioscience talent and enterprises to the State, as well as support their retention and growth, while developing and implementing programs that build local, regional, national, and international recognition of and support for Delaware's bioscience industry. The membership has grown to include over 120 members including several global companies such as AstraZeneca, Endo Pharmaceuticals, QPS LLC, previously known as Quest Pharmaceutical Services, Siemens Healthcare, and Incyte Pharmaceuticals.

Delaware State University ("DSU") is another proud contributor to Delaware's biotechnology research and technology transfer. In 2009, DSU launched the Center for Integrated Biological and Environmental Research designed as a regional faculty network hub that includes DSU, Wesley College, DTCC and the University of Delaware ("UD"). Major functions of the center include: (1) identifying funding opportunities and assisting in bringing together groups of researchers in order to secure grants; (2) communicating the availability of and training on the use of research instrumentation and equipment across the network; (3) coordinating the use and maintenance of key common research facilities at DSU; and (4) integrating research and outreach activities for partner institutions. All students on the Biotechnology track at DSU complete an independent research project for their Senior Capstone course.

DTCC offers Biotechnology as an Associate Degree as well as a Certificate program with articulation agreements in place with UD and DSU, as well as other academic institutions. Delaware's Vocational High Schools offer Biotechnology as a Certificate program with co-op and internship opportunities for their students. Delaware Biotechnology Institute and Delaware BioScience Association have joined forces to launch the "Women in Stem" and "Delaware Life Science Professionals" that provide a robust forum for non-traditional scientists to network and exchange ideas. These initiatives have gained broad acceptance among women and young scientists as well as the companies that seek to recruit and retain the best and brightest within Delaware's scientific community.

Through these combined efforts, the State has joined the National Science Foundation in the goal to promote the progress of science and advance the national health, prosperity and welfare. "We Work for Health" reports that there are currently 133 active clinical trials in Delaware, resulting in 1,544 total participants, \$10.4 million invested and \$23.6 million in positive economic impact. Delaware is also home to a number of biotechnology facilities within each of the four bioscience subsections, including but not limited to:

- (1) *Agriculture, Feedstock and Chemicals*: Willard Agri-Service, MaryDel Ag Supply, AgroLabs that support Delaware's #1 ranking in the value of agricultural products sold per farm, according to the USDA*
- (2) *Drugs and Pharmaceuticals*: Incyte Pharmaceutical, Astra Zeneca, QPS (formerly known as Quest Pharmaceuticals)
- (3) *Medical Devices and Equipment*: Hologic, Agilent Technologies, Siemens Healthcare, B&W Tek and CD Diagnostics
- (4) *Research & Testing*: (i) Christiana Care's Health System's Helen F. Graham Cancer Center (one of only 34 National Cancer Institute's Community Oncology Research Program Community sites and one of only 12 Minority/Underserved Community sites that will implement the latest, most scientifically-advanced clinical research designed and led by NCORP under a 5-year, \$8.2 million grant); (ii) The Charles C. Carson Center for Mortuary Affairs (the U.S. Department of Defense's largest joint-service mortuary facility and the only one located in the continental United States); (iii) the 436th Medical Group at Dover Air Force Base; and (iv) A.I. DuPont Hospital for Children.

Financial Services Industry

Banks and other financial institutions have been a major focus of Delaware's economic development activity since 1981. In that year, landmark legislation was passed that opened Delaware to interstate banking, modernized the State's banking laws, and permitted the creation of new types of special purpose intermediaries. The 1981 Financial Center Development Act created strong economic incentives for the banking industry in Delaware, including a favorable state tax structure and a market based approach to lending that eliminated restrictive usury caps. These laws continue to create a favorable economic environment for banking. The State subsequently enacted additional legislation in order to sustain the State's competitive advantage in banking. In 1989, the Bank and Trust Company Insurance Powers Act was signed into law which allowed State-chartered banks and trust companies to underwrite and sell various types of insurance. In response to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, the State enacted legislation in 1995 to keep Delaware's banking community competitive and to maintain Delaware's role as a financial services center. In 1995, the State Bank Commissioner issued the "Incidental Powers Regulation", which is designed to keep Delaware competitive by allowing State-chartered banks and trust companies to exercise additional powers incident to a banking corporation. The State tax structure was modernized in 2006 by allowing banks to elect an alternative system based on a three-factor income

* Source: [http://www.nass.usda.gov/Statistics_by_State/Delaware/Publications/DE%20Ag%20Brochure\)web.pdf](http://www.nass.usda.gov/Statistics_by_State/Delaware/Publications/DE%20Ag%20Brochure)web.pdf)

apportionment for multi-state operations, plus a location benefit tax reflecting the value of utilizing Delaware’s banking laws and bank system.

There are currently about 80 banks and trust companies in Delaware, including full-service commercial banks, credit card banks, non-deposit and limited purpose trust companies, wholesale banks, and federal and state savings banks. Banking is one of the State’s largest private industry sector employers, with over 27,900 employees as of December 2015, according to the Delaware Department of Labor. Credit cards are a major industry. Prominent credit card issuers in Delaware include Bank of America, N.A., JPMorgan Chase & Co., Discover Bank and Barclays Bank Delaware. Other major bank employers include M&T Bank Corporation, PNC Financial Services Group, Inc., Capital One, N.A., Citigroup and BNY Mellon. During the fiscal year ending June 30, 2016, the bank franchise tax contributed \$92.5 million, about 2% of the State’s total revenues.

Construction

During 2015, Delaware’s housing production totaled 4,624 units. The following table outlines total housing production in the State by county for 2011 through 2015. Housing production includes single-family and multifamily housing, public and private. In 2015, single-family housing (including condominiums) represented 85.2% of total production, and multifamily units represented 14.8%.

Production of Housing Units

	2011	2012	2013	2014	2015
New Castle County	711	990	1,282	1,526	1,694
Kent County	737	907	937	955	893
Sussex County	<u>1,702</u>	<u>2,004</u>	<u>2,474</u>	<u>2,295</u>	<u>2,037</u>
Total	3,150	3,901	4,693	4,816	4,624

Source: Delaware State Housing Authority.

Incorporations

As of December 2016, the total number of business entities registered with the Delaware Division of Corporations exceeded 1,238,000. More than 180,000 new business entities were formed in Delaware in 2016. The State continues to be the corporate home of over half of all publicly-traded firms in the United States. Delaware is the legal domicile of more than 66% of the companies listed in the “Fortune 500”. Delaware leads the nation in per capita business entity filings and has ranked among the top five states in the nation for new business entity formations since 1989. The principal driver of this growth over the long term has been the popularity of alternative business entities, such as Delaware limited liability companies.

The Delaware General Corporation Law is widely regarded as the most modern and flexible corporate statute in the nation. In addition to the option of forming a Delaware corporation, the Delaware Code enables businesses to form as general partnerships, limited partnerships, limited liability companies and statutory trusts. Businesses may also qualify as limited liability partnerships or limited liability limited partnerships. Delaware’s legal entity statutes, combined with a well-developed body of case law in important areas of corporate governance such as director liability and takeovers; prompt resolution of commercial and corporate disputes by Delaware’s Court of Chancery; and efficient service from the Delaware Division of Corporations have resulted in significant business formation activity.

In order to sustain its competitive edge over other states and countries, Delaware continues to adopt statutes that respond to changing business conditions. Recent laws extend the corporate jurisdiction of the Court of Chancery to include jurisdiction over commercial technology disputes and allows the Court to mediate many types of complex business disputes, providing a more cost-effective, confidential, and

consensual method for resolving litigable disputes. Another recent law permits corporations to form as public benefit corporations, a new kind of socially-conscious, for-profit corporation whose affairs are to be conducted for the benefit of stockholders as well as certain specific public benefits and those affected by the corporation's activities. Delaware law provides incentives for businesses to locate headquarter services and captive insurance operations in Delaware. The State's legal entity laws provide a simple method for domesticating an entity in Delaware and converting from one type of business entity to another type of entity. The Division of Corporations continues to enhance its services by offering 1-hour processing service and expanding Internet services to allow businesses to reserve corporate names, access general corporate information and file annual tax returns. All of these enhancements provide further incentives for entrepreneurs, businesses and investors to make Delaware their legal home.

Revised Article IX of the Uniform Commercial Code ("UCC") took effect in most U.S. states in 2001 and provided that many UCC documents should be filed in the debtor's state of incorporation. In July 2001, Delaware became one of the first states to allow for the filing of UCC information via the Internet. General Fund revenue from UCC transactions totaled \$19.3 million in fiscal year 2016.

Agriculture

Agriculture is a very significant industry in Delaware. In 2015, there were 2,500 farms, and farm land totaled 500,000 acres, accounting for 40% of Delaware's total land area. Farm size averaged 200 acres.

In 2015, the total market value of agricultural land and buildings was \$4.09 billion, and the average value per farm was \$1.636 million. The average market value per acre of farmland and buildings in Delaware was \$8,180, well over two times the national average of \$3,020. Only four states had a higher value per acre of farm real estate. The average value per acre was unchanged from 2014.

In 2015, the value of agricultural sector production was \$1.44 billion and the Delaware agricultural cash receipts total was \$1.28 billion for all commodities, down 14% from 2014. The decline was primarily due to decreases in animal and animal products as well as crop commodities.

Delaware's 2015 net farm income decreased 30% from the 2014 level of \$583 million to 407 million. Crop and animal receipts were primarily responsible for the decrease.

In 2015, Delaware agricultural production value per farm was \$574,542, the value per acre was \$2,873 and cash receipts value was \$2,565 per acre.

The cash receipts from Delaware farms as compared to the U.S. total in 2011-2015 are outlined in the table below.

FARM CASH RECEIPTS

<u>Year</u>	<u>DELAWARE</u> (in millions)			<u>% Change from Previous Year</u>	<u>UNITED STATES</u> (in billions)	
	<u>Livestock & Livestock Products</u>	<u>Crops</u>	<u>Total Cash Receipts</u>		<u>Total Cash Receipts</u>	<u>%Change from Previous Year</u>
2011	750	290	1,040	(4.3)	365.8	13.9
2012	800	379	1,179	13.3	401.4	9.7
2013	981	349	1,330	12.8	403.5	0.5
2014	1,167	317	1,484	11.5	424.2	5.1
2015	1,017	265	1,282	(13.6)	376.3	(11.3)

Sources: Delaware Department of Agriculture and National Agricultural Statistics Service/USDA.

The Port of Wilmington

The Port of Wilmington (the “Port”) is one of the largest importers of containerized bananas and other fruit in the world and is a significant east coast importer of: break bulk fruit, juice and produce, particularly winter Chilean fruit, citrus products from Morocco, juice concentrate and fruit from Argentina, liquid bulk juice concentrate from Brazil, and liquid petroleum products. Other notable items moving over the Port’s piers include: steel, paper liner board, dry bulk, and scrap metal. The Port has also established a niche in handling specialized cargo such as large wind turbines, dismantled distillation and chemical plants, generators, rocket booster cores, concrete railroad ties, and livestock export. The Port continues to be a major point of consolidation and export of vehicles to the Middle East, Africa, and Central and South America.

The Port has a central location on the east coast and excellent access to rail and highway transportation systems. Warehouse facilities include 250,000 square feet of dry and 750,000 square feet of modern temperature controlled refrigerated space. The combination of relatively new facilities, operational experience, proximity to transportation networks and a skilled labor force has made the Port among the most successful ports in the very competitive Mid-Atlantic and Northeast region.

Founded in 1923, the Port is owned and operated by the Diamond State Port Corporation (“DSPC”). In June 1995, the General Assembly authorized the creation of the DSPC, a membership corporation with the Department of State as the sole member, for the purpose of acquiring and operating the Port. On September 1, 1995, DSPC acquired substantially all of the Port’s assets from the City of Wilmington. Under the terms of that agreement, DSPC agreed to make payments to the City of Wilmington equal to \$39.9 million over a 30-year period and to pay amounts equal to total debt service on approximately \$51.0 million of indebtedness previously incurred by the City of Wilmington for Port related assets. The Delaware Transportation Authority’s Transportation Trust Fund has loaned funds to the DSPC to enable it to restructure certain of the DSPC’s debt and to fund certain capital projects. The Delaware River and Bay Authority has participated with DSPC to fund a refrigerated warehouse in 2006. DSPC’s total long-term debt outstanding as of June 30, 2016 was \$21.4 million. DSPC does not have the power to pledge the credit of the State.

In fiscal year 2016, a total of 6.6 million tons of cargo passed through the Port’s facilities, the same total tonnage as in fiscal year 2015. Due to the changes in the mix of cargo, operating revenue decreased by

5% from \$40 million in fiscal year 2015 to \$38.4 million in fiscal year 2016. In fiscal year 2016, containerized cargo was 2.3 million tons (+5%), liquid bulk cargo was 1.8 million tons (-10%) and dry bulk cargo was 2.0 million tons (+5%), as compared to fiscal year 2015. Over \$225 million has been provided by the State through fiscal year 2016 for Port infrastructure improvements and debt restructuring. The Port is not required to repay these funds.

The Port is part of the State's financial reporting entity and is considered an enterprise fund for the State's GAAP financial reporting purposes. See "Notes to the Financial Statements-#6, Revenue Bonds" in the State's Basic Financial Statements included in its CAFR for the fiscal year ended June 30, 2016, a link to which is provided under "INDEPENDENT AUDITORS" herein.

Dover Air Force Base

The federal government maintains a major U.S. Air Force Base (the "Base") in Dover, Delaware. The 3,900 acre Base, established in 1941, is the nation's busiest military cargo terminal and a key airlift center. It is home to the 436th Airlift Wing, known as the "Eagle Wing" and the 512th Airlift Wing, referred to as the "Liberty Wing". The 436th Airlift Wing provides command and support functions for assigned airlift operations, permitting worldwide movement of outsized cargo (including the military's largest tanks and heaviest weapons and equipment) and personnel. The unit flies Lockheed C-5 Galaxy transport planes, known as "the free world's largest airlifter" and C-17 Globemaster. Together with the 512th Airlift Wing, aircrews from Dover fly an air fleet that comprises 25% of the nation's strategic airlift capacity. In addition, the Base hosts the Charles C. Carson Center for Mortuary Affairs, the defense department's largest joint-service mortuary facility and the only one located in the continental U.S. There are approximately 6,400 military personnel – 3,900 active duty, 1,500 reservists, and 1,000 civilians – who work at the Base. It is estimated that the economic impact of the Base on the local economy is \$466 million annually.

STATE FINANCIAL OPERATIONS

The State controls and records its financial transactions on a cash basis of accounting for its day-to-day operations in accordance with the various budgets and statutes passed by the General Assembly and approved by the Governor. See "FINANCIAL STRUCTURE Budgetary Control and Financial Management Systems". The State's audited June 30, 2016, Basic Financial Statements included in its CAFR, were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") using both the modified accrual basis and full accrual basis of accounting. The following discussion of State finances relates to the budgetary General and budgetary Special Funds of the State, as more fully set out in the financial statements included under Appendix A hereto.

Revenue and Expenditure Forecasting

The Delaware Economic and Financial Advisory Council ("DEFAC"), created in 1977, is comprised currently of 33 members appointed by the Governor. Current members of DEFAC include five cabinet-level officials, the State Treasurer, the Controller General, one other governmental official, three legislators, and 22 private citizens from the business, financial and academic communities.

DEFAC is mandated by executive order to submit to the Governor and the General Assembly budgetary General Fund and Transportation Trust Fund revenue forecasts six times each fiscal year in September, December, March, April, May and June for the current fiscal year and the succeeding two fiscal years. A forecast for the current fiscal year and the succeeding four fiscal years is generated once each year, no later than October 1. Budgetary General Fund and Transportation Trust Fund expenditure forecasts are generated for the current fiscal year in December, March, April, May and June. The various DEFAC forecasts contained in this Official Statement were provided as of December 19, 2016.

These revenue and expenditure forecasts are used in the State budget process to ensure compliance with the State’s constitutional limits on spending and statutory debt limitations. See “FINANCIAL STRUCTURE - Appropriation Limit” and “BONDED INDEBTEDNESS OF THE STATE – Debt Limits”. The subcommittees of DEFAC are the Expenditure and Revenue subcommittees, which meet prior to the DEFAC meetings. The full DEFAC meetings are open to the public and provide a general forum for members of the private and public sectors to exchange views on matters of economic and fiscal concern for the State.

DEFAC relies on projections of national economic trends by IHS Global Insight, Inc. (formerly DRI-WEFA), the Department of Finance’s econometric model, projections generated by the Department of Transportation, its members’ knowledge of the State’s particular economic strengths, and its members’ understanding of the structure of the State’s revenue system. A comparison of DEFAC’s forecasts of budgetary General Fund revenue with actual year-end revenue is reviewed in the following table. These forecasts were generated 18 months and 9 months prior to the end of each fiscal year. DEFAC does not project the revenue impact of legislation until after its enactment.

DEFAC Budgetary General Fund Revenue Projections
(in millions)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
18 Months Before Fiscal Year-End	\$3,444.9	\$3,566.1	\$3,663.3	\$3,774.8	\$3,885.0
9 Months Before Fiscal Year-End	3,379.5	3,699.0	3,732.4	3,944.8	3,950.6
Actual Fiscal Year-End Revenue	3,359.3	3,729.8	3,572.7	3,955.1	3,944.8

Economic Projections

Based upon national forecasts by IHS Global Insight, Inc. in December 2016, the State’s economy is expected to be in line with the broader U.S. economy, which has been in modest recovery since the recession ended in June 2009. The following chart compares forecasted population, employment and personal income growth rates for fiscal years 2017 through 2019 for Delaware and the United States, considered by DEFAC in making its revenue forecasts as presented herein.

Fiscal Year:	Projected Economic Growth Rates					
	<u>Delaware</u>			<u>United States</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Population Growth.....	1.1%	1.2%	1.2%	0.8%	0.8%	0.8%
Employment Growth	1.2	1.2	1.2	1.5	1.1	1.3
Personal Income Growth	3.7	4.0	4.8	4.3	5.0	5.3

Sources: Delaware Department of Finance and IHS Global Insight, Inc.

Revenue Summary - Fiscal Year 2017E - Fiscal Year 2019E

The following table and chart include DEFAC’s forecast of budgetary General Fund revenue from all sources as of December 19, 2016, for fiscal year 2017, fiscal year 2018 and fiscal year 2019. DEFAC forecasts General Fund revenue growth of 0.9%, 0.4% and 1.7% for fiscal years 2017, 2018 and 2019, respectively. See “Fiscal Year Ending June 30, 2017.”

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Budgetary General Fund Revenue
(in millions)

DEFAC Forecasts as of December 19, 2016

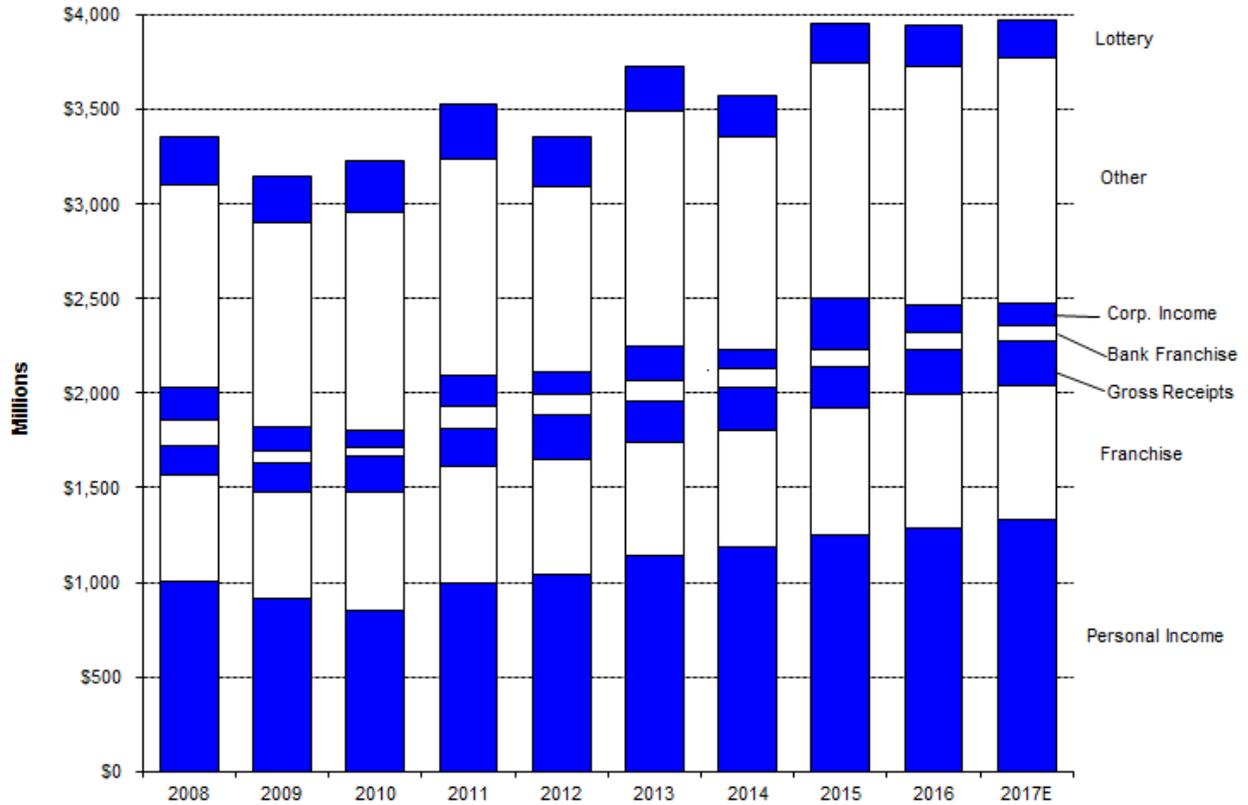
	<u>Fiscal Year 2017</u>		<u>Fiscal Year 2018</u>		<u>Fiscal Year 2019</u>	
	<u>Forecast</u>	<u>Change</u>	<u>Forecast</u>	<u>Change</u>	<u>Forecast</u>	<u>Change</u>
Personal Income Tax	\$1,547.0	3.3%	\$1,614.8	4.4%	\$1,695.4	5.0%
Less: Refunds	<u>(215.0)</u>	2.2	<u>(225.3)</u>	4.8	<u>(236.6)</u>	5.0
PIT Less Refunds.....	1,332.0	3.5	1,389.5	4.3	1,458.8	5.0
Franchise Tax	704.1	(0.5)	707.7	0.5	711.2	0.5
Limited Partnerships & LLC's	280.9	4.5	294.9	5.0	309.7	5.0
Subtotal Franchise Tax and Limited Partnerships & LLCs	985.0	0.9	1,002.6	1.8	1,020.9	1.8
Less: Refunds	<u>(10.0)</u>	(25.9)	<u>(10.0)</u>	0.0	<u>(10.0)</u>	0.0
Net Franchise Tax and Limited Partnerships & LLCs	975.0	1.2	992.6	1.8	1,010.9	1.8
Business Entity Fees	106.9	2.0	109.1	2.1	111.4	2.1
Uniform Commercial Code.....	19.3	0.1	19.3	0.0	19.3	0.0
Corporation Income Tax.....	172.0	(23.4)	167.0	(2.9)	166.9	(0.1)
Less: Refunds ⁽¹⁾	<u>(50.0)</u>	(38.5)	<u>(43.5)</u>	(13.0)	<u>(45.7)</u>	5.1
CIT Less Refunds	122.0	(14.8)	123.5	1.2	121.2	(1.9)
Bank Franchise Tax	77.3	(16.4)	87.0	12.5	88.7	2.0
Gross Receipts Tax	242.0	3.4	248.0	2.5	260.4	5.0
Lottery	205.0	(2.8)	204.3	(0.3)	209.4	2.5
Abandoned Property	554.0	4.9	490.0	(11.6)	440.0	(10.2)
Hospital Board and Treatment	44.0	(9.1)	44.9	2.0	45.2	0.7
Dividends and Interest	6.9	121.4	9.4	36.2	12.1	28.7
Realty Transfer Tax	93.0	3.9		(11.6)	86.3	5.0
Estate Tax	5.0	(46.5)	5.0	0.0	5.0	0.0
Insurance Taxes	51.2	(4.6)	52.8	3.1	53.3	0.9
Public Utility Tax	44.0	(2.1)	40.1	(8.9)	41.1	2.5
Cigarette Taxes	108.4	(3.0)	106.8	(1.5)	105.2	(1.5)
Other Revenues.....	105.6	13.3	105.1	(0.5)	112.8	7.3
Less: Other Refunds	<u>(112.8)</u>	22.6	<u>(113.8)</u>	0.9	<u>(117.8)</u>	3.5
Total⁽¹⁾	<u>\$3,978.8</u>	<u>0.9%</u>	<u>\$3,995.8</u>	<u>0.4%</u>	<u>\$4,063.3</u>	<u>1.7%</u>

(1) May not equal the sum of its components due to the rounding of actual amount.

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The following chart shows both the growth in and source of budgetary General Fund revenues since 2007.

**Budgetary General Fund Revenue at June 30
(in millions)**



Source: 2017E data per December 19, 2016 DEFAC revenue projections.

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Expenditure Summary - Fiscal Year 2014 - Fiscal Year 2017E

The following table compares total budgetary General Fund expenditures by major departments for the past three fiscal years ending with fiscal year 2016 and estimated expenditures for fiscal year 2017. These figures include supplemental appropriations for capital projects. See also "BUDGETARY GENERAL FUND SUMMARIES - Budgetary General Fund Disbursements by Category of Expense."

Budgetary General Fund Expenditures (in millions)

	Fiscal Year <u>2014</u>	<u>Change</u>	Fiscal Year <u>2015</u>	<u>Change</u>	Fiscal Year <u>2016</u>	<u>Change</u>	Fiscal Year <u>2017E⁽¹⁾</u>	<u>Change</u>
Correction.....	\$273.5	3.2%	\$282.8	3.4%	\$ 289.9	2.5%	\$ 295.4	1.9%
Health and Social Services	1,087.2	2.4	1,096.8	0.9	1,119.0	2.0	1,183.8	5.8
Higher Education.....	234.6	3.5	232.6	(0.9)	235.9	1.4	234.4	(0.6)
Public Education.....	1,242.6	4.1	1,277.8	2.8	1,337.2	4.6	1,379.6	3.2
Safety & Homeland Security.....	145.6	0.9	131.8	(9.5)	131.7	(0.1)	134.0	1.7
Services to Children, Youth & Their Families.....	149.5	5.4	149.1	(0.3)	151.7	1.7	159.0	4.8
Other Expenditures.....	<u>661.1</u>	<u>5.8</u>	<u>661.7</u>	<u>0.0</u>	648.3	(2.0)	<u>697.9</u>	<u>7.7</u>
Total.....	<u>\$3,794.1</u>	<u>3.7%</u>	<u>\$3,832.6</u>	<u>1.0%</u>	<u>\$3,913.7</u>	<u>2.1%</u>	<u>\$4,084.1</u>	<u>4.4%</u>

(1) Based on fiscal year 2017 budget.

The table below depicts trends in State expenditures by the three major components; i.e., budgetary General Fund base budget for operations, supplemental appropriations for one-time capital projects and debt reduction, and the effect of the carryover of these unspent capital funds on the overall spending levels. The nature of capital projects tends to delay the actual expenditure of capital funds to fiscal years subsequent to the fiscal year in which they were appropriated.

Adjusted Budgetary General Fund Expenditures (in millions)

	Fiscal Year <u>2014</u>	<u>Change</u>	Fiscal Year <u>2015</u>	<u>Change</u>	Fiscal Year <u>2016</u>	<u>Change</u>	Fiscal Year <u>2017E</u>	<u>Change</u>
Base Budget	\$3,534.2	3.8%	\$3,638.9	3.0%	\$3,908.5	7.4%	\$4,084.1	4.4%
Supplemental Appropriations	86.0	(0.9)	66.4	(22.8)	43.0	(35.2)	58.6	36.3
Prior Year Carryover ⁽²⁾	<u>173.9</u>	3.7	<u>127.3</u>	(26.8)	<u>(37.8)</u>	(129.7)	<u>(53.1)</u>	40.5
Total	<u>\$3,794.1</u>	<u>3.7%</u>	<u>\$3,832.6</u>	<u>1.0%</u>	<u>\$3,913.7</u>	<u>2.1%</u>	<u>\$4,089.7⁽¹⁾</u>	<u>4.5%</u>

(1) Per December 19, 2016 DEFAC revenue and expenditures projections.

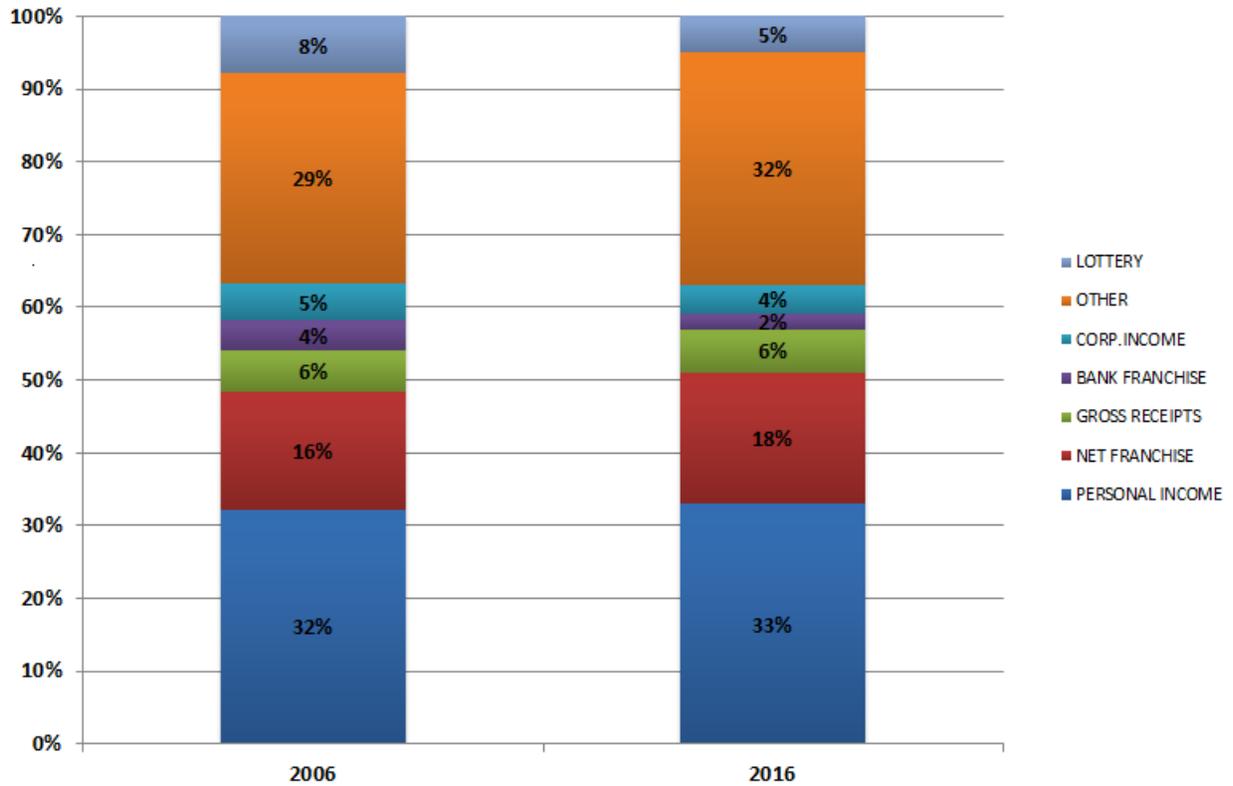
(2) Prior Year Carryover in the current year represents the difference between continued and encumbered appropriations from the prior year, less expected appropriations to be continued and encumbered from the current year, plus expected reversions.

Note: Totals may not add due to rounding.

Sources and Uses of State Funds

The distribution of budgetary General Fund revenues and appropriations is shown in the following bar charts, which compare fiscal year 2016 with ten years earlier.

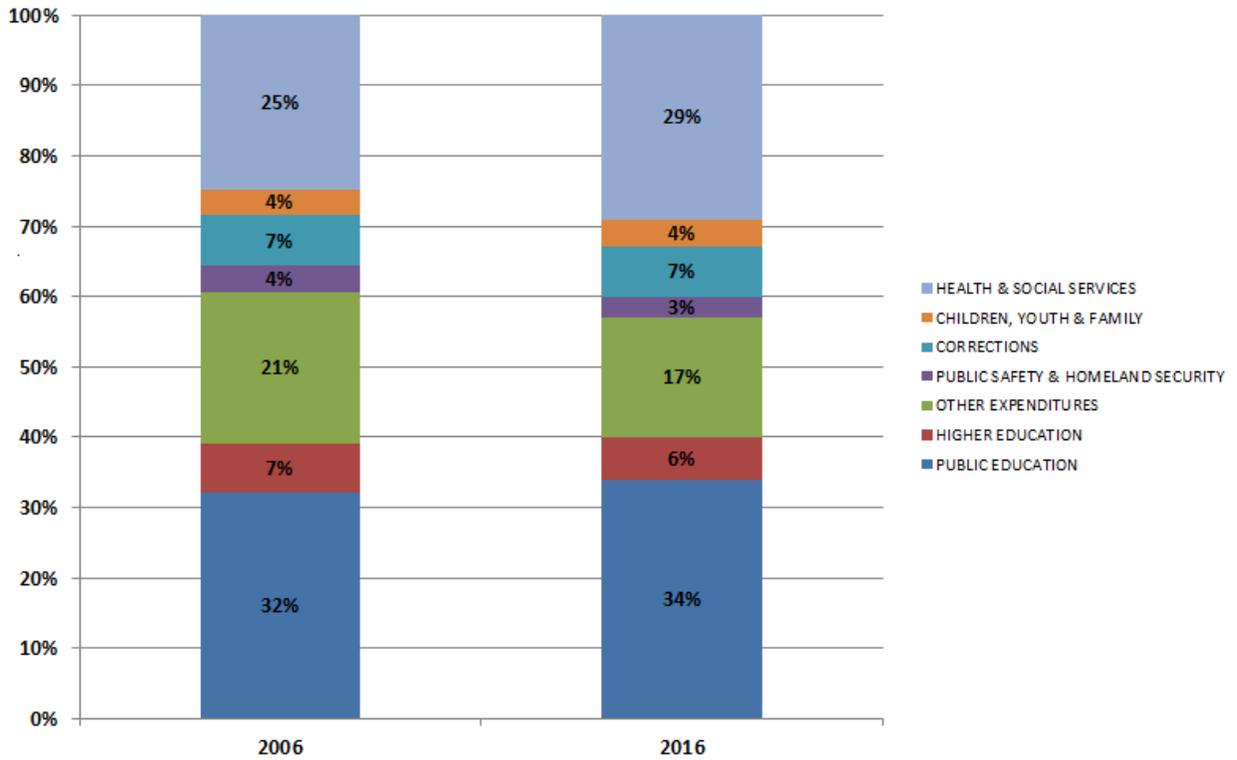
SOURCES



- (1) Other sources include interest, public utility, cigarette, abandoned property, alcoholic beverage, and insurance taxes.

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USES



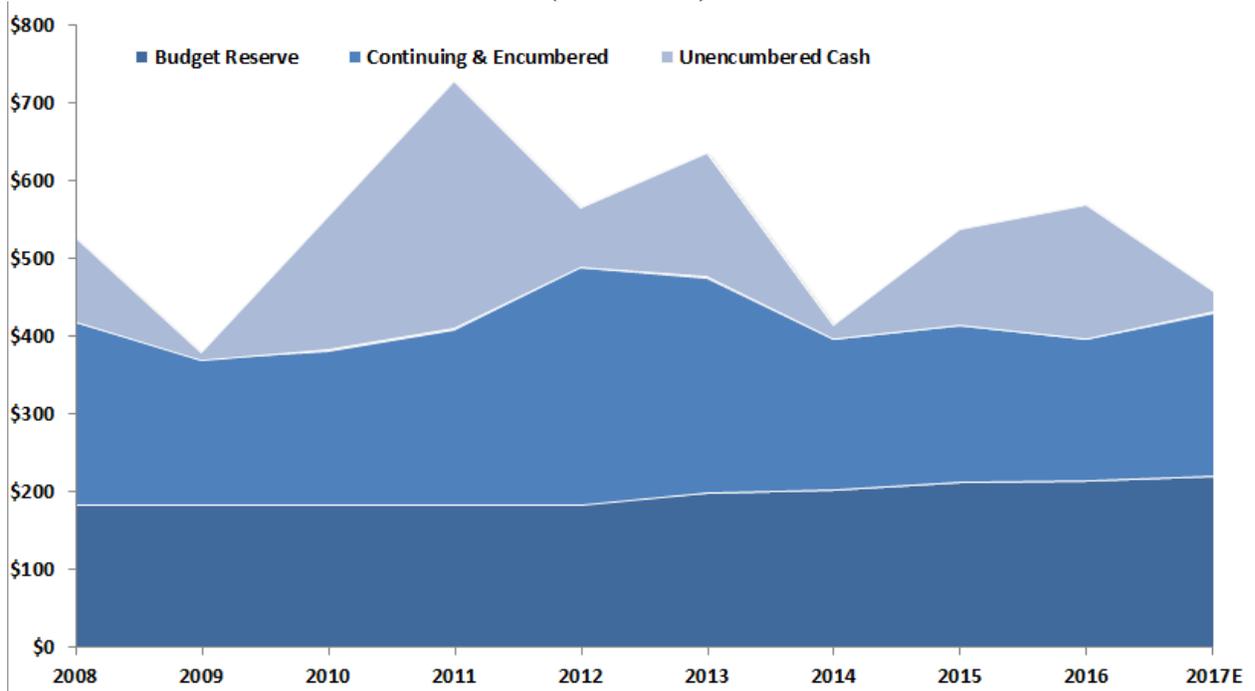
(1) Other uses include administrative services, fire prevention, National Guard, natural resources and environmental control, other elective offices, legislative and executive branches, and agriculture.

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CUMULATIVE CASH BALANCES

The following graph reflects growth in the Budget Reserve Account and the changes in continuing and encumbered appropriations and the cumulative cash balances from fiscal year 2008 to fiscal year 2017E.

Budgetary General Fund Cumulative Cash Balances at June 30 (in millions)



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FISCAL YEAR ENDED JUNE 30, 2015

The State ended fiscal year 2015 with a cumulative cash balance of \$536.9 million. This balance represented 14.0% of the State's total expenditures for the year. The Budget Reserve Account remained fully funded for the fiscal year, totaling \$212.5 million. An additional \$201.3 million was set aside for continuing and encumbered appropriations resulting in an unencumbered cash balance on June 30, 2015 of \$123.1 million.

Revenue

Net budgetary General Fund revenue for fiscal year 2015 totaled \$3,955.1 million, an increase of 10.7% over fiscal year 2014.

Personal income taxes, after refunds were \$1,251.9 million, a 5.4% increase over fiscal year 2014.

Franchise and Limited Partnership/LLC taxes, after refunds, were \$910.9 million, an 11.8% increase over fiscal year 2014.

Business entity fees were \$102.7 million, a 7.0% increase over fiscal year 2014.

Corporate income taxes, after refunds, were \$269.5 million, a 164.2% increase over fiscal year 2014 primarily due to a significant increase in audit settlements.

Bank franchise taxes were \$95.0 million, a 7.5% decrease from fiscal year 2014.

Business and occupational gross receipts taxes were \$223.4 million, a 1.4% decrease from fiscal year 2014.

Lottery revenue was \$202.3 million, a 5.7% decrease from fiscal year 2014.

Abandoned property revenue was \$514.1 million, an 8.3% increase over fiscal year 2014.

Expenditures

Budgetary General Fund expenditures for fiscal year 2015 totaled \$3,832.6 million, an increase of 1.0% over fiscal year 2014. The fiscal year 2015 budgetary General Fund operating budget totaled \$3,809.5 million, a 2.5% increase over the fiscal year 2014 operating budget. Cash appropriations of \$23.8 million included in the capital budget and grants-in-aid appropriations of \$45.4 million brought total fiscal year 2015 appropriations to \$3,878.7 million. The appropriation package was within the constitutionally-prescribed limit of 98% of estimated revenues.

Balances

The following table outlines revenue, expenditures and remaining cash balances for fiscal year 2015.

Budgetary General Fund Balances - Fiscal Year 2015 (in millions)

Revenue	\$3,955.1
Expenditures	
Budget	\$3,809.5
Grants	45.4
Supplemental.....	23.8
Total appropriations	\$3,878.7
Continued and encumbered (prior years)	194.8
Total spending authorizations	\$4,073.5
Less: Continued and encumbered (present year)	(201.3)
Less: Reversions	<u>(39.6)</u>
Total expenditures.....	<u>\$ 3,832.6</u>
Operating balance.....	(122.5)
Prior year cash balance.....	<u>414.4</u>
Cumulative cash balance.....	\$ 536.9
Less: Continued and encumbered (present year)	(201.3)
Less: Budget Reserve Account	<u>(212.5)</u>
Unencumbered cash balance.....	<u>\$ 123.1⁽¹⁾</u>

(1) Totals may not add due to rounding.

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FISCAL YEAR ENDED JUNE 30, 2016

The State ended fiscal year 2016 with a cumulative cash balance of \$568.0 million. This balance represents 14.5% of the State's total expenditures for the year. The Budget Reserve Account remained fully funded for the fiscal year, totaling \$214.7 million. An additional \$181.5 million was set aside for continuing and encumbered appropriations resulting in an unencumbered cash balance on June 30, 2016 of \$171.8 million.

Revenue

Net budgetary General Fund revenue for fiscal year 2016 totaled \$3,944.8 million, a 0.3% decrease from fiscal 2015.

Personal income taxes, after refunds, were \$1,286.6 million, a 2.8% increase over fiscal year 2015.

Franchise and Limited Partnership/LLC taxes, after refunds, were \$963.0 million, a 5.7% increase over fiscal year 2015.

Business entity fees were \$104.8 million, a 2.0% increase over the previous fiscal year.

Corporate income taxes, after refunds, were \$143.3 million, a 46.8% decrease from fiscal year 2015.

Bank franchise taxes were \$92.5 million, a 2.6% decrease from fiscal year 2015.

Business and occupational gross receipts taxes were \$234.1 million, a 4.8% increase over fiscal year 2015.

Lottery revenue was \$211.0 million, a 4.3% increase over fiscal year 2015.

Abandoned property revenue was \$528.3 million, a 2.8% increase from fiscal year 2016. Effective in fiscal year 2015, any abandoned property revenue received over \$554.0 million will be considered special funds and will be used for (1) a K-12 School Construction Fund; (2) a Debt Reduction Fund; and (3) Other Post-Employment Benefits Fund as established by 29 Del. C. §5281.

Expenditures

Budgetary General Fund expenditures for fiscal year 2016 totaled \$3,913.7 million, an increase of 2.1% over fiscal year 2015. The fiscal year 2016 budgetary General Fund operating budget totaled \$3,908.5 million, an increase of 2.6% over the fiscal year 2015 operating budget. Grant-in-aid appropriations of \$43.0 million bring total fiscal year 2016 appropriations to \$3,951.5 million. This appropriation package is within the constitutionally-prescribed limit of 98% of revenues.

The fiscal year 2016 capital budget totals \$456.3 million. Of that amount, \$231.9 million is allocated for general obligation capital projects, \$209.3 million is allocated for the capital program of the Department of Transportation funded through the Transportation Trust Fund and one-time cash of \$15.0 million has been allocated for "pay as you go" projects.

Balances

The following table outlines estimated revenue, expenditures and remaining cash balances for fiscal year 2016.

Budgetary General Fund Balances - Fiscal Year 2016
(in millions)

Revenue	\$3,944.8
Expenditures	
Budget	\$3,908.5
Grants	43.0
Supplemental.....	0.0
Total appropriations	\$3,951.5
Continued and encumbered (prior years)	<u>201.3</u>
Total spending authorizations	\$4,152.8
Less: Continued and encumbered (present year)	(181.5)
Less: Reversions	(57.5)
Total expenditures.....	<u>\$ 3,913.7</u>
Operating balance.....	31.1
Prior year cash balance.....	<u>536.9</u>
Cumulative cash balance.....	\$568.0
Less: Continued and encumbered (present year)	(181.5)
Less: Budget Reserve Account	(214.7)
Unencumbered cash balance.....	<u>\$171.8⁽¹⁾</u>

(1) Totals may not add due to rounding.

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FISCAL YEAR ENDING JUNE 30, 2017

Based upon the December 19, 2016 DEFAC revenue forecasts, net budgetary General Fund revenue for fiscal year 2017 is projected to total \$3,978.8 million, a 0.9% increase over fiscal year 2016 revenue.

Revenue

Personal income taxes, after refunds, are projected to total \$1,332.0 million, a 1.2% increase over fiscal year 2016.

Franchise and Limited Partnership/LLC taxes, after refunds, are expected to be \$975.0 million, a 1.2% increase over fiscal year 2016.

Business entity fees are projected to be \$106.9 million, a 2.0% increase over the previous fiscal year.

Corporate income taxes, after refunds, are expected to be \$122.0 million, a 14.8% decrease from fiscal year 2016.

Bank franchise taxes are projected to be \$77.3 million, a 16.4% decrease from fiscal year 2016.

Business and occupational gross receipts taxes are projected to be \$242.0 million, a 3.4% increase over fiscal year 2016.

Lottery revenue is expected to be \$205.0 million, a 2.8% increase over fiscal year 2016.

Abandoned property revenue is projected to total \$554.0 million, a 4.9% increase from fiscal year 2016. Effective in fiscal year 2016, any abandoned property revenue received over \$554.0 million will be considered special funds and will be used for (1) a K-12 School Construction Fund; (2) a Debt Reduction Fund; and (3) Other Post-Employment Benefits Fund as established by 29 Del. C. §5281.

Appropriations

The fiscal year 2017 budgetary General Fund operating budget totaled \$4,084.1 million, an increase of 4.5% over the fiscal year 2016 operating budget. Grant-in-aid appropriations of \$45.9 million, plus general fund cash to the bond fill of \$12.7 million bring total fiscal year 2017 appropriations to \$4,142.6 million. This appropriation package is within the constitutionally-prescribed limit of 98% of revenues.

The fiscal year 2017 capital budget totals \$501.4 million. Of that amount, \$236.3 million is allocated for general obligation capital projects, \$265.1 million is allocated for the capital program of the Department of Transportation funded through the Transportation Trust.

Balances

The following table outlines estimated revenue, expenditures and remaining cash balances for fiscal year 2017.

Budgetary General Fund Balances - Fiscal Year 2017
(in millions)

Revenue	\$3,978.8 ⁽¹⁾
Expenditures	
Budget	\$4,084.1
Grants	45.9
Supplemental.....	12.7
Total appropriations	\$4,142.7
Continued and encumbered (prior years)	<u>181.5</u>
Total spending authorizations	\$4,324.3
Less: Continued and encumbered (present year)	(209.6)
Less: Reversions	(25.0)
Total expenditures.....	<u>\$ 4,089.7</u>
Operating balance.....	(110.9)
Prior year cash balance.....	<u>568.0</u>
Cumulative cash balance.....	\$457.1
Less: Continued and encumbered (present year)	(209.6)
Less: Budget Reserve Account	(221.1)
Unencumbered cash balance.....	<u>\$26.4⁽²⁾</u>

(1) Revenue estimates per DEFAC's December 19, 2016 forecast.

(2) Totals may not add due to rounding.

Budget for Fiscal Year Ending June 30, 2018

The Governor's proposed operating and capital budgets for the budgetary General Fund and budgetary Special Funds, including the Transportation Trust Fund, are currently under consideration by the General Assembly. The budgets, as amended by the General Assembly, are expected to be passed prior to July 1, 2017 and signed by the Governor shortly thereafter.

TOBACCO SETTLEMENT

A coalition of State Attorneys General negotiated an agreement to settle various states' lawsuits against tobacco manufacturers, in order to recover state funds expended on health care for smokers, consumer fraud and other claims. The Master Settlement Agreement (the "Agreement") entered into by the State and participating tobacco manufacturers in late 1998 has resulted in significant payments to the State. According to the Agreement, payments are to continue in perpetuity, the size of which are subject to a number of possible offsets and adjustments outlined in the Agreement. Such offsets include, but are not limited to, the reduction in sales of products from participating manufacturers.

The State created a special fund called the "Delaware Health Fund" into which proceeds received as a result of the Agreement are deposited. The General Assembly and the Governor may authorize expenditure of these monies to expand access to health care and health insurance, make long-term investments in State-owned health care infrastructure, promote healthy lifestyles including tobacco, alcohol, and drug prevention, and promote preventive health care for Delawareans. The fund requires an annual appropriation by the General Assembly and is administered by the Secretary of Finance. As of June 30, 2016, approximately \$466.4 million has been received by the State from participating manufacturers.

FINANCIAL STRUCTURE

General

The State budgets and controls its financial activities on the cash basis of accounting for its fiscal year (July 1 to June 30). In compliance with State law, the State records its financial transactions in either of two major categories, the budgetary General Fund or budgetary Special Funds. References to these two funds in this document include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The budgetary General Fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary Special Funds. All disbursements from the budgetary General Fund must be authorized by appropriations of the General Assembly.

Budgetary Special Funds are designated for specific purposes. The appropriate budgetary Special Fund is credited with the tax or other revenue allocated to such fund and is charged with the related disbursements. Specific uses of the budgetary Special Funds include State parks operations and fees charged by the Public Service Commission and The Division of Professional Regulation. Federal payments and unemployment compensation are examples of non-appropriated budgetary Special Funds. Some budgetary Special Funds, such as the Delaware State Housing Authority and the State Pension Office, contain both appropriated funds for operations and non-appropriated funds for specific programs, such as public housing and pension benefits.

The Basic Financial Statements included in the State's CAFR have been prepared to conform to the standards of financial reporting set forth by the Governmental Accounting Standards Board ("GASB") in its various statements and interpretations. GAAP reporting standards allow the accurate assessment of financial condition and enable the State to present its total fiscal operation in conformity with accounting principles generally accepted in the United States of America.

In GAAP reporting, operations of the primary government and component units are recorded under three main fund types - Governmental, Proprietary and Fiduciary, as defined by GASB. The fund types and account groups are described in Note 1 of the GAAP Basic Financial Statements included in the State's CAFR. A reconciliation of budgetary General and Special Funds to GAAP is found in the Required Supplementary Information Section of the financial statements in the State's CAFR.

Capital assets are defined by the State as assets which have a cost of \$15,000 or more at the date of acquisition and have an expected useful life of one or more years. All land and buildings are capitalized regardless of cost. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation.

The State has elected to use the “modified approach” to account for certain infrastructure assets, as provided by GASB Statement No. 34. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

Budget Process

As noted earlier, all disbursements from the budgetary General Fund and certain budgetary Special Funds must be authorized by appropriation of the General Assembly. In the fall of the fiscal year, each State agency submits to the Budget Office under the Office of Management and Budget (“OMB”) a request for operating and capital funds for the ensuing fiscal year. Public hearings on the requests are subsequently conducted. The Governor's proposed operating and capital budgets for the budgetary General Fund and budgetary Special Funds, including the Transportation Trust Fund, are then drafted and presented by the Governor to the General Assembly in January. The General Assembly's Joint Finance and Bond Bill Committees hold hearings and mark up the Governor's proposed operating and capital budgets, respectively. As amended, the budgets are expected to be passed prior to July 1 and signed by the Governor shortly thereafter.

State agencies currently participate in a uniform budgeting process whereby each agency submits with its budget request a department mission, key objectives, background and accomplishments, and activities and performance measures. This fully integrated budget submission provides much information to the public as well as to State decision-makers.

Federal funds are not appropriated but are subject to the review and approval of OMB and the Delaware State Clearinghouse Committee for Federal Aid Coordination. The Committee is comprised of 10 members, including the Secretary of Finance, Director of OMB, Director of the Delaware Economic Development Office, the Controller General, and six legislators.

Appropriation Limit

The State Constitution limits annual appropriations by majority vote of both houses of the General Assembly to 98% of estimated budgetary General Fund revenue, plus the unencumbered budgetary General Fund balance from the previous year. An appropriation exceeding this limit may be made in the event of a declared emergency, with the approval of a three-fifths vote of the members of each house of the General Assembly, but no appropriation may be made exceeding 100% of estimated budgetary General Fund revenue plus the unencumbered budgetary General Fund balance from the previous fiscal year. In June 2016, the General Assembly authorized appropriations of \$4,142.6 million for fiscal year 2017, within the projected 98% appropriation limit.

Budget Reserve Account

The Budget Reserve Account (commonly referred to as the “Rainy Day Fund”) is designed to provide a cushion against unanticipated revenue shortfalls. The State Constitution provides that the excess of any unencumbered budgetary General Funds at the end of a fiscal year must be placed in a reserve account (the “Budget Reserve Account”) within 45 days following the end of the fiscal year, provided that the amount of funds in the Budget Reserve Account does not exceed 5% of the estimated budgetary General Fund revenue used

to determine the appropriation limit for that fiscal year. Transfers are made in August based on June revenue projections, with consideration given to year-end operating results of the previous fiscal year. To date, transfers of \$221.1 million have been made which fully funded the Budget Reserve Account for fiscal year 2017. Money from the Budget Reserve Account may be appropriated only with the approval of a three-fifths vote of the members of each house of the General Assembly and only to fund an unanticipated budgetary General Fund deficit or to provide funds required as a result of the enactment of legislation reducing revenue. No funds have been withdrawn from the Budget Reserve Account since its inception in 1980.

Tax Limitations

The State Constitution was amended in May 1980 to limit tax and license fee increases or the imposition of any new taxes or fees. Any tax or license fee increase or the imposition of any new tax or license fee must be passed by a three-fifths vote of each house of the General Assembly, rather than by a simple majority vote, except for tax increases to meet debt service on outstanding obligations of the State for which insufficient revenue is available when such debt service is due. The amendment requires the State to appropriate, prior to each fiscal year of the State, sums sufficient to meet debt service in the following fiscal year, a practice the State has always followed.

Internal Control Structure

The State has established and maintains an internal control structure designed to ensure that the assets of the State are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that evaluation of costs and benefits requires estimates and judgments by State officials. Determination as to the adequacy of the internal control structure is made within the above framework. State officials believe the State's internal control structure adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions. In the beginning of fiscal year 2011, the State fully implemented and upgraded its financial systems to continue to safeguard its assets and properly record its financial transactions.

Disbursements from State funds are controlled by an encumbrance accounting system that is designed to provide information on the actual extent of the State's obligations (as determined by purchase orders issued) and to guard against over-committing available funds. Disbursements are controlled through the encumbrance system in such a way that purchase orders issued for goods and services cause a reduction in available appropriations. As a result, the amount of budgetary General Fund cash disbursements plus unliquidated encumbrances cannot exceed the amount appropriated by the General Assembly for any budget line.

At fiscal year-end, cash is reserved to pay outstanding encumbrances (orders for goods and services not yet received or for which payment has not been made). Budgetary General Fund encumbrances are carried over as encumbered appropriations and paid out and recorded as disbursements in the succeeding fiscal year. All obligations created by purchase orders (encumbered amounts) are liquidated upon satisfactory receipt of goods and services. Budgetary General Fund appropriations, which have not been disbursed, continued or encumbered at fiscal year-end, lapse. Such lapsed appropriations are referred to as reversions in the State's financial reports.

The State restricts commitments for budgetary General Fund expenditures by State agencies. Commitments to incur expenditures in excess of an appropriation (to be funded from unused funds appropriated to other agencies) must be approved by the Director of the OMB and the Controller General.

Although the majority of the State's financial transactions are processed through the accounting system, certain budgetary Special Funds have financial activity, such as investments, outside the system. For example, the Transportation Trust Fund, the Delaware State Housing Authority, the deferred compensation programs and Delaware State University all maintain certain financial activity outside the system. This activity is governed in adherence to legislative regulations as well as guidelines established by their respective boards. In addition, these entities are audited annually and produce published financial reports.

The Auditor of Accounts is required to make audits of all agencies collecting State revenue or expending State funds in excess of \$500,000 each year, and, to the extent possible, to make annual audits of the financial transactions of all other State agencies. The Auditor of Accounts also reviews certain records of the Secretary of Finance and State Treasurer on a quarterly basis to reconcile the State's bank accounts to such records.

Tax Collection Procedures

Most of the State's taxes are collected under a self-assessing system. Taxpayers prepare the tax forms and pay the amounts they determine are due. When the State determines that a payment is less than the amount due, assessments may be made which can include applicable penalties and interest as allowed by law.

The State has continually instituted procedures to identify non-filers and increase compliance with its tax statutes. The procedures include comparing federal income tax records with State income tax records, comparing State records for various years, and cross-referencing the license tax files to licensee lists from the State's various regulatory boards.

Through the Attorney General's Office, the State employs legal procedures to effect payment of past due balances. These procedures include filing actions in the Justice of the Peace, Common Pleas and Superior Courts on bad checks received. Procedures have been instituted for the garnishment of wages and bank accounts and the sale of personal property through the County Sheriffs.

By statute, the State's accounts receivable may be removed from current active accounts only if the account is more than six years old and is determined to be uncollectible or if the potential recovery or administrative costs of collection would not warrant further collection efforts. Recently enacted legislation allows the Division of Revenue to write off the accounts of those who are deceased or bankrupt.

Recently enacted legislation requires the Secretary of Finance to prepare, maintain and publish on the Division of Revenue's Internet Website two separate lists of the top 100 business and personal taxpayers owing outstanding tax liabilities in excess of \$1,000 in which a judgment has been filed and who are not currently in bankruptcy or have not entered into and complied with the terms of an installment plan.

Risk Management

The State is exposed to various risks and losses related to employee health and accident, worker's compensation, environmental and a portion of property and casualty claims. It is the policy of the State to self-insure its exposures when cost effective and commercially insure on the exposures that are specialized.

Cash Management

Created by State law, the Cash Management Policy Board (the "Board") establishes policies for the investment of all money belonging to the State or put on deposit with the State by its political subdivisions, except money in any State pension fund and money held for individuals under the State deferred

compensation program. The investment of such money belonging to the State is executed by the State Treasurer in accordance with and pursuant to the Board's investment policies. The Board is comprised of nine members, including the Secretary of Finance, the Secretary of State, the State Treasurer, the Controller General (all serving ex officio), and five members from the private sector appointed by the Governor and confirmed by the State Senate. The current members of the Board are:

John V. Flynn, Jr. (Chairman)	Managing Director, Healthcare Resource Solutions
Richard J. Geisenberger	Secretary of Finance
Jeffrey W. Bullock	Secretary of State
Warren C. Engle	Formerly Senior Vice President, PNC Bank, retired
Mike Karia	Chief Executive Officer, MK Consulting I Inc.
Lynda A. Messick	Consultant, Bank Governance Advisors
Michael L. Morton	Controller General
David F. Marvin	Partner, Marvin & Palmer Associates, Inc.
Kenneth A. Simpler	State Treasurer

The State has instituted a number of measures to augment its dividend and interest earnings. Among these are the implementation of a commercial bank lockbox for collection of corporate franchise taxes, bank franchise taxes and insurance premium taxes. In addition, the State is also receiving tax payments electronically for the following taxes on a voluntary basis: employer withholding taxes, corporate franchise taxes and bank franchise taxes. The State's motor fuel/special fuels tax is collected electronically on a mandatory basis.

BUDGETARY GENERAL FUND SUMMARIES

Principal Receipts by Category

All revenue derived by the State, unless otherwise provided by law, is credited to the budgetary General Fund. The principal receipts not credited to the budgetary General Fund are unemployment insurance taxes, transportation-related taxes for the Transportation Trust Fund, certain taxes on insurance companies and property taxes levied by local school districts. Such taxes are deposited in budgetary Special Funds of the State. The State does not levy *ad valorem* taxes on real or personal property and does not impose a general sales or use tax.

The taxes summarized below produce most of the budgetary General Fund revenue.

Personal Income Tax: Effective January 1, 2014, Delaware's rates on taxable income range from zero on the first \$2,000 of net taxable income, to 6.60% on taxable income in excess of \$60,000. Taxable income consists of federal adjusted gross income, with certain modifications, less itemized deductions (or a standard deduction in lieu thereof). After the application of the rates to taxable income, a \$110 non-refundable personal tax credit is subtracted for each taxpayer and dependent claimed, providing a direct dollar-for-dollar reduction in final tax liability.

Since 1992, non-resident taxes have been computed as if the taxpayer were a State resident, multiplied by the ratio of Delaware income to total income. Tax returns and payments are due April 30.

Employers maintaining an office or transacting business within the State and making payment of any wages or other remuneration subject to withholding under the United States Internal Revenue Code are required to withhold State income tax on such wages or remuneration at prescribed rates. Filing frequency is determined based on the amount of an employer's withholdings between July 1 and June 30, immediately preceding the calendar year: under \$3,600 file quarterly; from \$3,600 to \$20,000 file monthly; and over \$20,000 file up to eight times per month.

Corporation Franchise Tax: An annual franchise tax is levied on business corporations organized under State laws, excepting banks and building and loan associations. The tax levy is based on either the corporation's total number of authorized shares of capital stock or on its gross assets. The basis yielding the lesser tax revenue is applied. Effective January 1, 2009, the maximum tax was increased from \$165,000 to \$180,000. Applying the authorized share basis, the tax is levied according to the following rate schedule:

- 5,000 shares or less (minimum tax): \$175.00
- 5,001 – 10,000 shares: \$250.00
- \$75.00 for each additional 10,000 shares or portion thereof
- Maximum annual tax is \$180,000.00

Applying the gross assets basis, the tax is levied at a rate of \$350 for each \$1.0 million or fractional part thereof of the corporation's gross assets per authorized share. The maximum annual franchise tax is \$180,000.00 and the minimum tax is \$175.00. Tax payments for any corporation whose annual franchise taxes exceed \$5,000.00 are required to be made quarterly. Other companies pay once each year, on March 1.

Corporation Income Tax: This tax is levied at the rate of 8.7% on net taxable income of both foreign and domestic corporations derived from sources within the State. Investment and holding companies, insurance companies and domestic international sales corporations, among others, are exempt. Fifty percent of the estimated tax for the taxpayer's current tax year and the balance due from the prior year is payable on the 1st day of the fourth month of the taxpayer's tax year, 20% of such estimated tax is payable on the 15th day of the sixth month, 20% on the 15th day of the ninth month and 10% on the 15th day of the twelfth month. Corporations with total gross receipts of \$20,000,000 or more in any of the last three years must pay 80% of their current year's estimated tax on a current basis. Beginning January 1, 2017, small corporations (total gross receipts below \$20,000,000 for two of three prior years) are beholden to the payment dates above, but make quarterly estimated payments equivalent to 25% of their estimated tax on each date. Additionally, Delaware will change the method employed to apportion net taxable income for multi-state corporations. In prior years, net taxable income was apportioned based on an equally weighted average of Delaware's share of a firm's national payroll, property, and sales. Beginning January 1, 2017, Delaware will weight Delaware sales on a multi-state firm at 50% in 2017, 60% in 2018, 75% in 2019, and 100% in 2020 and beyond.

Business and Occupational Gross Receipts Tax: The State imposes license requirements and related taxes on most occupations and businesses. License fees and taxes consist of a basic annual fee of \$75 (in some cases an additional \$25 per establishment is levied) plus a tax on gross receipts. Effective for tax periods ending after December 31, 2013, tax rates include 0.6472% for contractors (with a monthly deduction from gross receipts of \$100,000); 0.3983% for wholesalers (with a monthly deduction of \$100,000); 0.1260% for manufacturers (with a monthly deduction of \$1,250,000); 0.1991% for food processors (with a monthly deduction of \$100,000); 0.0996% for commercial feed dealers and farm machinery retailers (with a monthly deduction of \$100,000); 0.7468% for general retailers (with a monthly deduction of \$100,000); 0.6472% for restaurants (with a monthly deduction of \$100,000); and 0.3983% of aggregate gross receipts on most occupational licenses (with a monthly deduction of \$100,000). A use tax on leases of tangible personal property is levied on the lessee at the rate of 1.9914% of lease rentals and on the lessor at the rate of 0.2987% of rental payments received. Lessors are allowed a quarterly deduction of \$300,000. Automobile manufacturers pay a 0.0945% tax (with a monthly deduction of \$1,250,000).

Public Utility Tax: Gross receipts from the sale of telephone, telegraph, gas, electricity, and cable television services are subject to tax. Receipts from services sold to residential users are excluded, except for receipts from residential cable television services. Generally, public utilities are subject to a tax rate of 4.25%. Several exemptions/reductions apply. Receipts from sales of electricity to manufacturers and agribusiness/food processors are taxed at 2.00%. Certain electrochemical processors and receipts from sales

of electricity and gas to automobile manufacturers are exempt from the tax. Cable television and direct-to-home satellite services are taxed at 2.125%.

Cigarette Tax: Effective August 1, 2009, the cigarette tax was increased from \$1.15 to \$1.60 per 20 cigarette pack. Moist snuff is taxed at a rate of 54 cents per ounce. Other tobacco products are taxed at 15% of the wholesale price.

Inheritance and Estate Tax: Effective January 1, 1999, the inheritance tax was eliminated. Since the inheritance tax was eliminated, the State has continued to levy its estate tax. Delaware's estate tax, sometimes referred to as a "pick up" tax, applies only to those estates required to pay the federal estate tax. Changes in federal law effectively phased-out Delaware's estate tax in 2005. Effective July 1, 2009, however, the State chose to "decouple" from federal law effectively reinstating the tax essentially as it existed in 2001 with rates from 0.8% to 16.0% of a decedent's tax base, less the federal exemption.

Realty Transfer Tax: Generally, the State levies a realty transfer tax at a rate of 1.5% of the consideration paid for any real property transferred. (Local governments are permitted to levy an additional 1.5%.) A 1% tax is levied on the value of construction in excess of \$10,000 where the underlying property was acquired by the owner less than 12 months prior to the commencement of construction.

Alcoholic Beverage Tax: The State imposes an excise tax on the distribution of alcoholic beverages. Beer is taxed at the rate of \$4.85 per barrel; wine at 97 cents per gallon; liquor containing 25% or less alcohol by volume at \$2.50 per gallon; and liquor containing more than 25% at \$3.75 per gallon.

Insurance Tax: The State levies a tax of 1.70%, plus an additional 0.30% for the benefit of fire and police, on gross premiums, less dividends and returned premiums on cancelled policies, for most types of insurance. An annual privilege tax is levied on domestic insurers based upon annual gross receipts and subject to credits for payroll compensation for employee services performed in the State.

Bank Franchise Tax: The State levies a tax on banks at 8.7% on the first \$20 million of taxable income, 6.7% on such income between \$20 and \$25 million, 4.7% on such income between \$25 million and \$30 million, 2.7% on such income between \$30 million and \$650 million, and 1.7% on taxable income in excess of \$650 million.

Effective for tax years beginning after December 31, 2006, banks have the option of using an "Alternative Franchise Tax". The Alternative Franchise Tax has two parts:

1. A traditional income tax employing three-factor apportionment with a double-weighted receipts factor. The tax's regressive rates range from 7.0% on taxable income not in excess of \$50 million to 0.5% on taxable income in excess of \$1.3 billion.
2. A "Location Benefits Tax" based on assets. The location benefit tax liability shall be \$1.6 million, plus 0.012% of the value of the assets not in excess of \$5 billion; 0.008% of the value of the assets in excess of \$5 billion but not in excess of \$20 billion; 0.004% of the value of the assets in excess of \$20 billion but not in excess of \$90 billion. The maximum Location Benefits Tax is \$6.2 million.

Additional Sources of Revenue

Lottery

Delaware's lottery actually includes multiple gaming options, which consumers may access via various platforms.

- *Traditional Lottery:* The traditional lottery consists of daily drawings, lotto, instant tickets, Keno, and multi-state games such as Powerball and Megamillions. Traditional lottery products are sold via a State-operated network of linked lottery terminals located in approximately 600 retail locations throughout the State.
- *Casino Operations:* Casino operations consist of a video lottery, sportsbooks, table games and i-gaming.
 - Video Lottery – The video lottery is a State-operated network of linked video lottery or slot machines restricted to three locations authorized by State law. In addition, Delaware participates in a multi-jurisdictional, progressive video lottery game (MegaHits) via a network operated under the auspices of the Multi-State Lottery Association (MUSL). This wide-area network currently consists of Delaware, Maryland, Ohio, Rhode Island, and West Virginia.
 - Sportsbooks – The State, in conjunction with the State’s three casinos and approximately 100 retail establishments, operates a sports lottery, which consists of parlay-style betting on National Football League (“NFL”) games.
 - Table Games – Delaware’s three casinos operate table games, such as blackjack, craps, roulette and poker. Table games were operational at the end of fiscal year 2010 and have enhanced the State’s position in an increasingly competitive gaming market, increased employment and added revenue to the State’s coffers.
 - I-gaming – Beginning in November 2013, Delaware’s i-gaming was made available to in-state consumers. Among other offerings, consumers may access peer-to-peer poker, and virtual blackjack, video lottery and roulette via the internet sites of the State’s three casinos. In fiscal year 2014, Delaware and Nevada created the Multi-State Internet Gaming Agreement allowing for liquidity among online poker players from both States. In fiscal year 2015, mobile i-gaming was made available.

DEFAC closely monitors an evolving regional gaming market and updates the State’s revenue forecasts as conditions have evolved. By law, the lottery undertakes to provide an aggregate of at least 30.0% of the net revenue generated from traditional lottery products to the budgetary General Fund. The State retains 43.5% of video lottery profits (net of certain equipment costs) and 29.4% of the net proceeds from table games, whether wagered by traditional means or via the internet. The State retains 50% of the net proceeds from the sports book and 90% of the net proceeds from sports lottery retailers.

Abandoned Property

Abandoned property represents any debt or obligation, including securities, which has gone unclaimed or undelivered for a period of dormancy defined by statute. For most property, the period of dormancy is five years; for securities, it is three years. Pursuant to U.S. Supreme Court jurisprudence, such unclaimed property is reported to the State of Delaware if any of the following circumstances are present: the last known address of the owner is located in the State of Delaware; the last known address of the owner is unknown, and the holder of the property is incorporated or formed under the laws of the State of Delaware; the last known address of the owner is not located in any state of the United States, or the District of Columbia, or any territory or possession of the United States, and the Holder is incorporated or formed under the laws of the State of Delaware; or the last known address of the owner is in a state that does not have an applicable statute for the type of property being reported and the Holder is incorporated or formed under the laws of the State of Delaware.

It is forecasted that abandoned property will generate revenues of \$554 million in fiscal year 2017. The fiscal year 2018 forecast indicates an \$64 million decrease in abandoned property revenues, which reflects, in part, DEFAC’s recognition that future revenues from abandoned property could be adversely affected by pending legal challenges. See “LITIGATION” herein for a further explanation of the legal challenge.

In original actions that have been accepted for consideration by the United States Supreme Court, Delaware is litigating claims involving 29 states on the issue whether a certain property type should have been escheated to Delaware or to the other states. Delaware is vigorously contending before the Supreme Court that the property type should properly escheat to the property holder’s state of incorporation, which would, among other things, result in property previously escheated to Delaware remaining with Delaware. By the same token, possible resolution of the original actions could result both in payments of property by Delaware to other states and further payments by other states to Delaware. Resolution of the actions is likely to be at least a year away. Delaware cannot estimate the potential liability, if any, that it may face if it were not to prevail in these actions.

Budgetary General Fund Disbursements by Category of Expense

The following table summarizes the budgetary General Fund disbursements of the State for fiscal years ended June 30, 2012 through 2016. See “STATE FINANCIAL OPERATIONS – Expenditure Summary – Fiscal Year 2013–Fiscal Year 2016E” for a detailed explanation of the expenditure figures.

Budgetary General Fund Disbursements
(in millions)

	Fiscal <u>2012</u>	Fiscal <u>2013</u>	Fiscal <u>2014</u>	Fiscal <u>2015</u>	Fiscal <u>2016</u>
Salaries.....	\$1,277.4	\$1,285.6	\$1,306.8	\$1,338.5	\$1,361.8
Debt Service.....	144.3	144.8	158.0	163.9	169.4
Contractual Services	455.1	484.0	517.3	512.1	513.7
Fringe Benefits, except Pensions ..	379.5	379.0	396.1	402.9	453.7
Pensions	252.9	271.9	285.8	287.0	297.3
Welfare and Assistance Grants	637.3	637.1	661.8	682.5	689.1
Other Grants.....	364.1	372.8	379.6	363.1	349.6
Other	<u>81.8</u>	<u>83.3</u>	<u>88.7</u>	<u>82.6</u>	<u>79.1</u>
Total Disbursements	<u>\$3,592.4</u>	<u>\$3,658.5</u>	<u>\$3,794.1</u>	<u>\$3,832.6</u>	<u>\$3,913.7</u>

Budgetary General Fund Disbursements by Purpose

The State assumes substantial financial responsibility for a number of programs often funded by local units of government in other states, including public and higher education, social service programs and the correctional system. In addition, the State builds and maintains all roads and highways within the State except certain local streets within a municipality's corporate boundaries and certain private streets. See “INDEBTEDNESS OF AUTHORITIES, UNIVERSITY OF DELAWARE AND POLITICAL SUBDIVISIONS - Authorities - Delaware Transportation Authority” for additional information. The major State programs are described in more detail below.

Public Education

Delaware is one of only four states in the country which has not undergone a constitutional challenge to its public education funding. The State finances its public school operations from a combination of State,

federal and local funds. In fiscal year 2015, the State provided 59.0%, the federal government 10.0% and localities 31.0% of the cost for current operations and debt service. For 2012-2013, the U.S. Department of Education, National Center for Educational Statistics, Institute for Education Sciences reported that Delaware was exceeded by nine other states and Puerto Rico in terms of the percentage of public school revenues financed by the State. Public education base salary scales are set by State law, but the base salary may be supplemented by local funds. The local supplements vary in each school district in the State, depending on each district’s contractual obligations with its employees and the district’s ability and willingness to tax its constituents. For the 2016-2017 school year, the average State-local funded classroom teacher’s salary was \$61,384, of which \$41,432 was paid from State funds and the balance paid from federal or local funds. The State share of public education costs is allocated to the school districts, subject to a number of formulae based primarily on enrollment. The State funds between 60% and 80% of school construction costs, based on an index of an individual district’s ability to generate local share funding. The State also funds fringe benefits for school personnel in approximate proportion to the budgetary General Fund contribution to salaries, with the exception of health insurance which is 100% State funded for the basic plan. School districts reimburse the State for fringe benefit costs for personnel hired and paid under federally-funded programs and for the proportion of salary paid from local funds.

Budgetary General Fund expenditures for public education in fiscal year 2016 totaled \$1,305.1 million. Appropriations of \$1,379.6 million have been made for fiscal year 2017.

The following table sets forth public school enrollment (elementary and secondary), in September of the years indicated.

Public School Enrollment⁽¹⁾

	<u>Enrollment</u>	<u>Change (%)</u>
2005	120,482	1.7
2006	121,856	1.7
2007	123,615	1.4
2008	124,903	1.0
2009	126,271	1.1
2010	127,944	1.3
2011	130,102	1.7
2012	131,029	0.7
2013	132,841	1.4
2014	134,442	1.2
2015	135,517	0.8
2016	136,706	0.9

(1) Excludes children of military personnel living on Dover Air Force Base who attend Base schools and whose education is federally-funded.

Higher Education

The State’s higher education system consists of eight institutions, which enrolled 59,010 students in the 2016-2017 academic school year based upon Fall 2016 student headcount (45,628 on a full-time equivalent (“FTE”) basis). The three State-supported institutions are Delaware Technical and Community College which enrolled 13,471 students (7,668 FTE); Delaware State University, a land grant college located in the City of Dover which enrolled approximately 4,560 students (4,197 FTE); and the University of Delaware, a land grant college located in the City of Newark, which enrolled 23,009 students (20,760 FTE).

The five privately supported institutions of higher education in the State enrolled an additional 17,970 students in 2015-2016 (13,003 FTE).

Budgetary General Fund expenditures for higher education in fiscal year 2016 were \$230.0 million. The State provides approximately 12.0% of the operating budget of the University of Delaware, 40.0% of the budget of Delaware Technical and Community College, and 29.1% of the budget of Delaware State University. Appropriations of \$234.4 million have been made for fiscal year 2017, including \$120.6 million for the University of Delaware (this includes \$1.9 million in funding for Delaware Geological Survey), \$78.7 million for Delaware Technical and Community College and \$35.1 million for Delaware State University.

Social Services

The principal social service programs administered by the State are: (1) Temporary Assistance for Needy Families (“TANF”); (2) General Assistance (“GA”) to low-income single individuals who do not qualify for Supplemental Security Income (“SSI”) or TANF payments; (3) service programs for qualified individuals including child care, employment & training services; and (4) direct medical assistance to qualifying individuals (“Medicaid” & “CHIP”).

Delaware’s TANF program is funded by a federal capped block grant and State budgetary General Funds. The State is required under federal law to maintain a prescribed level of historic State expenditures for benefits and services to individuals eligible for TANF. Currently, the TANF caseload is gradually declining. The State provides health care, child care assistance and help finding work for participants in the State’s TANF program and provides health care and subsidized childcare to income eligible individuals or those who have left the welfare rolls and continue to be eligible for that coverage.

GA program grants are entirely funded by the State. As of October 2016, the payment standard for the GA program is \$81 a month per single-person family.

Since January 1974, the SSI Program has been administered and funded by the federal government. Beginning with fiscal 1975, the State elected to supplement federal SSI payments for individuals who received the State equivalent of SSI payments prior to January 1974.

The Child Care program provides support for families with children to enable the caretaker to hold a job, obtain training or meet special needs of the parent or child. The income limit for this program is currently set at 200 percent of the federal poverty level.

Delaware’s Medicaid program traditionally has been funded at the minimum Federal financial participation (“FFP”) rate of 50%. Each state’s FFP is determined annually by a statutory formula designed to account for income variation across states. Delaware’s rate has varied from a high of 64.38% (due to a provision of ARRA) to a low of 50% (the lowest rate) during the past five years. The current FFP for Delaware (beginning October 1, 2016) is 54.20%. The FFP rate expected to become effective on October 1, 2017 is 56.43%.

The portion of the expenditures for the foregoing programs paid by the federal government is accounted for by the State through the non-appropriated budgetary Special Funds. The portion paid by the State is accounted for primarily through the budgetary General Fund.

The following table indicates the trends of selected State social services expenditures for fiscal year 2011 through fiscal year 2016.

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Social Services Expenditures
(dollars in millions)

	<u>Fiscal</u> <u>2011</u>	<u>Fiscal</u> <u>2012</u>	<u>Fiscal</u> <u>2013</u>	<u>Fiscal</u> <u>2014</u>	<u>Fiscal</u> <u>2015</u>	<u>Fiscal</u> <u>2016</u>
TANF						
Number of Recipients/month	14,537	13,969	11,895	11,120	10,741	9,568
Total Expenditures/year	\$22.4	\$20.8	\$19.6	\$18.6	\$17.14	\$17.41
State Share.....	\$13.9	\$19.9	\$18.7	\$15.1	\$17.14	\$15.06
GENERAL ASSISTANCE						
Number of Recipients/month	3,964	4,369	4,458	4,953	4,875	4,581
Total Expenditures/year	\$4.4	\$4.4	\$4.8	\$5.2	\$5.4	\$4.65
State Share.....	\$4.4	\$4.4	\$4.8	\$5.2	\$5.4	\$4.65
SSI						
Number of State Subsidized Recipients/month.....	815	820	609	608	546	549
State Share.....	\$1.0	\$0.9	\$0.9	\$0.9	\$0.8	\$0.93
FOSTER CARE (DSCYF)						
Number of Children/month	627	661	638	562	545	593
Total Expenditures/year	\$16.9	\$17.3	\$17.6	\$17.8	\$16.8	\$17.60
State Share.....	\$13.6	\$14.7	\$14.9	\$15.5	\$14.2	\$15.20
DAY CARE						
Number of Children/month	14,459	14,609	14,765	14,063	14,303	15,120
Total Expenditures/year	\$53.2	\$61.4	\$65.3	\$63.3	\$62.7	\$67.34
State Share.....	\$10.9	\$24.0	\$31.4	\$30.4	\$29.5	\$33.82
MEDICAID						
Number of Eligibles/month	193,633	207,067	212,693	217,658	224,198	228,045
Total Expenditures/year	\$1,424.0	\$1,552.2	\$1,618.4	\$1,620.1	\$1,834.3	\$1,883.96
State Share.....	\$550.9	\$700.6	\$713.7	\$750.1	\$730.1	\$720.50
COMMUNITY HEALTH						
State Expenditures/year.....	\$33.8	\$33.8	\$34.8	\$33.1	\$34.3	\$35.61

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Children's Services

The Department of Services for Children, Youth and Their Families provides integrated service delivery for children and their families in its efforts to promote family stability through a child-centered, family-focused continuum of care. The Management and Support Services unit provides support and educational services to the three divisions. Management services spent \$19.7 million in fiscal year 2015, \$20.0 million for fiscal year 2016, and has budgeted \$21.0 million for fiscal year 2017. The Department served 21,862 clients in fiscal year 2016 some of which were shared by each of the three divisions. The Family Services division spent \$51.0 million in fiscal year 2015, \$52.9 million in fiscal 2016, and has budgeted \$52.8 million for fiscal year 2017. The Division of Youth Rehabilitative Services (“YRS”) handles delinquent youth in both pre- and post-adjudication through an array of alternative placements and State-owned secure facilities. The YRS division spent \$40.1 million in fiscal year 2015, \$40.1 million in fiscal 2016 and has budgeted \$42.9 million for fiscal year 2017. The Division of Prevention and Behavioral Health Services (“DPBHS”) provides mental health services for children and youth. The DPBHS spent \$38.3 million in fiscal year 2015, \$38.7 million in fiscal 2016 and has budgeted \$42.3 million for fiscal year 2017.

Corrections

The Department of Corrections (“DOC”) is the only government operated correction agency in the State. Delaware operates under a unified corrections system. Delaware has no regional, county or municipal correction or jail system and no separate probation system. Offenders immediately become the responsibility of the State, including: pre-trial and sentencing, misdemeanor and felony, jail and prison and all community based sanctions. Sentencing in the State has evolved with the passage of Sentencing Accountability (“SENTAC”) legislation whereby all offenders are sentenced to one of five levels ranging from Level 1 (administrative supervision) to Level V (incarceration). This structure allows the State flexibility to match offenders with the most appropriate sentence. Total budgetary General Fund expenditures for DOC in fiscal year 2016 were \$298.5 million. The budget for fiscal year 2017 is \$295.4 million. As of December, 2016, the incarcerated population in the custody of the Department was approximately 6,584, of which about 5,516 are prisoners.

BUDGETARY SPECIAL FUNDS SUMMARIES

Each budgetary Special Fund is created by statute or administrative action for a specific purpose. The appropriate Fund is credited with the specific revenue or receipts allocated to such Fund. Disbursements from certain budgetary Special Funds require specific appropriation by the General Assembly.

In general, money in budgetary Special Funds is not available for disbursement or encumbrance until funds are deposited therein with the result that disbursements plus outstanding encumbrances cannot exceed the available funds (except for federal funds and the Transportation Trust Fund). In the case of bond funds, total disbursements plus encumbrances cannot exceed authorizations. At fiscal year end, the available fund balance plus outstanding encumbrances are carried over into the succeeding fiscal year.

Local School Property Taxes and Assessed Valuation

These taxes are levied by local school districts upon the assessed value of real estate in the district, as determined for county taxation purposes, for the local share of school operating costs and debt service on capital improvements. All tax receipts of a district are credited to the appropriate budgetary Special Fund and operating expenses are disbursed from such Fund upon the presentation of warrants or drafts to the State Treasurer by the school board of the district. The State's share of operating and debt service costs are appropriated and disbursed from the budgetary General Fund.

The following table outlines the assessed and estimated full valuation of all taxable real property in the State as of July 1, 2016.

Real Property Valuations
(in millions)

<u>County</u>	<u>Assessed Valuation</u> ⁽¹⁾	<u>Estimated Full Valuation</u>
New Castle	\$ 19,151.9 ⁽²⁾	\$62,033.6
Kent.....	3,788.9 ⁽³⁾	18,060.9
Sussex	<u>3,206.0</u> ⁽⁴⁾	<u>36,325.2</u>
 Total	 <u>\$26,146.8</u>	 <u>\$116,419.7</u>

(1) Net of all legal exemptions.

(2) Based on 100% of 1983 appraised value, as of the date of the most recent assessment which occurred in 1985.

(3) Based on 60% of appraised value, as of the date of the most recent assessment which occurred in 1987.

(4) Based on 50% of appraised value, as of the date of the most recent assessment which occurred in 1974.

Source: Delaware Department of Education.

Unemployment Compensation

Money deposited in the Unemployment Compensation Fund consists of employers' contributions and has at certain times in the past included advances from the federal government necessary to meet the excess of unemployment compensation benefits paid over the employers' contributions. As of December 31, 2016, the Unemployment Compensation Fund reflected a net balance available for the payment of benefits of \$105.1 million.

Federal Grants, Benefits and Reimbursements

All grants and reimbursements of money received from the federal government by the State are credited to budgetary Special Funds. The money is disbursed to the appropriate agency to be used for the purpose stated in the grant application without any further authority from the General Assembly. The Delaware State Clearinghouse Committee is the committee representing the legislative and executive branches of government. It is charged with reviewing all State agency applications for federal funds and no agency may expend federal funds without approval of this committee.

The following chart indicates the distribution of federal funds expended by the State by Department in the fiscal years indicated below.

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Ratio of Federal Funds Expended by Department

	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>
Health & Social Services	60.1%	59.6%	63.4%	66.1%	68.2%	71.1%
Transportation	10.9%	12.0%	12.1%	10.6%	11.3%	10.1%
Public Education	13.2%	13.8%	11.9%	10.9%	10.1%	9.3%
Housing Authority	1.0%	0.6%	0.1%	0.1%	0.0%	0.0%
Labor	2.4%	2.5%	2.4%	2.1%	2.1%	1.9%
Higher Education	4.3%	4.1%	3.6%	3.4%	2.7%	2.4%
Natural Resources	3.0%	2.6%	2.2%	2.8%	2.0%	0.8%
Other	<u>5.1%</u>	<u>4.8%</u>	<u>4.3%</u>	<u>4.0%</u>	<u>3.5%</u>	<u>4.5%</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Pension Fund Receipts

State pension contributions are appropriated by the General Assembly in the annual budget to cover the liability on budgetary General Fund salaries and are disbursed each month from the budgetary General Fund. Each monthly disbursement is recorded as a receipt of the appropriate budgetary Special Fund and is disbursed from such budgetary Special Fund to meet pension benefits and operating costs. The balance is disbursed from the budgetary Special Fund and invested as part of the State pension plan. See "STATE PENSION PLAN" for additional information. Employee pension contributions are also recorded as budgetary Special Fund receipts and are disbursed together with the State's share of pension costs. Pension costs paid by the federal government for employees paid under federal programs are also recorded as budgetary Special Fund receipts and disbursements.

Social Security Fund Receipts

All Social Security contributions by State departments and agencies and political subdivisions are recorded as a receipt to the Social Security Fund and are remitted on a semi-monthly basis. Contributions are submitted to the U.S. Department of the Treasury semi-monthly, at which time a disbursement is recorded.

Bond and Note Sales

All proceeds received from the sale of bonds or bond anticipation notes are recorded as a receipt in a special account designated as the State Treasurer's Bond Account. The withdrawal of proceeds is recorded as a budgetary Special Fund disbursement. The principal and interest on the State's general obligation bonds are paid as a budgetary General Fund disbursement.

DEFERRED COMPENSATION PROGRAM

All pension-eligible State employees may elect to participate in a deferred compensation plan. The plan is an eligible plan under Section 457(b) of the Internal Revenue Code (the "Code").

In accordance with the Code, the annual limit on a participant's pre-tax contributions remained at \$18,000 for calendar year 2017. Additional catch-up contributions are permitted for participants age 50 and older, who may contribute an additional \$6,000 in calendar year 2017. An alternative to the age 50 catch-up

provision is available for certain participants within three years of retirement, which serves to double the annual contribution limit to \$36,000.

Employees make self-directed investment elections from a menu of investment options made available through a plan vendor, Voya Financial, which range from ultra conservative to very aggressive. The total market value of plan assets as of March 31, 2016 was approximately \$559.0 million (unaudited).

The State also provides a \$10 per-pay employer match to contributions by 457(b) deferred compensation plan participants, which began on January 1, 2001. The match plan is approved under Section 401(a) of the Code. However, the match plan was suspended by the General Assembly for fiscal years 2009 through 2016, and currently remains suspended for fiscal year 2017.

Certain State employees working in the Department of Education, or for any school district or state-funded college or university, are eligible to participate in the State of Delaware 403(b) retirement plan, which is a tax-sheltered annuity (the “TSA Plan”). The TSA Plan is a qualified plan under Section 403(b) of the Code. The TSA Plan accepts both before tax and after tax Roth contributions.

In accordance with the Code, the annual limit on a participant’s pre-tax contributions remained at \$18,000 for calendar year 2017. Additional catch-up contributions are permitted for participants age 50 and older, who may contribute an additional \$6,000 in calendar year 2017. The 403(b) limits apply only to TSA Plan contributions; pension-eligible 403(b) participants are also eligible to participate in the 457(b) Plan. No alternative catch-up provision applies to the TSA Plan. No employer match program is established for the TSA Plan.

Employees make self-directed investment elections from a menu of investment options, including fund investments ranging from ultra conservative to very aggressive, made available through a plan vendor, Voya Financial. The total market value of plan assets as of March 31, 2016 was approximately \$342.1 million (unaudited).

STATE PENSION PLAN

The State of Delaware Employees’ Pension Plan (the “State Employees’ Plan”) is a cost-sharing, multiple-employer defined benefit plan that covers State employees and all local school district and other affiliated employees who qualify as full-time and regular part-time employees. As of June 30, 2016, participation in the State Employees’ Plan, as well as the following state funded plans (collectively the “Plans”) are as follows:

<u>Plan</u>	Retirees beneficiaries currently <u>receiving benefits</u>	Terminated Employees entitled to benefits but <u>not receiving them yet</u>	<u>Active Participants</u>	<u>Total Membership</u>
State Employees’ Plan	25,092	3,767	35,998	64,857
New State Police Plan	206	20	714	940
Judiciary Plan	47	1	56	104
Closed State Police Plan	507	--	--	507
Special Plan	<u>9</u>	<u>--</u>	<u>--</u>	<u>9</u>
Total Membership:	25,861	3,788	36,768	66,417

The Plans and the other plans managed by the State’s Board of Pension Trustees (the “Pension Board”), but not funded by the State, are referred to herein as the “Fund”.

The Pension Board is composed of five members from the private sector appointed by the Governor and confirmed by the Senate, and the Secretary of Finance and the Director of OMB serving as ex-officio members. The current members of the Pension Board are:

Suzanne B. Grant, Chair	Former Senior Vice President, Salomon Smith Barney, Consulting Group
Arturo F. Agra.....	Vice President of Strategic Planning, Pepco Holdings Inc.
Thomas S. Shaw.....	Former Executive Vice President and Chief Operating Officer, PHI
Nancy J. Shevock.....	Former Director, Delaware Transit Corp.
Helen R. Foster, J.D.....	Consultant
Rick J. Geisenberger	Secretary of Finance
Michael S. Jackson.....	Director, Office of Management & Budget

Legislative authority for the Fund is contained in 29 Del. Code §5541 which establishes a State Employees' Retirement Fund, mandates that state appropriations and other employer contributions, and employee contributions be deposited and benefits paid. The statute dictates that the assets of the Fund are to be held in trust and not be used for or diverted to any purpose other than for the exclusive benefit of the employees and their beneficiaries. Section 5541 allows the accumulated assets of the Fund to be commingled with the assets of local and other government entities.

The custodian of the Fund's assets is Northern Trust Company, Chicago, Illinois. The Fund's assets are managed by professional investment management firms. The total return on the fund in fiscal year 2016 was (1.3%) on a market value basis compared to 4.0% for the Standard & Poor's 500. However, due to the Fund's asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 5.7%. Below is a table depicting one-year and five-year returns from fiscal year 1996 through fiscal year 2016, inclusive.

<u>Fiscal Year</u>	<u>One Year RETURN</u>	<u>Five Year RETURN</u>
1996	20.0%	14.1%
1997	17.8%	15.1%
1998	18.0%	15.4%
1999	11.1%	17.1%
2000	16.8%	16.7%
2001	-5.1%	11.3%
2002	-6.3%	6.4%
2003	3.1%	3.5%
2004	15.9%	4.4%
2005	9.6%	3.1%
2006	12.4%	6.9%
2007	15.9%	11.5%
2008	-1.3%	10.5%
2009	-15.8%	3.6%
2010	14.1%	4.3%
2011	24.3%	6.6%
2012	2.0%	3.9%
2013	11.1%	6.4%
2014	17.5%	13.6%
2015	3.9%	11.4%
2016	-1.3%	6.4%

The Fund provides retirement, disability and survivor benefits as detailed in Note 15 of the Basic Financial Statements included in the State’s CAFR for the fiscal year ended June 30, 2016, a link to which is provided under “INDEPENDENT AUDITORS” herein.. In May 2011, the Delaware Code was amended in order to reduce benefits for and increase the contribution of all State employees hired on and after January 1, 2012 (“Post 2011 Employees”). In general, recipients, other than Post 2011 Employees, in the State Employees’ Plan are entitled to receive a service pension at various times during their years of credited service, i.e.: (1) age 62 with 5 years of credit service; (2) age 60 with 15 years of credit service; (3) a reduced service pension at age 55 with 15 years of credited service; (4) a reduced service pension at any age with 25 years of credited service; or (5) at any age with 30 years of credited service. Employees hired before January 1, 2012 are “fully vested” in benefits after 5 years of service, and Post 2011 Employees are “fully vested” in benefits after 10 years of service. Post 2011 Employees are entitled to receive a service pension if: (1) the employee has 10 years of credited service, and has attained age 65; (2) the employee has 20 years of credited service, and has attained age 60; or (3) the employee has 30 years of credited service. A Post 2011 Employee can receive a reduced service pension if: (1) the employee has 15 years of credited service, and has attained age 55, or (2) the employee has 25 years credited service regardless of age. All Plan participants also participate in the Old Age Disability Security Income component of the Federal Social Security System.

For members of the State Employees Plan, benefit payments are computed using the average monthly compensation for the 36 months of highest monthly compensation. Such compensation excludes overtime in the case of Post 2011 Employees. The average is then multiplied by 1.85% for each year of credited service after January 1, 1997 to determine the actual monthly benefit. Retirees with credited service before December 31, 1996 get a multiplier of 2.00 for service prior to January 1, 1997.

Post 2011 Employees contribute 5% of annual compensation above \$6,000. All other State employees contribute 3% of annual compensation above \$6,000.

Except for the Closed State Police Plan, the State's annual contribution to the Plans are equal to the sum of the normal cost of each year and the annual payment required to amortize the unfunded accrued liability using an amortization period of 20 years. The State's contribution must also include an amount to fund post retirement pension increases in accordance with a formula contained in the Delaware Code. The Closed State Police Plan is funded on a pay-as you-go basis; all other Plans are funded on an actuarially sound basis, as determined by the Pension Board, on the basis of actuarial analyses undertaken by Cheiron, Inc. ("Cheiron") annually. The most recent valuation, as of June 30, 2016, determined the State Employees' Plan to have a funded ratio of 89.0% based on the actuarial value of the assets and 83.9% based on the market value of the assets. Each year the Pension Board certifies the required State contribution rate as a percentage of covered payroll, based on the results of the actuarial valuations of the Plans. The State Employees' Plan has an unfunded accrued liability of \$1,507 million as of June 30, 2016 on market value. A Schedule of Funding Progress for the State Employees' Plans is shown below. See Schedule of Net Pension Liability in the Financial Section of the Delaware Public Employees' Retirement System Comprehensive Annual Financial Report for fiscal year 2016 for the funding progress of the New State Police Plan, the Judiciary Plan, the Closed State Police Plan and the Special Plan.

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**HISTORICAL FUNDING PROGRESS
ACTUARIAL VALUE
STATE EMPLOYEES' PLAN
(in thousands)**

Fiscal Year Ended June 30	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL)	(4) Funded Ratios	(5) Annualized Covered Payroll	(6) UAAL as a % of Covered Payroll
2016	\$ 8,460,614	\$9,484,483	\$1,023,869	89.2%	\$1,907,169	53.7%
2015	8,289,879	9,074,604	784,725	91.4%	1,864,991	42.1%
2014	8,067,032	8,757,980	690,948	92.1%	1,840,521	37.5%
2013	7,519,770	8,257,270	737,500	91.1%	1,877,105	39.3%
2012	7,270,430	7,949,855	679,425	91.5%	1,881,097	36.1%
2011	7,091,821	7,547,951	456,130	94.0%	1,783,603	25.6%
2010	6,808,957	7,096,326	287,369	96.0%	1,740,622	16.5%
2009	6,744,050	6,827,006	82,956	98.8%	1,753,129	4.7%
2008	6,751,949	6,549,856	(202,093)	103.1%	1,711,473	(11.8%)
2007	6,437,916	6,208,025	(229,891)	103.7%	1,654,609	(13.9%)
2006	5,998,746	5,901,072	(97,674)	101.7%	1,589,185	(6.1%)

Summary of Pension Contribution Funding Policy

Payment of each annual contribution is subject to appropriation by the General Assembly. In each year since fiscal 1971, the General Assembly has appropriated the contribution amounts recommended by the Pension Board. The State has appropriated the amount based on the percentage of covered payroll which is determined by the Pension Board based on the actuarial report. The following table sets forth the annual required contribution of the State Employees' Plan as well as the percentage contributed.

Fiscal Year Ended	Annual Required Contribution (000) ⁽¹⁾	Percentage Contributed	General Fund Expenditures (000,000)	% of Total Gen. Fund Expenditures	% of Covered Payroll
2016	\$182,707	100.0%	\$3,913.7	4.7%	9.6%
2015	178,293	100.0%	3,832.6	4.7%	9.6%
2014	174,863	100.0%	3,794.1	4.6%	9.5%
2013	160,651	100.0%	3,658.5	4.4%	8.6%
2012	147,464	100.0%	3,592.4	4.1%	7.8%
2011	128,019	100.0%	3,270.8	3.6%	7.2%
2010	101,457	100.0%	3,076.5	3.3%	5.8%
2009	96,576	100.0%	3,295.5	2.9%	5.5%
2008	101,660	100.0%	3,421.6	3.0%	6.1%
2007	97,000	100.0%	3,389.5	2.9%	5.9%

(1) Does not include contributions to the Post-Retirement Increase Fund

The following table sets forth the actual cash inflows, including investment earnings, and cash outflows for the State Employees' Plan for the last five years. For detailed cash flows for the New State Police Plan, the Judiciary Plan, the Closed State Police Plan and the Special Plan, see the Schedule of

Additions by Source and the Schedule of Deductions by Type in the Statistical Section of the Delaware Public Employees' Retirement System Comprehensive Annual Financial Report for fiscal year 2016.

State Employees' Pension Plan
(in millions)

	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>
Income					
Employee Contributions	\$ 47.9	\$ 50.6	\$ 52.8	\$ 55.8	\$ 59.1
State Contributions ⁽¹⁾ (budgetary General Fund and budgetary Special Funds).....	155.6	186.5	201.8	210.9	221.5
Investment Income.....	112.7	736.1	1,254.6	299.8	(137.0)
Total Income	\$316.2	\$973.2	\$1,509.2	\$566.5	\$143.6
Disbursements					
Pension Benefits Paid	\$443.9	\$478.0	\$501.0	\$529.6	\$558.5
Refunds	4.0	3.6	3.6	5.2	5.1
Other Disbursements.....	10.4	10.9	10.4	12.1	11.8
Total Disbursements	\$458.3	\$492.5	\$515.0	\$546.9	\$575.4
Excess of Income over Disbursements.....	(\$142.1)	\$480.7	\$994.2	\$19.6	(\$431.8)
Total Plan Assets.....	\$6,914.8	\$7,395.5	\$8,389.7	\$8,409.3	\$7,977.5

⁽¹⁾ Includes contributions to a Post-Retirement Increase Fund.

General Funding Practices

Since 1993, the Pension Board has commissioned actuarial studies annually. Cheiron of McLean, Virginia ("Cheiron") has served as the independent actuary since 2006 and uses the assumptions described in the following table for the State Employees Plan:

Actuarial Cost Method	Entry Age Normal
Amortization method	Open, percentage of payroll
Amortization period	20 years
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumption:	
Investment Rate of Return	7.2%
Salary Increases attributable to inflation	3.0%
Salary Increases attributable to merit and productivity	0.5% to 8.5%

The actuarial assumptions used have been recommended by Cheiron and adopted by the Pension Board based on the Fund's recent experience. The latest Experience Study was completed in June 2016.

For the State Employees' Plan, the information in the following table provides a comparison of the actuarial value of assets to the market values, the ratio of the AVA to market value, and the funded ratio based on AVA compared to funded ratio based on the market value of assets.

Fiscal Year Ended <u>June 30</u>	Actuarial Value of Assets (<u>000</u>)	Market Value of Assets (<u>000</u>)	% of AVA to <u>market value</u>	Funded Ratio (actuarial <u>value</u>)	Funded Ratio (<u>market value</u>)
2016	\$ 8,460,614	\$ 7,977,541	94.2%	89.0%	83.9%
2015	8,289,879	8,409,335	101.4%	91.5%	92.9%
2014	8,067,032	8,389,764	104.0%	92.2%	95.9%
2013	7,519,770	7,395,577	98.3%	91.1%	89.6%
2012	7,270,430	6,914,826	95.1%	91.5%	87.0%
2011	7,091,821	7,056,916	99.5%	94.0%	93.5%
2010	6,808,957	5,909,160	86.8%	96.0%	83.3%
2009	6,744,050	5,392,660	80.0%	98.8%	79.0%
2008	6,751,949	6,643,042	98.4%	103.1%	101.4%
2007	6,437,916	6,920,607	107.5%	103.7%	111.5%

Pension Plan Investment Policy and Practices

The Investment Committee of the Pension Board seeks the following investment objectives established by the Pension Board:

- Achieve a real return of 3% per year over long periods,
- Manage portfolio risk that limits downside price fluctuation,
- Maximize total investment returns, consistent with Pension Board objectives.

While not governed by a mandated target asset allocation, investment decisions are shaped by the Pension Board's internal investment guidelines which provide that a minimum of 20% of the total assets of the Fund be invested in fixed income investments, such as bonds, cash equivalents and certain real estate investments. This guideline is monitored with the assistance of an independent investment advisor. The committee strives for appropriate investment diversification by allocating funds across a variety of asset classes and by selecting managers whose demonstrated performance reflects different management styles and asset class expertise. The performance of all investment managers is closely monitored, not only in relation to specific absolute objectives, but also in relation to other fund managers following the same or similar investment objectives.

Litigation, Investigations and Labor Relations

There has been no material litigation brought or any investigation initiated in connection with the pension plan or members of its governing body. Audits of the pension plan's financial statements have been conducted annually by an independent auditor and that auditor has expressed an unqualified opinion.

Transfers of Investment Earnings

Earnings generated over and above the investment rate of return are retained as part of the plan assets.

Pension Plan Reserves

The State passed legislation which established a mechanism for funding ad hoc post-retirement increases granted by the General Assembly to members retired under the State Employees' Plan, the New State Police Plan and the Judiciary Plan beginning in fiscal 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate Post-Retirement Increase Fund ("PRI") managed by the Pension Board. The actuary uses the current actuarial assumptions, methods and population data to calculate the estimated additional liability resulting from the potential benefit increases. When the Legislature grants an ad hoc post-retirement adjustment, funds are transferred from this PRI fund on a monthly basis based on a five-year actuarial funding schedule to the appropriate pension plan from which the additional benefits are disbursed. For the fiscal year ended June 30, 2016, \$39.8 million was transferred to the appropriate plan.

During the last five years there have been three post-retirement increases granted by the General Assembly in fiscal years 2012, 2013 and 2015. As of June 30, 2016, these post-retirement increases have outstanding liabilities totaling \$59.2 million, which will be funded by the State and transferred to the appropriate plans over the remaining amortization periods.

The Pension Board adopts actuarially determined funding for the Post-Retirement Increase Fund. Funding for fiscal year 2014 was 1.51% of covered payroll. Funding for fiscal year 2015 was 1.66%. Funding for fiscal year 2016 was 2.07% of covered payroll. Funding for fiscal year 2017 is 1.56% of covered payroll.

Pension Obligation Bonds

No pension obligation bonds have been issued and the State does not anticipate issuing any pension obligation bonds in the future.

Other Relevant Reports

The Delaware Public Employees' Retirement System, a component unit of the State, annually issues a comprehensive annual financial report. This report, along with the Cheiron's actuarial valuation, can be found on the state's website at:

<http://www.delawarepensions.com/FinancialReports/AnnualFinancialReports.shtml><http://www.delawarepensions.com/financials.shtml>. The information included in this section relies on information produced by the State together with Cheiron, its independent actuary. Actuarial assessments are "forward-looking" and reflect the judgment of the fiduciaries of the Plans. Such assessments are based upon a variety of assumptions, one or more of which may provide to be inaccurate or be changed in the future, and will change with the future experience of the Plans.

OTHER POST EMPLOYMENT BENEFITS

The State provides post-employment health care to its employees and, in fiscal year 2008, began accounting for these benefits according to GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions ("GASB 45"). The State's actuarially accrued liability, based on a study conducted by Cheiron using actual data as of July 1, 2016, has been determined to be about \$7.46 billion using a discount rate of 3.75%, having been reduced from 4.25%.

The State began pre-funding the obligation in 2002 and 2003 with lump sum payments and contributions based on a percentage of payroll. In fiscal year 2007, the amount contributed as a percentage of

payroll was approximately \$5 million and increased to approximately \$10 million in fiscal years 2008 and 2009. In both fiscal years 2010 and 2011, the State contributed \$10 million from abandoned property revenue and, in 2011, an additional \$9.7 million was contributed by the State primarily from Medicare Part D subsidies received. Fiscal year 2012 and 2013 contributions, based on a 0.9% of payroll, were about \$16.8 million each and the fiscal 2013 Medicare Part D subsidy was \$11.2 million. In addition, \$3.6 million was received from fiscal 2013 abandoned property revenues. Fiscal 2014 payroll contributions totaled \$16 million plus an additional \$6.2 million in Medicare Part D subsidies brought total fiscal 2014 contributions to \$22.2 million. Fiscal 2015 payroll contributions totaled \$17.3 million. Fiscal 2016 payroll contributions totaled \$17.5 million. Payroll contributions for fiscal 2017 are expected to be about \$17.5 million.

The State has established an irrevocable trust and, at June 30, 2016, has accumulated \$310 million in assets resulting in a funding ratio of 4.1%. At a 3.75% discount rate, the State's fiscal year 2017 annual required contribution ("ARC") is \$491.7 million, which is expected to be only partially met with cash contributions and paid benefits. Paid benefits are estimated to be in the amount of \$219.3 million.

In 2011, the Governor signed legislation, which made significant modifications to employee's health care insurance and pension plan programs. The legislation establishes a fixed cost share in the State's health insurance programs for both active employees and retirees and increases the time to vest for retiree health care benefits. Further reducing this 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.

EMPLOYEE RELATIONS

The State currently has 32,047.9 full-time equivalent ("FTE") positions budgeted for fiscal year 2017, an increase of 162.3 FTEs from fiscal year 2016. This includes 14,567.5 FTEs in the public schools, 1,144.0 FTEs in institutions of higher learning (excluding employees of the University of Delaware, which is not considered part of the State's financing reporting entity) and 16,336.4 FTE positions in all other departments.

Since July 1966, State employees have had the right to organize for the purpose of collective bargaining. Bargaining unit inclusion was limited in 1990 by excluding "confidential" employees and in 1994 by excluding "supervisory" employees into specific units. Classification of bargaining units is determined by the Public Employee Relations Board ("PERB"). Collective bargaining is conducted by OMB on behalf of departments and agencies. With respect to organized non-merit system employees, such bargaining may include all terms and conditions of employment, including wages, hours and certain benefits. With respect to organized merit system employees, traditionally these bargaining units may not bargain wages, leave, healthcare and other related benefits, classification or hiring practices. Effective August 2, 2007, Senate Bill 36 ("SB36") was enacted permitting merit system employees to organize into 12 larger (umbrella) coalitions units determined by classification. Once determined and certified, these SB 36 units may negotiate limited compensation, defined as payment of salaries and cash allowances, through the collective bargaining process. Position classification, health care and other benefit programs, workers compensation, disability programs and pension programs remain non-negotiable. To date, five (5) SB 36 units have been certified. The funding of these agreements is subject to approval by the Governor and binding to the extent sufficient appropriations are made by the General Assembly. At present, approximately 6,400 of the State's merit system employees are organized into traditional bargaining units, including the SB 36 units and covered by collective bargaining agreements.

Employees of institutions of higher education, certified professional employees of the State public school system (teachers) and certain public school support personnel have the right to organize for the purpose of collective bargaining. Bargaining units representing such employees negotiate with their

respective school districts regarding all matters relating to salaries, employee benefits and certain working conditions. Virtually all of these school employees are covered by collective bargaining agreements.

State employees in Delaware do not have the legal right to strike. Few work stoppages have occurred. Currently only two-thirds of employees eligible for union representation are covered by collective bargaining agreements. All payment contracts reached under such agreements are subject to appropriation by the General Assembly, except for the locally funded portion of school district employees' salaries and benefits.

In 1982, a State law was enacted establishing the PERB to oversee the conduct of labor negotiations between public school teachers and their boards of education. There are provisions for mediation and binding arbitration of collective bargaining disputes. Strikes, slow-downs and walkouts are prohibited; but, if they occur, school boards are required to seek injunctive relief. In 1986, legislation was enacted which extended the PERB's jurisdiction to police officers and firefighters. The PERB's jurisdiction was further expanded in 1994 to include all public employees in the State. In the same year, a State law was enacted establishing the Merit Employee Relations Board to address grievances and related issues of merit system employees.

GOVERNANCE

The chief executive officer of the State is the Governor, who is elected for a term of four years. The State Constitution limits any Governor to two terms, whether or not consecutive. The Governor appoints all members of the State judiciary, the cabinet, and the boards and councils. The Governor reports to the General Assembly at the start of each annual session in January on the "State of the State," recommends changes in legislation, and follows this report with an annual budget message and financial accounting of the State.

In addition to the Executive Office of the Governor (which includes the Offices of Management and Budget, Economic Development, and Technology and Information), there are thirteen cabinet departments, as reflected in the table which follows. They include the following: the Department of State, which administers the Division of Corporations and the Division of Cultural and Historical Affairs; the Department of Finance, which performs financing, accounting, bond finance, revenue collection, fiscal policy functions and administers the State lottery; the Department of Health and Social Services; the Department of Services for Children, Youth and Their Families; the Department of Natural Resources and Environmental Control; the Department of Labor; the Department of Transportation, which oversees the Division of Motor Vehicles; the Department of Safety and Homeland Security, which oversees the state police; the Department of Correction; the Department of Agriculture; the Department of Education; Delaware State Housing Authority; and the Delaware National Guard. Delaware is unusual in that the State government (as opposed to county or municipal governments) funds and administers substantially all correctional, public health, welfare, and transportation services for its residents.

Other elected officers include the Lieutenant Governor who presides over the Senate and the Board of Pardons; the State Treasurer, who is one of four Issuing Officers, signs all state checks and oversees the management of the State's bank accounts; the Auditor of Accounts who audits all State agencies' financial transactions; the Insurance Commissioner; and the Attorney General who is the chief legal officer of the State. All of the elected officers serve terms of four years.

The State's General Assembly is bicameral and consists of a 21-member Senate and a 41-member House of Representatives. The entire House stands for re-election every two years, while Senators are elected to four year staggered terms. Regular sessions of the General Assembly convene in January and adjourn by June 30th. Between regular sessions, the Governor or the presiding officers of either house may call special sessions. Proposed legislation is usually assigned to a standing committee for review. It may then receive consideration on the floor of both houses.

The judicial branch of the government includes a Supreme Court, which acts primarily as an appeals court, and the Court of Chancery, an equity court which has jurisdiction over corporate matters, trusts, estates, and other matters involving equitable jurisdiction. The Superior Court has jurisdiction over criminal and civil cases, except equity cases. The Family Court administers justice in cases involving domestic relations or dependent juveniles. The Court of Common Pleas is a court of limited jurisdiction over civil and criminal matters which the Superior Court would otherwise handle. The Justice of the Peace Courts handle criminal matters and civil cases where the amount in controversy is less than \$5,000.

The following is a list of certain elected officials, cabinet positions and other appointed officials.
Statewide Elected Officials

Governor.....	John C. Carney, Jr.
Lieutenant Governor.....	Bethany A. Hall-Long
Attorney General.....	Matthew Denn
State Treasurer.....	Kenneth A. Simpler
State Auditor.....	R. Thomas Wagner, Jr.
Insurance Commissioner.....	Trinidad Navarro

Cabinet Positions and Other Appointed Officials

Agriculture.....	Michael Scuse
Correction.....	Perry Phelps
Delaware Economic Development Office.....	Bernice Whaley
Education.....	Dr. Susan Bunting
Finance.....	Richard J. Geisenberger
Health and Social Services.....	Dr. Kara Odom Walker
Housing.....	Anas Ben-Addi
Labor.....	Patrice Gilliam-Johnson
Management and Budget.....	Michael S. Jackson
National Guard.....	Brigadier General Carol A. Timmons
Natural Resources and Environmental Control.....	Shawn M. Garvin, appointed, not confirmed
Safety and Homeland Security.....	Robert Coupe
Services for Children, Youth and Their Families.....	Josette Manning
State.....	Jeffrey W. Bullock
Technology and Information.....	James Collins
Transportation.....	Jennifer Cohan

LITIGATION

The State recognized \$1.7 million in governmental activities as probable litigation expenses as of June 30, 2016. Additionally, the State is a defendant in various suits involving contract/construction claims, tax refunds claims, allegations of wrongful discharge and/or other employment-related claims, use of excessive force, civil rights violations, automobile accident claims and abandoned property claims as further described below. Although the State believes it has valid defenses to these actions, the State has identified a potential aggregate exposure, which could exceed \$224.8 million, as of February 2, 2017.

In addition to the types of cases mentioned in the preceding paragraph, there are several matters pending related to abandoned property. In original actions that have been accepted for consideration by the United States Supreme Court, Delaware is litigating claims involving 29 states on the issue whether a certain property type should have been escheated to Delaware or to the other states. Delaware is vigorously

contending before the Supreme Court that the property type should properly escheat to the property holder's state of incorporation, which would, among other things, result in property previously escheated to Delaware remaining with Delaware. Possible resolution of the original actions could result both in payments of property by Delaware to other states and further payments by other states to Delaware. Resolution of the actions is likely to be at least a year away.

Two matters are ongoing in the Third Circuit of the U.S. Court of Appeals. In both cases, the U.S. District Court dismissed plaintiffs' assertions of federal constitutional violations by the State, and the plaintiffs have now appealed those dismissals. There is one case pending in the U.S. District Court for the District of Delaware in which the plaintiff raises similar issues. A motion to dismiss is pending in that matter. Finally, litigation is pending in the Court of Chancery and before the Tax Appeal Board alleging that an inadequate payment was made by the State for escheated securities that greatly appreciated following the State's receipt and disposition. If the Court rules against the State in any of these matters, there may be a future decrease in abandoned property revenues as a result.

DEFAC has accounted for the prospective cumulative effect of the unclaimed property litigation by adopting the lower revenue estimates discussed above. See "BUDGETARY GENERAL FUND SUMMARIES – Additional Sources of Revenues – Abandoned Property" above.

THE BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity and interest rate of the Bonds, each in the aggregate principal amount of such maturity and interest rate, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating of: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions and defaults. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity and interest rate are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State and the Underwriters take no responsibility for the accuracy thereof.

APPROVAL OF LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Bonds are subject to the approval of Saul Ewing LLP, Wilmington, Delaware, Bond Counsel, whose approving legal opinion, substantially in the form set forth in APPENDIX C, will be available at the time of the delivery of the Bonds. Bond Counsel has not verified the accuracy, completeness or fairness of the statements contained in the Official Statement nor will it express an opinion as to the accuracy, completeness, or fairness of the statements contained in the Official Statement.

TAX MATTERS

Tax Exemption-Opinion of Bond Counsel

The Internal Revenue Code of 1986, as amended (the "Code") contains provisions relating to the tax-exempt status of interest on obligations issued by governmental entities which apply to the Bonds. These provisions include, but are not limited to, requirements relating to the use and investment of the proceeds of the Bonds and the rebate of certain investment earnings derived from such proceeds to the United States Treasury Department on a periodic basis. These and other requirements of the Code must be met by the State subsequent to the issuance and delivery of the Bonds in order for interest thereon to be and remain excludable from gross income for purposes of federal income taxation. The State has made covenants to comply with such requirements.

In the opinion of Bond Counsel, interest on the Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion of Bond Counsel is subject to the condition that the State comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon continues to be excluded from gross income. Failure to comply with certain of such requirements could cause the interest on the Bonds to be so includable in gross income retroactive to the date of issuance of the Bonds. The State has covenanted to comply with all such requirements. Interest on the Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes; however, under the Code, to the extent that interest on the Bonds is a component of a corporate holder's "adjusted current earnings," a portion of that interest may be subject to the corporate alternative minimum tax. Bond Counsel expresses no opinion regarding other federal tax consequences relating to the Bonds or the receipt of interest thereon. See discussion of "Alternative Minimum Tax", "Branch Profits Tax", "S Corporations with Passive Investment Income", "Social Security and Railroad Retirement Benefits", "Deduction for Interest Paid by Financial Institutions to Purchase or Carry Tax-Exempt Obligations", "Property or Casualty Insurance Company" and "Accounting Treatment of Amortizable Bond Premium" below.

Alternative Minimum Tax

With respect to the Bonds, the Code includes, for purposes of the corporate alternative minimum tax, a preference item consisting of, generally, seventy-five percent of the excess of a corporation's "adjusted current earnings" over its "alternative minimum taxable income" (computed without regard to this particular preference item and the alternative tax net operating loss deduction). Thus, to the extent that tax-exempt

interest (including interest on the Bonds) is a component of a corporate holder's "adjusted current earnings," a portion of that interest may be subject to the alternative minimum tax.

Branch Profits Tax

Under the Code, foreign corporations engaged in a trade or business in the United States will be subject to a "branch profits tax" equal to thirty percent (30%) of the corporation's "dividend equivalent amount" for the taxable year. The term "dividend equivalent amount" includes interest on tax-exempt obligations.

S Corporations with Passive Investment Income

Section 1375 of the Code imposes a tax on the income of certain small business corporations for which an S Corporation election is in effect, and that have "passive investment income". For purposes of Section 1375 of the Code, the term "passive investment income" includes interest on the Bonds. This tax applies to an S Corporation for a taxable year if the S Corporation has Subchapter C earnings and profits at the close of the taxable year and has gross receipts, more than twenty-five percent (25%) of which are "passive investment income". Thus, interest on the Bonds may be subject to federal income taxation under Section 1375 of the Code if the requirements of that provision are met.

Social Security and Railroad Retirement Benefits

Under Section 86 of the Code, certain Social Security and Railroad Retirement benefits (the "benefits") may be includable in gross income. The Code provides that interest on tax-exempt obligations (including interest on the Bonds) is included in the calculation of "modified adjusted gross income" in determining whether a portion of the benefits received are to be includable in gross income of individuals.

Deduction for Interest Paid by Financial Institutions to Purchase or Carry Tax-Exempt Obligations

The Code, subject to limited exceptions not applicable to the Bonds, denies the interest deduction for indebtedness incurred or continued to purchase or carry tax-exempt obligations, such as the Bonds. With respect to banks, thrift institutions and other financial institutions, the denial to such institutions is one hundred percent (100%) for interest paid on funds allocable to the Bonds and any other tax-exempt obligations acquired after August 7, 1986.

Property or Casualty Insurance Company

The Code also provides that a property or casualty insurance company may also incur a reduction, by a specified portion of its tax-exempt interest income, of its deduction for losses incurred.

Accounting Treatment of Amortizable Bond Premium

All the Bonds are hereinafter referred to collectively as the "Premium Bonds". An amount equal to the excess of the initial public offering price of a Premium Bond set forth on the inside cover page over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed.

Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

Delaware State Tax Opinion

In the opinion of Bond Counsel under existing statutes interest on the Bonds is exempt from personal and corporate income tax imposed by the State.

CHANGES IN FEDERAL TAX LAW

From time to time, there are presidential proposals, proposals by various federal committees and legislative proposals in Congress that, if enacted, could alter or amend the tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposals may be enacted or whether if enacted such proposals would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

OPINIONS AND CERTIFICATES AVAILABLE ON DELIVERY OF THE BONDS

Upon delivery of the Bonds, the State will make available the following opinions and certificates dated the date of delivery of the Bonds: (1) the opinion of Saul Ewing LLP, Bond Counsel, Wilmington, Delaware, substantially in the form set forth in APPENDIX C, to the effect that the Bonds are legal and valid general obligations of the State to which the State has pledged its full faith and credit; (2) the opinion of the Attorney General or a Deputy Attorney General to the effect that no litigation is pending or known to be threatened to restrain or enjoin the issuance of the Bonds, or in any manner questioning the validity of any proceedings authorizing the issuance of the Bonds, or the levy or collection of any material portion of taxes or other revenues of the State, or contesting the completeness, accuracy or fairness of the Official Statement; and that neither the corporate existence of the State nor the titles of the officials of the State signatories hereto to their respective offices is being contested; (3) a certificate of the Issuing Officers certifying as genuine the signatures of the Issuing Officers signing the Bonds; (4) a certificate of the State Treasurer acknowledging receipt of payment for the Bonds; (5) a certificate executed by the State Treasurer relating to federal tax matters under the Internal Revenue Code of 1986, and regulations promulgated thereunder; and (6) a certificate of the Issuing Officers stating: (a) that the Official Statement, as of the date of the Official Statement, did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (b) as of the date of delivery of and payment for the Bonds there has been no material adverse change in the condition, financial or otherwise of the State, from the date of the sale of the Bonds to the date of delivery of the Bonds and from that set forth in the Official Statement.

INDEPENDENT AUDITORS

The basic financial statements of the State as of and for the fiscal year ended June 30, 2016 have been audited by CliftonLarsonAllen, LLP, Timonium, Maryland, independent auditors. The auditor's report, together with the Basic Financial Statements and Management's Discussion and Analysis and the required supplemental information, for the fiscal year ended June 30, 2016 are included in the State's CAFR for the same period. The CAFR is incorporated herein by reference and is available online at the Delaware Department of Finance – Division of Accounting section of the State's website at <http://accounting.delaware.gov/2016cafr.pdf>. In addition, the CAFR has been submitted to the Municipal Securities Rulemaking Board (the "MSRB") via the Electronic Municipal Market Access System ("EMMA") (<http://emma.msrb.org>). Finally, copies are available by contacting the Department of Finance, State of Delaware, Carvel State Office Building, 820 N. French Street, 8th Floor, Wilmington, DE 19801. Other than the CAFR, none of the other information contained on the State's website is included by reference in this Official Statement. The auditor's report incorporated herein by reference is provided as a publicly available document. CliftonLarsonAllen, LLP has not been requested to consent to such incorporation and has not participated in the preparation or review of this Official Statement.

FINANCIAL ADVISOR

Public Financial Management, Inc. has been appointed financial advisor to the State and is acting in that capacity in connection with the sale of the Bonds.

RATINGS

Fitch Ratings, Moody's Investors Service and Standard & Poor's rate the general obligation bonds of the State. The current rating of all outstanding general obligation bonds of the State assigned by Fitch Ratings is AAA, the rating assigned by Moody's Investors Service is Aaa and the rating assigned by Standard & Poor's is AAA. Fitch Ratings, Moody's Investors Service and Standard & Poor's have assigned the Bonds the ratings which appear on the cover hereof.

Such ratings reflect only the respective views of such organizations. An explanation of the significance of such ratings may be obtained from the respective organizations. There is no assurance that such ratings will continue for any period of time or that they will not be revised or withdrawn. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds. No rating assures the market value of the Bonds.

UNDERWRITING

The Bonds are being purchased by _____, as representative of a group of underwriters (the "Underwriters"). The Underwriters have agreed to purchase said Bonds at a purchase price of \$_____ (which is equal to the aggregate principal amount of \$_____ [plus/less] original issue [premium/discount] of \$_____ less underwriters' discount of \$_____). The Underwriters' obligation to make such purchase is subject to certain terms and conditions set forth in the related purchase contract, the approval of certain legal matters by Bond Counsel and certain other conditions.

The Underwriters reserve the right to change the initial prices of the Bonds in connection with the marketing of the Bonds and may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the initial public offering price or prices set forth in the Official Statement.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates may have, from time to time, performed and may in the future perform, various investment banking services for the State, for which they may have received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the State. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

CONTINUING DISCLOSURE UNDERTAKING

General. The State has covenanted for the benefit of the Holders of the Bonds in a Continuing Disclosure Agreement dated November 15, 2011, which is being supplemented and amended to make it applicable to the Bonds (as so supplemented and amended, the “Disclosure Agreement”) to (a) provide notices of the occurrence of certain enumerated events; and (b) provide certain financial information and operating data relating to the State not later than the first day of the eleventh calendar month immediately following the end of the State’s fiscal year (the “Annual Report”). The Annual Report and the notices of significant events, both summarized below, will be filed by the State with the Electronic Municipal Market Access System (“EMMA”) maintained by the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of significant events is summarized below. These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12, as amended (the “Rule”).

Annual Reports. The State’s Annual Report filed with EMMA shall contain or incorporate by reference the information with respect to the relevant fiscal year as set forth in Exhibit “A” to the Continuing Disclosure Agreement and in the Supplement to the Continuing Disclosure Agreement, both of which are attached hereto as Appendix B.

Notices of Significant Events. Upon the occurrence of any of the following notice events, the State shall in a timely manner not in excess of ten (10) business days after the occurrence of any of the following events, file with EMMA notice of such occurrence: (1) principal and interest payment delinquencies; (2) non payment-related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax status of the Bonds; (7) modifications to rights of Holder, if material; (8) bond calls (other than mandatory sinking fund redemptions), if material, and tender offers; (9) defeasances of Bonds; (10) release, substitution, or sale of property securing repayment of any Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the State; (13) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; or (15) failure to provide annual financial information as required.

Accounting Standards. The financial statements described above shall be audited in accordance with generally accepted accounting principles applicable in the preparation of financial statements of the State as such principles are from time to time promulgated by the Financial Accounting Standards Board, the Governmental Accounting Standards Board, or such other body recognized as authoritative by the American Institute of Certified Public Accountants or any successor body (“GAAP”), and shall also comply with applicable federal and state auditing statutes, regulations, standards and/or guidelines. The State may from time to time modify its accounting principles to the extent necessary or desirable to comply with changes in either GAAP or applicable federal and state statutes, regulations, standards and/or guidelines. Audited financial statements of the State not submitted as part of the Annual Report shall be provided to EMMA if and when available to the State, and in any event not more than thirty (30) days after receipt thereof from the State’s auditors. In the event that audited financial statements are not submitted as part of the Annual Report, the State shall provide in lieu thereof unaudited financial statements meeting the description set forth above.

Termination of Reporting Obligation. The State’s obligations under the Disclosure Agreement shall terminate upon (a) the legal defeasance, prior redemption or payment in full of all of the Bonds or (b) the assumption by a successor Obligated Person of all of the obligations of the prior Obligated Person both under the Disclosure Agreement and under the Bonds.

Amendments. Notwithstanding any other provision of the Disclosure Agreement, the State may modify or amend the Disclosure Agreement. Under the current SEC interpretation of the Rule, the following preconditions must be satisfied: (a) the amendment is being made in connection with a change of circumstances that arises from a change in legal requirements, change in law, change in the identity, nature or status of the State, or change in the type of business conducted by the State; (b) the Disclosure Agreement, as amended, would have complied with the requirements of the Rule as of the date of issuance of the relevant Bonds, after taking into account any amendment or interpretations of the Rule, as well as any change in circumstances; and (c) the amendment does not materially adversely affect the interests of Holder as determined either by a party unaffiliated with the State (such as the Paying Agent or nationally recognized bond counsel) or by an approving vote of a majority of Holders.

To the extent required by the Rule, the State shall disclose in the next Annual Report the amendment and its impact on the information being provided.

Defaults. In the event of a failure of the State to comply with any provision of the Disclosure Agreement, the Paying Agent, any Participating Underwriter or any Holder may take such actions as may be necessary and appropriate, including seeking a writ of mandamus or specific performance by court order to cause the State to comply with its obligations under the Disclosure Agreement. A default under the Disclosure Agreement shall not be deemed an Event of Default under the Resolution or the Bonds, and the sole remedy under the Disclosure Agreement in the event of any failure of the State to comply with the Disclosure Agreement shall be an action to compel performance, provided, however, that nothing in the Disclosure Agreement shall limit any Holder’s rights under applicable federal securities law.

Due to an oversight, the State was not in compliance with its obligations under its continuing disclosure agreements to which it is a party. While the State filed its Annual Report for the fiscal year ended June 30, 2011 by the due date, it later discovered that the filing was not complete. The State supplied the corrected information to EMMA on February 5, 2013 and is now in compliance, in all material respects, with the disclosure agreements. Otherwise, the State has complied, in all material respects, with all of its obligations under its continuing disclosure agreements in each of the past five years.

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The execution and distribution of the Official Statement in connection with the sale of the Bonds has been duly authorized by the State.

THE STATE OF DELAWARE

JOHN C. CARNEY, JR.
Governor

RICHARD J. GEISENBERGER,
Secretary of Finance

JEFFREY W. BULLOCK,
Secretary of State

KENNETH A. SIMPLER,
State Treasurer

APPENDIX A

**SUMMARY OF CASH BASIS FINANCIAL STATEMENTS
for Fiscal Years 2012 through 2016**

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THE STATE OF DELAWARE
BUDGETARY GENERAL FUND
RECEIPTS, DISBURSEMENTS AND CASH BALANCES
(in thousands)

	Fiscal Years Ended June 30				
	<u>2012⁽¹⁾</u>	<u>2013⁽¹⁾</u>	<u>2014⁽¹⁾</u>	<u>2015⁽¹⁾</u>	<u>2016⁽¹⁾</u>
<u>Receipts</u>					
Tax Revenue					
Personal Income.....	\$1,231,722	\$1,318,915	\$1,384,985	\$1,444,278	\$1,496,898
Franchise.....	611,812	605,594	625,643	675,490	707,685
Corporation Income.....	149,012	205,696	175,514	305,226	221,615
Gross Receipts.....	233,358	226,254	226,524	223,411	234,072
Public Utility.....	45,351	44,481	47,445	47,190	44,958
Cigarette.....	120,848	115,190	114,657	102,696	111,762
Pari-Mutual.....	96	80	80	72	69
Inheritance and Estate.....	12,001	5,298	1,272	5,846	9,349
Realty Transfer.....	31,598	42,255	60,348	73,590	89,526
Alcoholic Beverage.....	17,654	18,412	19,617	20,710	20,275
Insurance Taxes.....	63,398	53,942	52,962	54,815	53,692
Bank Franchise.....	112,541	103,531	102,695	95,002	92,485
All Other.....	495,753	758,394	682,874	770,312	812,403
Total Taxes.....	3,125,144	3,498,042	3,494,616	3,818,638	3,894,789
Revenue Refunds.....	264,557	235,400	357,952	321,844	397,189
Net Taxes.....	2,860,587	3,262,642	3,136,664	3,496,794	3,497,600
Other Revenue					
Fees.....	126,699	132,807	140,702	148,712	153,119
Interest Earnings.....	10,648	6,295	2,866	2,926	3,117
Sales ⁽²⁾	334,320	295,075	263,750	248,659	259,458
Grants, Donations & Special Income.....	-	-	283	65	12
Licenses.....	12,272	19,508	13,572	21,426	14,585
Other Revenue.....	5,832	5,404	4,687	3,851	3,729
Non-revenue and Transfers.....	8,937	8,020	10,131	32,694	13,171
Total Other Revenue.....	498,708	467,109	435,991	458,333	447,191
Total Receipts.....	<u>\$3,359,295</u>	<u>\$3,729,751</u>	<u>\$3,572,655</u>	<u>\$3,955,127</u>	<u>\$3,944,791</u>
<u>Disbursements</u>					
Legislative.....	\$ 13,149	\$ 13,286	\$ 14,351	\$ 14,684	15,429
Judicial.....	95,256	91,403	93,783	92,720	95,266
Executive.....	144,678	134,492	133,490	148,928	131,476
Technology and Information.....	35,462	41,300	38,479	38,700	39,886
Other Elective Offices.....	168,666	170,891	185,240	190,710	195,523
Legal.....	49,638	52,629	56,014	55,634	59,912
Dept. of State.....	28,037	23,889	24,994	23,824	23,829
Dept. of Finance.....	18,939	20,358	34,081	22,308	16,946
Dept. of Health & Social Services.....	1,055,134	1,061,885	1,087,203	1,096,818	1,119,041
Dept. of Children, Youth & Their Families...	134,493	141,895	149,517	149,053	151,699
Dept. of Correction.....	262,307	264,989	273,474	282,769	289,899
Dept. of Natural Resources & Env. Control..	41,766	44,602	49,598	41,600	38,499
Dept. of Safety & Homeland Security.....	137,524	144,288	145,584	131,766	131,691
Dept. of Transportation.....	-	-	-	-	-
Dept. of Labor.....	7,239	7,886	8,965	9,106	9,688
Other.....	21,629	24,058	22,150	23,544	17,741
Total Departments.....	2,213,917	2,237,851	2,316,923	2,322,164	2,336,525
Higher Education.....	222,656	226,714	234,645	232,637	235,818
Public Education.....	1,155,825	1,193,976	1,242,567	1,277,809	1,341,382
Total Education.....	1,378,481	1,420,690	1,477,212	1,510,446	1,577,200
Total Disbursements.....	<u>\$3,592,398</u>	<u>\$3,658,541</u>	<u>\$3,794,135</u>	<u>\$3,832,610</u>	<u>\$3,913,725</u>
Receipts Over (Under) Disbursements.....	(233,103)	71,210	(221,480)	122,517	31,066
Cash Balance-Beginning of Period.....	797,771	564,668	635,878	414,398	536,915
General Fund Advances to Other Funds.....	-	-	-	-	-
Cash Balance.....	<u>\$ 564,668</u>	<u>\$ 635,878</u>	<u>\$ 414,398</u>	<u>\$ 536,915</u>	<u>\$ 567,981</u>

(1) Unaudited. The State has audited GAAP financial statements for the fiscal years ending June 30, 2012 through June 30, 2016.

(2) Consists primarily of payments for board and treatment at State institutions and lottery receipts.

NOTE: Numbers are rounded, and thus, the sum of the detail may not equal the total.

Source: Department of Finance.

THE STATE OF DELAWARE
BUDGETARY SPECIAL FUND
RECEIPTS, DISBURSEMENTS AND CASH BALANCES
(in thousands)

	Fiscal Years Ended June 30				
	<u>2012⁽¹⁾</u>	<u>2013⁽¹⁾</u>	<u>2014⁽¹⁾</u>	<u>2015⁽¹⁾</u>	<u>2016⁽¹⁾</u>
Receipts					
Taxes					
Insurance	\$ 21,857	\$ 27,088	\$ 30,152	\$ 36,020	\$40,011
Local School Property.....	474,829	506,850	536,160	544,138	575,125
All Other.....	<u>382,675</u>	<u>281,771</u>	<u>247,251</u>	<u>258,477</u>	<u>253,141</u>
Total Taxes	<u>879,361</u>	<u>815,709</u>	<u>813,563</u>	<u>838,635</u>	<u>868,277</u>
Other Revenue					
Federal Grants and Reimbursements	1,836,862	1,836,012	1,940,496	2,121,662	2,219,553
Pension Fund Receipts	238,767	249,552	267,072	251,373	256,633
Interest Earnings.....	21,104	10,720	9,866	10,707	13,780
All Other.....	<u>390,504</u>	<u>452,853</u>	<u>505,633</u>	<u>511,982</u>	<u>536,001</u>
Total Other Revenue.....	<u>2,487,237</u>	<u>2,549,137</u>	<u>2,723,067</u>	<u>2,895,724</u>	<u>3,025,967</u>
Non-Revenue and Transfer					
Sale of Bonds	257,391	247,669	248,626	260,811	214,968
Receipts from Pension Fund.....	477,541	522,921	563,365	547,523	571,474
All Other.....	<u>1,046,607</u>	<u>1,078,799</u>	<u>1,112,122</u>	<u>1,202,339</u>	<u>1,372,906</u>
Total Non-Revenue and Transfer	<u>1,781,539</u>	<u>1,849,389</u>	<u>1,924,113</u>	<u>2,010,673</u>	<u>2,159,348</u>
Total Receipts.....	5,148,137	5,214,235	5,460,743	5,745,032	6,053,592
Total Disbursements.....	<u>5,085,043</u>	<u>5,267,578</u>	<u>5,455,581</u>	<u>5,614,068</u>	<u>5,928,960</u>
Receipts Over (Under) Disbursements	63,094	(53,343)	5,162	130,964	124,632
Operating Cash Balance-Beginning of Period...	<u>1,398,763</u>	<u>1,526,992</u>	<u>1,430,695</u>	<u>1,355,397</u>	<u>1,402,473</u>
Operating Cash Balance-End of Period.....	<u>\$1,461,857</u>	<u>\$1,473,649</u>	<u>\$1,435,857</u>	<u>\$1,486,361</u>	<u>\$1,527,105</u>
Other Cash					
Payables ⁽²⁾	65,135	(42,954)	(80,460)	(83,888)	106,414
Cash Balance.....	<u>\$ 1,526,992</u>	<u>\$ 1,430,695</u>	<u>\$ 1,355,397</u>	<u>\$ 1,402,473</u>	<u>\$ 1,633,519</u>

(1) Unaudited. The State has audited GAAP financial statements for the fiscal years ending June 30, 2012 through June 30, 2016.

(2) Changes within the modified accrual activity affecting cash basis reporting.

NOTE: Numbers are rounded and thus the sum of the detail may not equal the total.

Source: Department of Finance.

THE STATE OF DELAWARE
 COMBINED BUDGETARY GENERAL AND SPECIAL FUNDS
 RECEIPTS, DISBURSEMENTS AND CASH BALANCES
 (in thousands)

	Fiscal Years Ended June 30				
	<u>2012⁽¹⁾</u>	<u>2013⁽¹⁾</u>	<u>2014⁽¹⁾</u>	<u>2015⁽¹⁾</u>	<u>2016⁽¹⁾</u>
Receipts					
Net Taxes.....	\$ 4,004,507	\$ 4,078,352	\$ 3,950,227	\$ 4,335,429	\$ 4,365,877
Interest Earnings.....	31,752	17,015	12,732	13,633	16,897
Grants, Donations and Special Income.....	1,791,868	1,788,677	1,918,380	2,062,623	2,169,048
Licenses.....	18,933	28,143	20,877	31,298	22,716
Fees	606,463	606,418	639,710	673,459	953,417
Sales	430,130	415,471	391,092	380,409	397,422
Other Revenue.....	<u>599,758</u>	<u>640,289</u>	<u>688,658</u>	<u>712,386</u>	<u>728,617</u>
Total Revenue.....	7,483,411	7,574,365	7,621,676	8,209,237	8,653,994
Non-Revenue and Transfers.....	<u>1,288,578</u>	<u>1,369,621</u>	<u>1,411,722</u>	<u>1,490,922</u>	<u>1,344,389</u>
Total Receipts.....	8,771,989	8,943,986	9,033,398	9,700,159	9,998,383
Total Disbursements.....	<u>8,941,998</u>	<u>8,926,119</u>	<u>9,249,716</u>	<u>9,446,678</u>	<u>9,842,685</u>
Receipts Over (Under) Disbursements	(170,009)	17,867	(216,318)	253,481	155,698
Cash Balance-Beginning of Period.....	2,196,534	2,091,660	2,066,573	1,769,795	1,939,388
Cash Balance-End of Period	<u>\$2,026,525</u>	<u>\$2,109,527</u>	<u>\$1,850,255</u>	<u>\$2,023,276</u>	<u>\$2,095,086</u>
Other Cash					
Payables and Receivables ⁽²⁾	65,135	(42,954)	(80,460)	(83,888)	106,414
Total Cash Balance	<u>\$2,091,660</u>	<u>\$2,066,573</u>	<u>\$1,769,795</u>	<u>\$1,939,388</u>	<u>\$2,201,500</u>

(1) Unaudited. The State has audited GAAP financial statements for the fiscal years ending June 30, 2012 through June 30, 2016.

(2) Changes within the modified accrual activity affecting cash basis reporting.

NOTE: Numbers are rounded and thus the sum of the detail may not equal the total.

Source: Department of Finance.

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APPENDIX B

**CONTINUING DISCLOSURE AGREEMENT
AND SUPPLEMENT TO CONTINUING DISCLOSURE AGREEMENT**

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THE STATE OF DELAWARE
\$275,425,000
General Obligation Bonds,
Series 2011

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement dated November 15, 2011 (including any amendments or supplements hereto, the “**Disclosure Agreement**”) is executed and delivered by The State of Delaware (as more fully defined below, the “**Issuer**”) in connection with the issuance of the above-captioned bonds (the “**2011 Bonds**”). The Issuer, intending to be legally bound, hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Holder from time-to-time of the Bonds (as defined below) and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. Unless the context clearly requires otherwise, the following capitalized terms shall have the meanings set forth below:

“**Additional Bonds**” shall mean any indebtedness of the Issuer issued subsequent to the 2011 Bonds which the Issuer has declared in writing to be covered by this Disclosure Agreement. No such written declaration shall be considered an amendment to this Disclosure Agreement for purposes of Section 9 hereof.

“**Annual Filing Date**” shall mean not later than the first day of the eleventh calendar month immediately following the end of the Issuer’s fiscal year.

“**Annual Financial Information**” shall mean any Annual Report provided by the State pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“**Annual Report**” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“**Bonds**” shall mean the 2011 Bonds and Additional Bonds, if any.

“**Dissemination Agent**” shall mean any agent of the Issuer designated in writing by the Issuer which has filed with the Issuer a written acceptance of such designation.

“**EMMA**” shall mean the Electronic Municipal Market Access System maintained by the MSRB at <http://emma.msrb.org/>, which serves as the sole nationally recognized municipal securities information repository under the Rule.

“**Holder**” means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding

Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

“**Issuer**” shall mean The State of Delaware, or any successor Obligated Person that assumes either by operation by law or by contract both (i) the obligation to pay debt service on the Bonds and (ii) the obligations of the Issuer under this Disclosure Agreement.

“**MSRB**” shall mean the Municipal Securities Rulemaking Board, or any successor organization.

“**Notice Event**” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“**Obligated Person**” shall have the meaning set forth in the Rule, provided that the sole objective criteria used to select the Obligated Person shall be the entity obligated to repay all debt service with respect to the relevant Bonds.

“**Official Statement**” shall mean the final Official Statement relating to the 2011 Bonds or a Series of Additional Bonds, as applicable.

“**Participating Underwriter**” shall mean any of the original underwriters of any Series of Bonds required to comply with the Rule in connection with offering of such Bonds.

“**Repository**” shall mean each nationally recognized municipal securities information repository under the Rule. As of the date hereof, the Securities and Exchange Commission has appointed the MSRB through EMMA to act as the sole Repository. Any information filed in connection with this Disclosure Agreement shall be filed with EMMA at <http://emma.msrb.org/>, any State Repository and any future Repository as may be required under the Rule.

“**Rule**” shall mean Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as heretofore amended, and as such Rule may be hereafter amended from time-to-time.

“**State Repository**” shall mean any public or private repository or entity designated by the State of Delaware as a state information repository for the purpose of the Rule and with which the Issuer is legally required to file the Annual Report. Currently, there is no State Repository in Delaware. The list of state information repositories maintained by the United States Securities and Exchange Commission shall be conclusive as to the existence of a State Repository.

“**2011 Bonds**” shall mean the Issuer’s \$275,425,000 aggregate principal amount General Obligation Bonds, Series 2011 dated November 15, 2011

Section 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than the Annual Filing Date, provide to the MSRB via EMMA an Annual Report which is consistent with

the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) business days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent, if any. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided however that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report.

(b) If the Issuer is unable to provide the Annual Report to the Repository by the date required in subsection (a), a Notice Event pursuant to Section 5(a)(15) shall be deemed to have occurred and the Issuer shall report to the Repository electronically in accordance with the provisions of Section 5(b) hereof.

(c) The Dissemination Agent, if any, shall: (i) determine each year prior to the Annual Filing Date the name and address of each Repository; and (ii) file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing each Repository to which it was provided.

(d) Audited financial statements of the Issuer not submitted as part of the Annual Report shall be provided to the Repository, if and when available to the Issuer, and in any event not more than thirty (30) days after receipt thereof from the Issuer's auditors. In the event that audited financial statements are not submitted as part of the Annual Report, the Issuer shall provide in lieu thereof, when available, unaudited financial statements for the relevant fiscal year.

(e) The Issuer shall promptly provide written notice of any change in its fiscal year to the MSRB and to each Repository.

Section 4. Content of Annual Reports.

(a) The Issuer's Annual Report shall contain or incorporate by reference the information listed in Exhibit A with respect to the relevant fiscal year.

(b) Any or all of the items listed as Annual Financial Information may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to any Repository or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so incorporated by reference.

(c) If any Annual Financial Information can no longer be generated because the operations to which such information relates have been materially changed or discontinued, a statement to that effect shall satisfy the obligations of the Issuer under this Section 4, provided however that the Issuer shall, to the greatest extent feasible, provide in lieu thereof similar information with respect to any substitute or replacement operations.

Section 5. Reporting of Notice Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies;
2. Non payment-related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
7. Modifications to rights of Holder, if material;
8. Bond calls (other than mandatory sinking fund redemptions), if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of any Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Issuer (for the purposes of the event identified in subsection 5(a)(12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer);
13. The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material; and
15. Failure to provide annual financial information as required.

(b) Upon the occurrence of a Notice Event, the Issuer shall file, or cause the Dissemination Agent to file, a notice of such occurrence with the MSRB via EMMA in a timely manner not in excess of ten (10) Business Days after the occurrence of the Notice Event.

Section 6. Accounting Standards. The financial statements described in Section 4(a)(i) above shall be audited in accordance with generally accepted accounting principles applicable in the preparation of financial statements of the Issuer as promulgated by the Financial Accounting Standards Board, the Governmental Accounting Standards Board, or such other body recognized as authoritative by the American Institute of Certified Public Accountants or any successor body, as applicable (“GAAP”), and shall also comply with applicable federal and state auditing statutes, regulations, standards and/or guidelines. The Issuer may from time-to-time modify its accounting principles to the extent necessary or desirable to comply with changes in either GAAP or applicable federal and state statutes, regulations, standards and/or guidelines. Any such modification of accounting standards or principles to conform to changes in either GAAP or applicable federal or state auditing statutes, regulations, standards or guidelines shall not constitute an amendment to this Disclosure Agreement within the meaning of Section 9 hereof, but such modifications shall be disclosed in the first Annual Report to be provided subsequent to such modifications.

Section 7. Termination of Reporting Obligation. The Issuer’s obligations under this Disclosure Agreement shall terminate upon (a) the legal defeasance, prior redemption or payment in full of all of the Bonds, or (b) the assumption by a successor Obligated Person of all of the obligations of the prior Obligated Person both hereunder and under the Bonds. The prior Issuer shall provide timely written notice to each Repository of any termination of its obligations hereunder.

Section 8. Dissemination Agent. The Issuer may, from time-to-time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such agent, with or without appointing a successor Dissemination Agent.

Section 9. Amendments. (a) Notwithstanding any other provision of this Disclosure Agreement, the Issuer may modify or amend this Disclosure Agreement. The Issuer acknowledges and agrees that the current SEC interpretation of the Rule requires satisfaction of the following preconditions for any amendment:

- (i) the modification or amendment is being made in connection with a change of circumstances that arises from a change in legal requirements, change in law, change in the identity, nature or status of the Issuer, or change in the type of business conducted by the Issuer;
- (ii) this Disclosure Agreement, as amended, would have complied with the requirements of the Rule as of the date of issuance of the relevant Bonds, after taking into account any amendment or interpretations of the Rule, as well as any change in circumstances; and

(iii) the modification or amendment does not materially adversely affect the interests of Holders, as determined either by a party unaffiliated with the Issuer (such as the Paying Agent or nationally recognized bond counsel) or by an approving vote of a majority of Holders.

(b) The Issuer shall report any modification or amendment of this Disclosure Agreement as required by the Rule. To the extent required by the Rule, the Issuer shall include as a component of the first Annual Report to be provided subsequent to the relevant amendment, a copy of the amendment, together with a notice explaining in narrative form both (i) the reasons for the amendment and (ii) the impact of the change in the type of operating data or financial information being provided. To the extent required by the Rule, if the amendment relates to changes in accounting principles to be followed in preparing financial statements, the first Annual Report to be provided subsequent to the relevant amendment shall also include a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles and a qualitative (and to the extent reasonably feasible, quantitative) discussion of the differences in the accounting principles and the impact of the change in the accounting principles upon the presentation of the financial information. Written notice of any such change in accounting principles shall be provided in a timely fashion to each Repository.

(c) Neither a supplement to this Disclosure Agreement to declare that it is applicable to Additional Bonds or a modification of accounting principles or standards pursuant to Section 6 shall be considered an amendment for purposes of this Section 9.

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including disclaimers or any other information in any Annual Report or notice of occurrence of a Notice Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Notice Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Notice Event.

Section 11. Submission of Information to the MSRB. The information required to be disclosed pursuant to this Disclosure Agreement shall be submitted to the MSRB through EMMA. Subject to future changes in submission rules and regulations, such submissions shall be provided to the MSRB, through EMMA, in portable document format (“PDF”) files configured to permit documents to be saved, viewed, printed and retransmitted by electronic means. Such PDF files shall be word-searchable (allowing the user to search for specific terms used within the document through a search or find function available in a software package).

Subject to future changes in submission rules and regulations, at the time that such information is submitted through EMMA, the Issuer, or any Dissemination Agent engaged by the Issuer, shall also provide to the MSRB information necessary to accurately identify the category of information being provided and other identifying descriptions required by MSRB rules and regulations.

Section 12. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, the Paying Agent, any Participating Underwriter or any Holder may take such actions as may be necessary and appropriate, including seeking a writ of mandamus or specific performance by court order to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Bonds or any document relating to the Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance; provided however that nothing herein shall limit any Holder's rights under applicable federal securities law.

Section 13. Severability. In case any section or provision of this Disclosure Agreement or any covenant, stipulation, obligation, agreement, or action, or any part thereof, made, assumed, entered into or taken under this Disclosure Agreement, or any application thereof, is for any reason held to be illegal or invalid or is at any time inoperable, such illegality, invalidity or inoperability shall not affect the remainder thereof or any other section or provision or the Disclosure Agreement, or any other covenant, stipulation, obligation, agreement, act or action, or part thereof, made, assumed, entered into or taken under this Disclosure Agreement, which shall at the time by construed and enforced as if such illegal or invalid or inoperable portion were not contained therein.

Section 14. Entire Agreement. This Disclosure Agreement contains the entire agreement of the Issuer with respect to the subject matter hereof and supersedes all prior arrangements and understandings with respect thereto, provided however that this Disclosure Agreement shall be interpreted and construed with reference to and in pari materia with the Rule.

Section 15. Captions. The captions or headings herein shall be solely for convenience of reference and shall in no way define, limit or describe the scope or intent of any provisions or sections hereof.

Section 16. Beneficiaries. This Disclosure Agreement is being entered into solely for the benefit of the Participating Underwriters and Holders from time-to-time of the Bonds, and nothing in this Disclosure Agreement expressed or implied is intended to or shall be construed to give to any other person or entity any legal or equitable right, remedy or claim under or in respect of this Disclosure Agreement or any covenants, conditions or provisions contained herein.

Section 17. Governing Law. This Disclosure Agreement shall be deemed to be a contract made under the laws of the State of Delaware, and all provisions hereof shall be governed and construed in accordance with the laws of the State of Delaware, without reference to the choice of law principles thereof.

IN WITNESS WHEREOF, THE STATE OF DELAWARE, has caused this Disclosure Agreement to be executed by the Secretary of Finance as of the day and year first above written.

THE STATE OF DELAWARE

By: _____
Thomas J. Cook
Secretary of Finance

EXHIBIT A

CONTENTS OF ANNUAL REPORT

The Annual Report shall contain the following:

1. Audited financial statements for the prior fiscal year in form and content substantially the same as those appended to the State's Official Statement with respect to the 2011 Bonds.
2. A Summary of the Cash Basis Financial Statements for the prior fiscal year in form and content substantially the same as those appended to the State's Official Statement with respect to the 2011 Bonds.
3. An update of the type of information included in the below-listed tables and sections in the Official Statement to the extent not included in Item Nos. 1 or 2 above:
 - (a) Debt Service Requirements (p. 4) - updated for the issuance of general obligation debt through the prior fiscal year.
 - (b) The 5% Rule (p. 6) - updated for the current fiscal year.
 - (c) The 15% Test (p. 6) and the Cash Balances Test (p. 7) - updated for the current fiscal year.
 - (d) DEFAC Budgetary General Fund Revenue Projections (p. 32) - updated for the prior fiscal year.
 - (e) Budgetary General Fund Revenue (p. 33) - updated for the prior fiscal year.
 - (f) Budgetary General Fund Expenditures and Adjusted Budgetary General Fund Expenditures (p. 35) - updated for the prior fiscal year.
 - (g) Sources and Uses of State Funds (pp. 36 and 37) - updated to compare the prior fiscal year to the fiscal year ten years prior.
 - (h) Budgetary General Fund Disbursements (p. 53) - updated for the prior fiscal year.
 - (i) Public School Enrollment (p. 54) - updated for the prior year.
 - (j) Social Services Expenditures (p. 56) - updated for the prior fiscal year.
 - (k) Ratio of Federal Funds Expended by Department (p. 59) - updated for the prior fiscal year.

4. An update of the type of information included in the text and tables under the heading “Bonded Indebtedness of the State” beginning with the subsection “General Obligation Debt” through “State Revenue Debt” (p. 5) for the prior fiscal year. The information under the heading “Lease Obligations” shall be updated to cover the five fiscal year period beginning with the prior fiscal year.

5. An update of the type of information included in the text under the heading “Indebtedness of Authorities, Universities and Political Subdivisions - Authorities - Delaware Transportation Authority” (p. 14) for the prior fiscal year; and “- Delaware State Housing Authority” (p. 15) updated for the prior fiscal year.

6. An update of the type of information included in the text and tables under the heading “Fiscal Year Ended June 30, 2011” (p. 41) for the prior fiscal year.

7. An update of the type of information included in the text and tables under the heading “State Pension Plan” (p. 60) for the prior fiscal year.

8. An update of the text appearing in the first paragraph under the heading “Employee Relations” (p. 63) for the prior fiscal year.

THE STATE OF DELAWARE
\$225,000,000 General Obligation Bonds - Series 2017

SUPPLEMENT TO CONTINUING DISCLOSURE AGREEMENT

This Supplement to Continuing Disclosure Agreement dated March __, 2017 (the “2017 Supplement”) is executed and delivered by the State of Delaware (the “Issuer”) in connection with the issuance of the above-captioned bonds dated March __, 2017 (collectively, the “Bonds”). Capitalized terms used herein and not defined shall have the meanings ascribed to such terms as set forth in the Original Disclosure Agreement (as defined herein).

WHEREAS, the Issuer has previously issued bonds and entered into a Continuing Disclosure Agreement dated November 15, 2011 (the “Original Disclosure Agreement”) in which the Issuer agreed to take certain actions in order to assist the Participating Underwriters (as defined in the Original Disclosure Agreement) in complying with S.E.C. Rule 15c2-12(b)(5); and

WHEREAS, pursuant to Section 2 of the Original Disclosure Agreement, the Issuer has the ability to supplement the Original Disclosure Agreement to include additional bonds or notes with the same force and effect as if all terms and provisions of such Original Disclosure Agreement had originally provided for the inclusion of such bonds or notes; and

WHEREAS, a change in format of the Issuer’s official statement resulted in the subsection “Other Post Employment Benefits” no longer being part of the section titled “STATE PENSION PLAN,” which is part of the contents of the Issuer’s Annual Report. The Issuer hereby desires to clarify that the new section “OTHER POST EMPLOYMENT BENEFITS” will continue to be reported as part of the Issuer’s Annual Report.

NOW, THEREFORE, the Issuer, intending to be legally bound, hereby covenants and agrees as follows:

SECTION 1. Written Declaration of Issuer. The Issuer has determined that the Bonds shall constitute “Additional Bonds” under the Original Disclosure Agreement.

SECTION 2. Original Disclosure Agreement Applicable to Bonds. This 2017 Supplement shall be construed as a supplement to the Original Disclosure Agreement and shall be governed by the provisions thereof. Except as hereby supplemented, all the terms, covenants and conditions of the Original Disclosure Agreement are hereby confirmed, ratified and approved in all respects, shall continue in full force and effect, and shall apply to the Bonds with the same force and effect as if all terms and provisions of the Original Disclosure Agreement had originally provided for the inclusion of the Bonds. Capitalized terms used but not defined herein shall have the same meanings as ascribed to them in the Original Disclosure Agreement.

SECTION 3. Content of Annual Report. The Issuer hereby agrees that item 7 in Exhibit A to the Original Disclosure Agreement shall continue to include updates to the text and tables under “OTHER POST EMPLOYMENT BENEFITS” in the Issuer’s official statements.

SECTION 4. Governing Law. This 2017 Supplement shall be deemed to be a contract made under the laws of the State of Delaware, and all provisions hereof shall be governed and construed in accordance with the laws of the State of Delaware, without reference to the choice of law principles thereof.

IN WITNESS WHEREOF, the State of Delaware has caused this 2017 Supplement to be duly executed as of the day and year first above written.

THE STATE OF DELAWARE

By: _____
Secretary of Finance

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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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March __, 2017

OPINION OF BOND COUNSEL

RE: The State of Delaware
\$ _____ General Obligation Bonds, Series 2017

TO THE PURCHASERS OF THE ABOVE-CAPTIONED BONDS:

We have acted as bond counsel in connection with the issuance of \$ _____ General Obligation Bonds, Series 2017 Bonds (the “2017 Bonds” or the “Bonds”) by The State of Delaware (the “State”) on the date hereof. The Bonds are issued as fully registered Bonds as provided in the Bonds and in a resolution of the Issuing Officers of the State adopted on February __, 2017 (the “Resolution”).

The Bonds are issued pursuant to the Constitution and laws of the State including Chapter 74, Title 29, Delaware Code, as amended, and the Resolution.

As Bond Counsel, we have examined a certified copy of the Resolution and the form of Bonds. We have examined originals (or copies certified or otherwise identified to our satisfaction) of such other instruments, certificates and documents as we have deemed necessary or appropriate for the purposes of the opinion rendered below. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies.

We have relied on a certificate of the State as to the due execution and delivery of, and payment for, the Bonds. As to any facts material to our opinion we have, when such facts were not independently established, relied upon the aforesaid instruments, certificates and documents including the State's Federal Tax Certificate dated the date of issuance of the Bonds, and the statement of reasonable expectations of future events set forth in such certificate.

We have not verified the accuracy, completeness or fairness of the information set forth in any offering statement or other similar documents of the State delivered to the purchasers or prospective purchasers of the Bonds, and we take no responsibility therefor.

Based on the foregoing, we are of the opinion as of the date hereof and under existing law that:

1. The Bonds have been duly authorized, executed and delivered and constitute legal and valid general obligations of the State.
2. The State has pledged its faith and credit for the payment of the principal of and interest on the Bonds. The Constitution of the State does not contain any limitation upon the rate or amount of taxes which may be levied by the State for the payment of principal of and interest on the Bonds with the exception that any law which shall have the effect of increasing the rates of taxation on personal income

for any year or part thereof prior to the date of the enactment thereof, or for any year or years prior to the year in which the law is enacted, would be void.

3. Interest on the Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion set forth in the preceding sentence is subject to the condition that the State comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon continues to be excluded from gross income. Failure to comply with certain of such requirements could cause the interest on the Bonds to be so includable in gross income retroactive to the date of issuance of the Bonds. The State has covenanted to comply with all such requirements. Interest on the Bonds is not treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the "Code") for purposes of the individual and corporate alternative minimum taxes; however, under the Code, to the extent that interest on the Bonds is a component of a corporate holder's "adjusted current earnings," a portion of that interest may be subject to the corporate alternative minimum tax. We express no opinion regarding other federal tax consequences relating to the Bonds or the receipt of interest thereon.

4. Under existing statutes, interest on the Bonds is exempt from personal and corporate income taxes imposed by the State of Delaware.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

