

## **NOTE 6. GENERAL OBLIGATION BONDS**

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

The State Constitution provides that the State may issue general obligation bonds for specific purposes in amounts approved by the General Assembly. The enabling acts pursuant to which the bonds are issued provide that all bonds issued shall be direct obligations of the State of Delaware; that is, the bonds are secured by the pledge of the full faith and credit of the State. General Obligation bonds are redeemed over a period not to exceed 20 years, generally from available resources in the General fund. Accordingly, the State of Delaware has generally issued 10 and 20-year serial bonds with equal amounts of principal maturing each year. Bonds outstanding have

call provisions providing for early redemption at the option of the State, generally beginning 8 or 10 years following the date of issue in the inverse order of maturity, in whole or in part, at a redemption price not to exceed 101% to 103% of par value.

On August 1, 2001, the State issued \$155.2 million of general obligation bonds. These serial bonds mature between August 1, 2002 and August 1, 2021, and bear average annual interest rates of 4.1%. A portion of these proceeds, amounting to \$20.8 million, was used to advance refund \$20.1 million of general obligation bonds. Investments were purchased and placed in an irrevocable trust with an escrow agent. The investments and fixed earnings on the investments are sufficient to fully provide for all future debt service on the refunded bonds. The refundings resulted in a debt service cash savings over the next 17 years of \$1,080,000. The remaining proceeds of these bonds were used to provide funds for capital improvements to various State facilities.

On December 28, 2001, the State issued \$649,000 in General Obligation Qualified Zone Academy Bonds (QZABs). The QZABs are debt instruments that carry a substantial federal tax credit to the lending financial institution. The lender receives no interest payment from the borrower but receives an interest tax credit of 6.49%. The lender benefits from the tax credit that provides a greater return than bond interest would provide, while the State benefits because the loan is essentially interest free. Proceeds were used for renovation of public schools. The bonds mature in 2011.

Bonds issued and outstanding totaled \$709,958,000 at June 30, 2002. The State is authorized to issue an additional \$246.9 million of general obligation bonds at June 30, 2002. Interest rates and maturities of the outstanding General Obligation Bonds are detailed on the following page.

**General Obligation Bonds**

Description	Interest Rates	Maturity Date (Fiscal Year)	Balance	
			Outstanding June 30, 2002	
(Expressed in Thousands)				
GO 1997 A	5.0%	2017	\$	50,000
GO Refunding 1993 B	2.5% - 5.0%	2012		35,145
GO Refunding 1992 C	2.75% - 5.75%	2010		20,515
GO 1992 B	4.7% - 6.1%	2013		11,426
GO + Refunding 1998A	4.5% - 4.75%	2018		101,205
GO 1991 A	4.625% - 6.375%	2008		5,975
GO 1999 A	4.0% - 4.625%	2019		85,250
GO 1994 A	4.6% - 5.2%	2014		31,440
GO 1993 A	4.25% - 5.0%	2013		19,000
GO March 1992	5.6% - 6.25%	2012		2,300
GO 2000 A	5.0% - 5.5%	2020		85,000
GO 1996 A	4.5% - 5.125%	2016		55,000
GO + Refunding 2001A	4.0% - 4.75%	2021		155,178
QZAB 2001B	0%	2011		649
GO 1997 B	5.0%	2017		40,625
GO 1994 B	5.25% - 6.125%	2015		<u>11,250</u>
			\$	<u>709,958</u>

In prior years, the State has defeased certain general obligation bonds by creating separate irrevocable trust funds. New debt has been issued or cash appropriated and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt. Accordingly, the debt has been considered defeased and therefore has been removed as a liability from the Government-wide financial statements. As of June 30, 2002, a total of \$49.8 million of defeased bonds were outstanding.

The table presented on the following page sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2002.

**TOTAL GENERAL OBLIGATION BONDS**

(Expressed in Thousands)

<b>Fiscal Year Ending June 30</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>Total</b>
2003	\$ 83,881	\$ 33,228	\$ 117,109
2004	77,132	29,269	106,401
2005	74,640	25,667	100,307
2006	69,286	22,200	91,486
2007	64,349	18,880	83,229
2008-2012	215,916	58,116	274,032
2013-2017	92,379	21,993	114,372
2018-2022	<u>32,375</u>	<u>3,314</u>	<u>35,689</u>
Totals	<u>\$ 709,958</u>	<u>\$ 212,667</u>	<u>\$ 922,625</u>

Changes in general obligation bonded debt during the year ended June 30, 2002, are summarized in Note 11.