

NEW ISSUE

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

In the opinion of Bond Counsel, interest on the 2016A Bonds and the 2016C Bonds (each as defined herein) 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. In the opinion of Bond Counsel, interest on the 2016B Bonds (as defined herein) is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, except as to interest on any 2016B Bond during any period such 2016B Bond is held by a person who is a "substantial user" of the facilities financed by the 2016B Bonds or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code") and further subject to the condition described in "TAX MATTERS" herein.

Interest on the 2016A Bonds and the 2016C 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. Interest on the 2016B Bonds is treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations. Under the Code, interest on the Bonds (as defined herein) 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 (the "State" or "Delaware"). For a more complete discussion including a discussion of the treatment of the 2016B Bonds as a separate issue for certain purposes of the Code, see "TAX MATTERS" herein.

THE STATE OF DELAWARE

\$180,385,000	\$20,220,000	\$35,455,000
General Obligation Bonds, Series 2016A	General Obligation Bonds (AMT), Series 2016B	General Obligation Refunding Bonds, Series 2016C

Dated: Date of Issuance

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

The Bonds consist of the State's \$180,385,000 General Obligation Bonds, Series 2016A (the "2016A Bonds"), \$20,220,000 General Obligation Bonds (AMT), Series 2016B (the "2016B Bonds") and \$35,455,000 General Obligation Refunding Bonds, Series 2016C (the "2016C Bonds," and together with the 2016A Bonds and 2016B Bonds, the "2016 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, 2016.

The 2016A Bonds maturing on or after March 1, 2027 are subject to redemption prior to maturity in whole or in part at any time and from time to time, at the option of the State, in any order of maturity and interest rate selected by the State, beginning March 1, 2026, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest as set forth more fully herein.

The 2016B Bonds are not subject to optional redemption prior to maturity.

The 2016C Bonds are not subject to optional redemption prior to maturity.

The 2016 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 2016 Bonds will be paid to The Depository Trust Company or its nominee as record owner of the 2016 Bonds and investors should look for payment to the institution from which their 2016 Bonds were purchased.

The 2016 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 2016 Bonds will be available through the facilities of The Depository Trust Company for delivery in New York, New York, on or about March 16, 2016.

The date of this Official Statement is March 1, 2016.

MATURITIES, AMOUNTS, RATES, YIELDS AND PRICES

2016A Bonds⁽¹⁾

<u>Maturity (March 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>	<u>Price (\$)</u>	<u>CUSIP Number⁽²⁾ (246381)</u>
2019	9,875,000	5.000	0.640	112.756	FR3
2020	10,030,000	5.000	0.770	116.459	FS1
2021	10,030,000	5.000	0.900	119.838	FT9
2022	10,030,000	5.000	1.090	122.496	FU6
2023	10,030,000	5.000	1.300	124.538	FV4
2024	10,030,000	5.000	1.470	126.419	FW2
2025	10,030,000	5.000	1.640	127.886	FX0
2026	10,030,000	5.000	1.770	129.370	FY8
2027	10,030,000	5.000	1.890*	128.109	FZ5
2028	10,030,000	2.125	2.269	98.500	GA9
2029	10,030,000	3.000	2.500*	104.382	GB7
2030	10,030,000	3.250	2.650*	105.220	GC5
2031	10,030,000	3.500	2.750*	106.493	GD3
2032	10,030,000	3.500	2.900*	105.156	GE1
2033	10,030,000	3.500	2.880*	105.333	GF8
2034	10,030,000	3.500	2.930*	104.891	GG6
2035	10,030,000	3.000	3.100	98.573	GH4
2036	10,030,000	3.000	3.170	97.499	GJ0

* Yield to call date of March 1, 2026.

2016B Bonds⁽¹⁾

<u>Maturity (March 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>	<u>Price (\$)</u>	<u>CUSIP Number⁽²⁾ (246381)</u>
2017	10,035,000	5.000	0.490	104.306	GW1
2018	10,030,000	5.000	0.650	108.450	GX9
2019	155,000	5.000	0.840	112.129	GY7

2016C Bonds⁽¹⁾

<u>Maturity (March 1)</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Yield (%)</u>	<u>Price (\$)</u>	<u>CUSIP Number⁽²⁾ (246381)</u>
2022	8,990,000	5.000	1.110	122.367	GQ4
2023	8,760,000	5.000	1.300	124.538	GR2
2026	9,445,000	4.000	1.760	120.378	GU5
2027	8,260,000	4.000	1.890	120.795	GV3

⁽¹⁾ The 2016A Bonds have been awarded to Morgan Stanley & Co. LLC through a competitive sale. The 2016B Bonds have been awarded to J.P. Morgan Securities LLC through a competitive sale. The 2016C Bonds have been awarded to Bank of America Merrill Lynch through a competitive sale.

⁽²⁾ 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 2016 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.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
DESCRIPTION OF THE BONDS	1
General Information.....	1
Redemption.....	1
Authorization and Purpose	2
SOURCES AND USES OF FUNDS.....	3
SECURITY FOR BONDS.....	3
DEBT SERVICE REQUIREMENTS	4
BONDED INDEBTEDNESS OF THE STATE	5
Authorization of General Obligation Debt.....	5
Debt Limits	5
General Obligation Debt.....	7
Authorized but Unissued General Obligation Debt.....	8
General Obligation Note Debt.....	8
Debt Burden Comparisons.....	9
Build America Bonds and Qualified School Construction Bonds	12
Sustainable Energy Utility, Inc. Energy Efficiency Revenue Bonds	12
Qualified Zone Academy Bonds	13
State Revenue Debt.....	13
Lease Obligations	13
INDEBTEDNESS OF AUTHORITIES, UNIVERSITIES AND POLITICAL SUBDIVISIONS	14
Authorities	14
Universities	16
Political Subdivisions	16
ECONOMIC BASE	17
Recent History	17
Population	18
Major Political Subdivisions.....	19
Personal Income.....	19
Unemployment Rates	20
Employment.....	21
Chemical and Advanced Materials Industry	22
Life Sciences.....	25
Research and Development	27
Biotechnology.....	28
Financial Services Industry.....	31
Construction.....	31
Incorporations	32
Agriculture	32
The Port of Wilmington.....	33
Dover Air Force Base	34

STATE FINANCIAL OPERATIONS	34
Revenue and Expenditure Forecasting	35
Economic Projections	35
Revenue Summary - Fiscal Year 2016E - Fiscal Year 2018E	36
Expenditure Summary - Fiscal Year 2013 - Fiscal Year 2016E	39
Sources and Uses of State Funds	40
CUMULATIVE CASH BALANCES	42
FISCAL YEAR ENDED JUNE 30, 2014	43
Revenue	43
Expenditures	43
Balances	44
FISCAL YEAR ENDED JUNE 30, 2015	45
Revenue	45
Expenditures	45
Balances	46
FISCAL YEAR ENDING JUNE 30, 2016.....	47
Revenue	47
Appropriations	47
Balances	48
TOBACCO SETTLEMENT.....	49
FINANCIAL STRUCTURE.....	49
General	49
Budget Process.....	50
Appropriation Limit.....	50
Budget Reserve Account	50
Tax Limitations.....	51
Internal Control Structure	51
Tax Collection Procedures.....	52
Risk Management	52
Cash Management	53
BUDGETARY GENERAL FUND SUMMARIES.....	53
Principal Receipts by Category	53
Additional Sources of Revenue	55
Budgetary General Fund Disbursements by Category of Expense	57
Budgetary General Fund Disbursements by Purpose	57
Public Education.....	57
Higher Education.....	58
Social Services.....	59
Children's Services.....	61
Corrections.....	61
BUDGETARY SPECIAL FUNDS SUMMARIES	61
Local School Property Taxes and Assessed Valuation	61
Unemployment Compensation	62
Federal Grants, Benefits and Reimbursements.....	62
Pension Fund Receipts.....	63
Social Security Fund Receipts.....	63

Bond and Note Sales.....	63
DEFERRED COMPENSATION PROGRAM	63
STATE PENSION PLAN	64
Summary of Pension Contribution Funding Policy	67
General Funding Practices.....	68
Pension Plan Investment Policy and Practices	69
Litigation, Investigations and Labor Relations.....	69
Transfers of Investment Earnings.....	69
Pension Plan Reserves	70
Pension Obligation Bonds	70
Other Relevant Reports.....	70
OTHER POST EMPLOYMENT BENEFITS	70
EMPLOYEE RELATIONS	71
GOVERNANCE	72
LITIGATION	73
THE BOOK-ENTRY ONLY SYSTEM.....	74
APPROVAL OF LEGAL MATTERS	75
TAX MATTERS	76
CHANGES IN FEDERAL TAX LAW	79
OPINIONS AND CERTIFICATES AVAILABLE ON DELIVERY OF THE BONDS.....	79
INDEPENDENT AUDITORS.....	79
FINANCIAL ADVISOR	80
RATINGS.....	80
UNDERWRITING.....	80
CONTINUING DISCLOSURE UNDERTAKING	81
APPENDIX A: SUMMARY OF CASH BASIS FINANCIAL STATEMENTS	
For Fiscal Years 2011 through 2015	A-1
APPENDIX B: CONTINUING DISCLOSURE AGREEMENT.....	B-1
APPENDIX C: FORM OF OPINION OF BOND COUNSEL	C-1

OFFICIAL STATEMENT
of
THE STATE OF DELAWARE

\$180,385,000
THE STATE OF DELAWARE
General Obligation Bonds,
Series 2016A

\$20,220,000
THE STATE OF DELAWARE
General Obligation Bonds (AMT),
Series 2016B

\$35,455,000
THE STATE OF DELAWARE
General Obligation Refunding Bonds,
Series 2016C

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 \$180,385,000 General Obligation Bonds, Series 2016A (the “2016A Bonds”), its \$20,220,000 General Obligation Bonds (AMT), Series 2016B (the “2016B Bonds”) and its \$35,455,000 General Obligation Refunding Bonds, Series 2016C (the “2016C Bonds,” and together with the 2016A Bonds and the 2016B Bonds, the “2016 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 March 1, 2016 (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 will be dated, bear interest, mature and are payable as described 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.

Redemption

Optional Redemption

The 2016A Bonds maturing on or after March 1, 2027 are subject to redemption at the option of the State on or after March 1, 2026, 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 2016 Bonds to be redeemed, plus interest accrued and unpaid to the redemption date.

The 2016B Bonds are not subject to optional redemption prior to maturity.

The 2016C Bonds are not subject to optional redemption prior to maturity.

Notice of Redemption

Notice of redemption will be mailed to registered owners of the 2016A 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 2016A 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 2016A 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 2016A 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. A portion of 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 remaining portion of the proceeds of the Bonds will be applied advance refund a portion of the State’s outstanding general obligation bonds identified below (the “Refunded Bonds”).

Schedule of Refunded Bonds

<u>Series</u>	<u>Maturities</u>	<u>Principal Amount</u>	<u>Date of Optional Call</u>	<u>Redemption Price</u>
2011	July 1 in the years 2021, 2022, 2025 and 2026	\$36,764,000	July 1, 2020	100.00

In order to provide for the funding to maturity or refunding of the Refunded Bonds, the State will use a portion of the proceeds of the Bonds, together with certain other available moneys, to purchase United States Treasury Obligations, State and Local Government Series, or other direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States Government (the “Government Securities”), the principal of which together with interest payable thereon will be sufficient to pay when due the interest on the Refunded Bonds on or prior to the maturity date or call date, as the case may be, and principal, to redeem on such call date Refunded Bonds which become due after such date. Neither the maturing principal of the Government Securities nor the interest thereon will secure or be available for the payment of principal of, interest or redemption premium, if any, on any obligations of the State other than the Refunded Bonds.

The Government Securities are to be held in a trust fund (the “Escrow Fund”) by Wilmington Trust, National Association, as escrow agent (the “Escrow Agent”) pursuant to an Escrow Agreement to be dated March 16, 2016 (the “Escrow Agreement”) between the State and the Escrow Agent for the benefit of the holders of the Refunded 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.

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>2016A Bonds</u>	<u>2016B Bonds</u>	<u>2016C Bonds</u>	<u>Total</u>
Par Amount:	\$ 180,385,000.00	\$ 20,220,000.00	\$ 35,455,000.00	\$ 236,060,000.00
Net Original Issue Premium	<u>23,442,203.60</u>	<u>1,298,442.05</u>	<u>7,802,691.20</u>	<u>32,543,336.85</u>
Total Sources:	<u>\$ 203,827,203.60</u>	<u>\$ 21,518,442.05</u>	<u>\$ 43,257,691.20</u>	<u>\$ 268,603,336.85</u>
USES:				
Capital Projects	\$ 203,500,000.00	\$ 21,500,000.00	\$ -	\$ 225,000,000.00
Deposit to Escrow Fund	-	-	42,881,112.97	42,881,112.97
Underwriters' Discount	326,911.74	13,353.29	171,956.75	512,221.78
Other Financing Expenses	<u>291.86</u>	<u>5,088.76</u>	<u>204,621.48</u>	<u>210,002.10</u>
Total Uses:	<u>\$ 203,827,203.60</u>	<u>\$ 21,518,442.05</u>	<u>\$ 43,257,691.20</u>	<u>\$ 268,603,336.85</u>

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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

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>
2016	\$ 168.3	\$ 83.8	\$ 252.1	\$1,707.1	\$ 168.3	\$ 83.8	\$ 252.1	\$1,906.4
2017	167.7	73.8	241.4	1,539.4	177.7	81.5	259.1	1,728.7
2018	155.4	65.8	221.2	1,384.0	165.4	73.4	238.9	1,563.2
2019	138.0	59.1	197.1	1,246.0	148.1	66.2	214.3	1,415.2
2020	120.7	53.2	173.9	1,125.2	130.8	59.8	190.6	1,284.4
2021	118.6	47.6	166.2	1,006.6	128.7	53.7	182.4	1,155.7
2022	118.5	42.1	160.6	888.1	128.2	47.9	176.2	1,027.5
2023	116.6	36.6	153.3	771.5	126.3	42.0	168.3	901.1
2024	109.8	31.1	140.9	661.7	119.8	35.7	155.6	781.3
2025	96.7	26.5	123.2	565.0	106.8	30.6	137.4	674.6
2026	93.2	22.4	115.6	471.7	102.9	26.3	129.2	571.6
2027	88.0	18.5	106.5	383.7	97.6	22.0	119.6	474.0
2028	78.4	14.9	93.3	305.3	88.5	17.7	106.2	385.5
2029	71.3	11.6	82.9	234.0	81.3	14.2	95.5	304.2
2030	71.9	8.0	79.9	162.1	82.0	10.3	92.3	222.3
2031	54.3	5.5	59.8	107.8	64.4	7.5	71.8	157.9
2032	43.8	3.4	47.2	64.0	53.8	5.1	58.9	104.1
2033	32.0	2.0	33.9	32.0	42.0	3.3	45.3	62.1
2034	20.1	0.9	21.0	11.8	30.2	1.9	32.0	31.9
2035	11.8	0.2	12.0	-	21.9	0.8	22.7	10.0
2036	-	-	-	-	10.0	0.3	10.3	
TOTAL	<u>\$1,875.4</u>	<u>\$606.7</u>	<u>\$2,482.2</u>		<u>\$2,074.7</u>	<u>\$683.9</u>	<u>\$2,758.6</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).

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

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 2016, 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, exceeding principal due in earlier years.

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 2015 estimate of net general fund revenues for fiscal year 2016 was \$3,939.2 million, thus a total of \$196.96 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 2016 figures debt limit of \$196.96 million is based on House Joint Resolution No. 9 which set fiscal year 2016 official revenue, refund and unencumbered fund estimates at \$3,929.2 million. The revenue estimates for fiscal years 2017 and 2018 are estimated from the December 21, 2016 meeting of the Delaware Economic and Financial Advisory Council (“DEFAC”), and the estimates for fiscal years 2019 and 2020 are based on growth rates established at the September 21, 2015 meeting. See “STATE FINANCIAL OPERATIONS — Revenue Summary-Fiscal Year 2016E-Fiscal Year 2018E” 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 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020
Estimated Net Budgetary General Fund Revenue	\$ 3,929.2	\$ 4,026.1	\$ 4,113.7	\$ 4,245.3	\$ 4,372.7
Projected New Tax- Supported Debt Authorizations	\$ 197.0	\$ 201.3	\$ 205.7	\$ 212.3	\$ 218.6

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		\$ 259.1
Less: Excluded Debt Service ⁽²⁾		(64.5)
Other Tax-Supported Debt Service ⁽³⁾		<u>30.7</u>
Total Tax-Supported Debt Service		\$ 225.3
Delaware Transportation Authority (TTF) Debt Service		<u>\$ 94.0</u>
Total Debt Service		\$ 319.3
Estimated Aggregate Budgetary General Fund and TTF Revenue ⁽⁴⁾		\$ 4,555.2
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 21, 2015 revenue projections of DEFAC for fiscal year 2017. 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	\$ 259.1
Less: Excluded Debt Service ⁽²⁾	(64.5)
Net General Obligation Debt Service	\$ 194.6
Projected Cumulative Cash Balances ⁽³⁾	\$ 640.3

-
- (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) As estimated by the Secretary of Finance based upon December 21, 2015 budgetary General Fund revenue projections by DEFAC for fiscal year 2017.

General Obligation Debt

On June 30, 2015, the outstanding general obligation debt of the State, a portion of which was supported by budgetary General Fund revenue and a portion of which was supported by budgetary Special Funds, was as follows:

Outstanding General Obligation Debt
(in millions)

General Obligation Debt Supported by Budgetary General Fund Revenue

State Facilities	\$ 701.6
School Facilities (State Share).....	<u>640.3</u>
Subtotal.....	\$ 1,341.9

General Obligation Debt Supported by Budgetary Special Funds

School Facilities (Local Share).....	\$ <u>533.5</u>
Subtotal.....	\$533.5 ⁽¹⁾

Total General Obligation Debt Outstanding.....	\$ 1,875.4 ⁽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

Prior to the issuance of the Bonds, statutory authorization exists for the issuance of additional general obligation debt of the State in the principal amount of \$400.6 million.

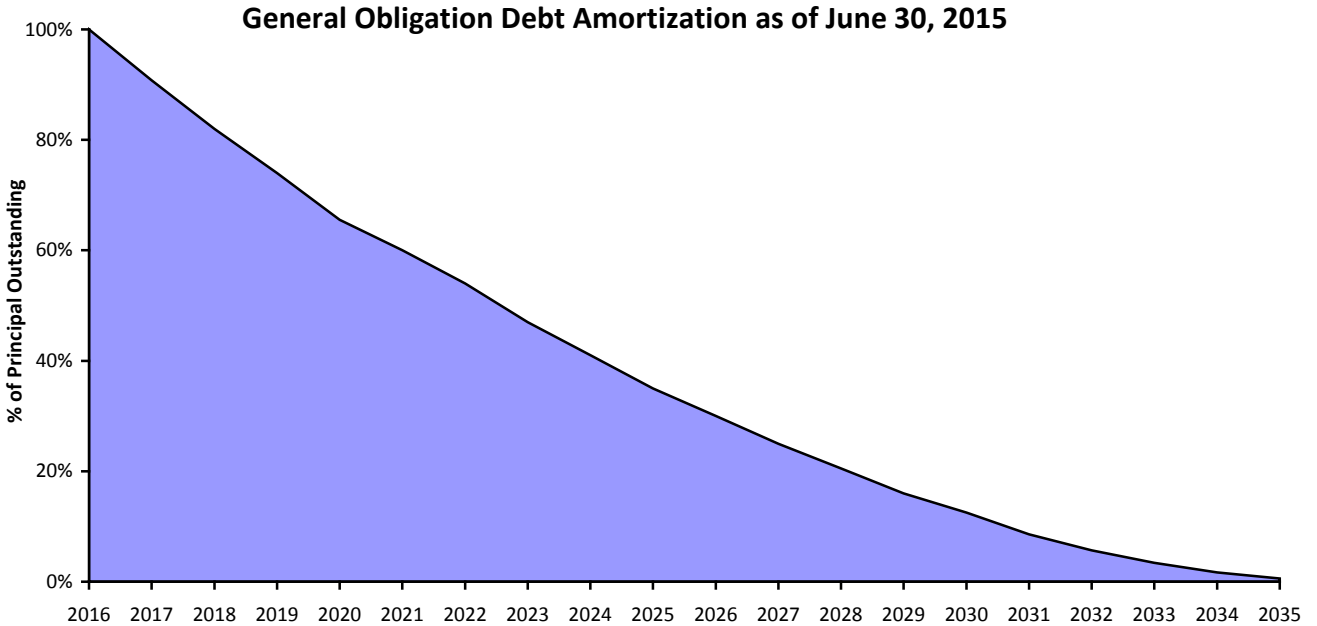
General Obligation Note Debt

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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

Debt Burden Comparisons

The State's general obligation debt outstanding was \$1,875.4 million on June 30, 2015 with approximately 70.0% 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 2013 issued in June 2015, Delaware ranked 9th in state spending per pupil in elementary – secondary public schools. Of the \$1,875.4 million of debt outstanding as of June 30, 2015, \$533.5 million or 28.4% 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.

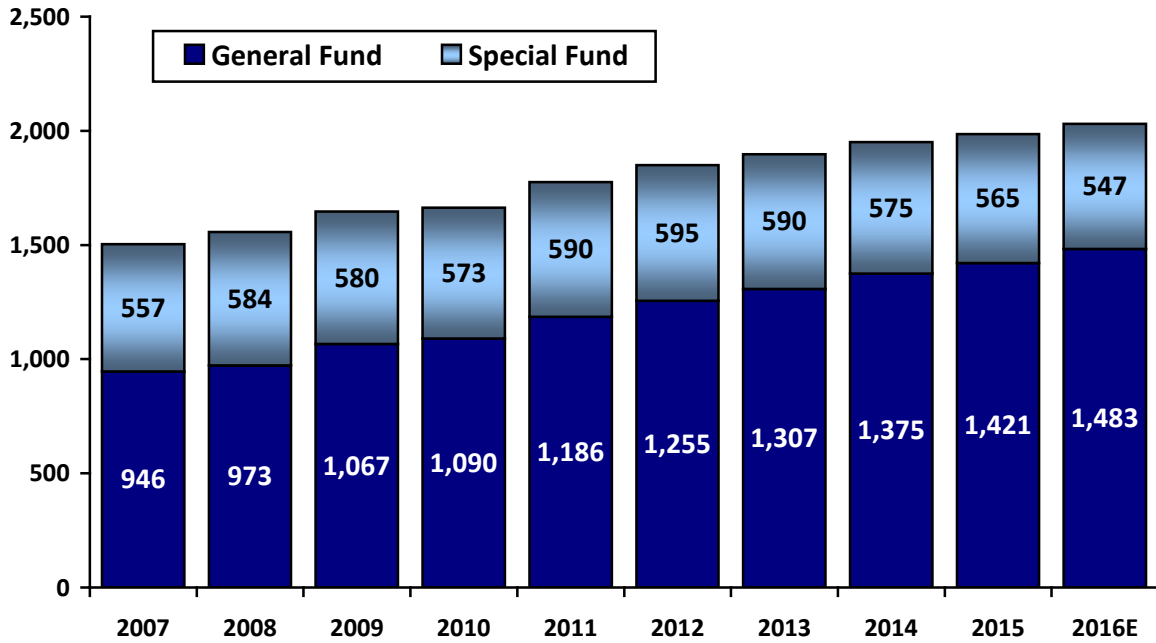
- **Aggressive Retirement of General Obligation Debt:** The State voluntarily retires its general obligation debt rapidly. Approximately 70.0% of current general obligation debt is scheduled to mature within ten years, as noted above.
- **Strict Debt Limitations:** In 1991, the State instituted new debt 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 2016, the cash funding exceeded \$1.6 billion or 23.8% 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 \$1,086.3 million of its general obligation bonds for a combined present value savings of \$64.7 million. With the issuance of the 2016C Bonds, the State expects to realize present value savings of \$3.0 million after refunding \$36.8 million of its general obligation bonds. 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.

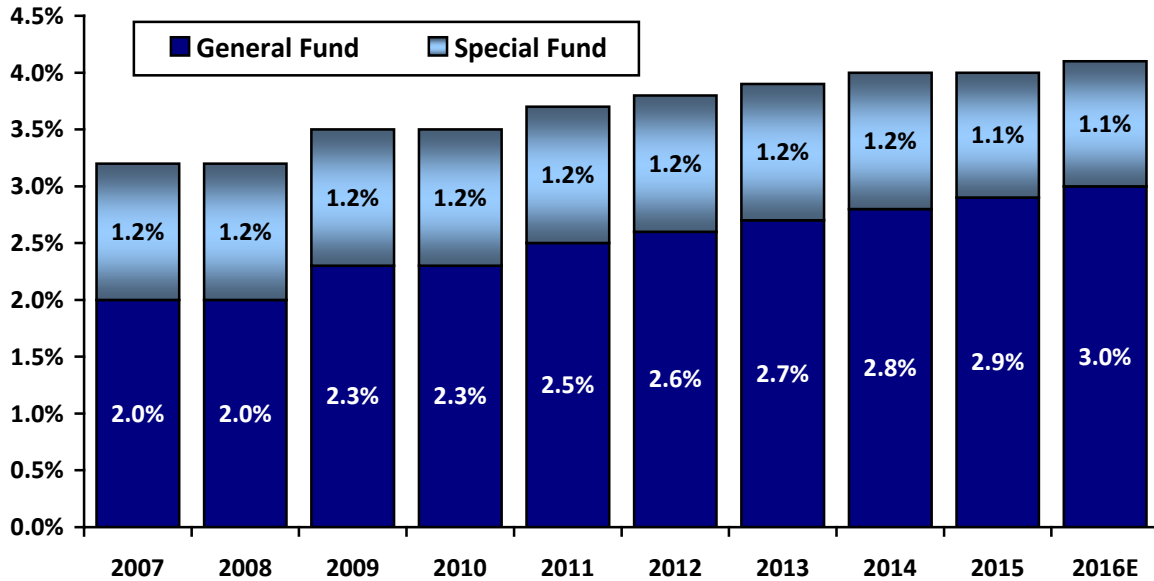
Debt Per Capita at June 30



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.
 2015 data assumes a population growth rate of 1.2%.

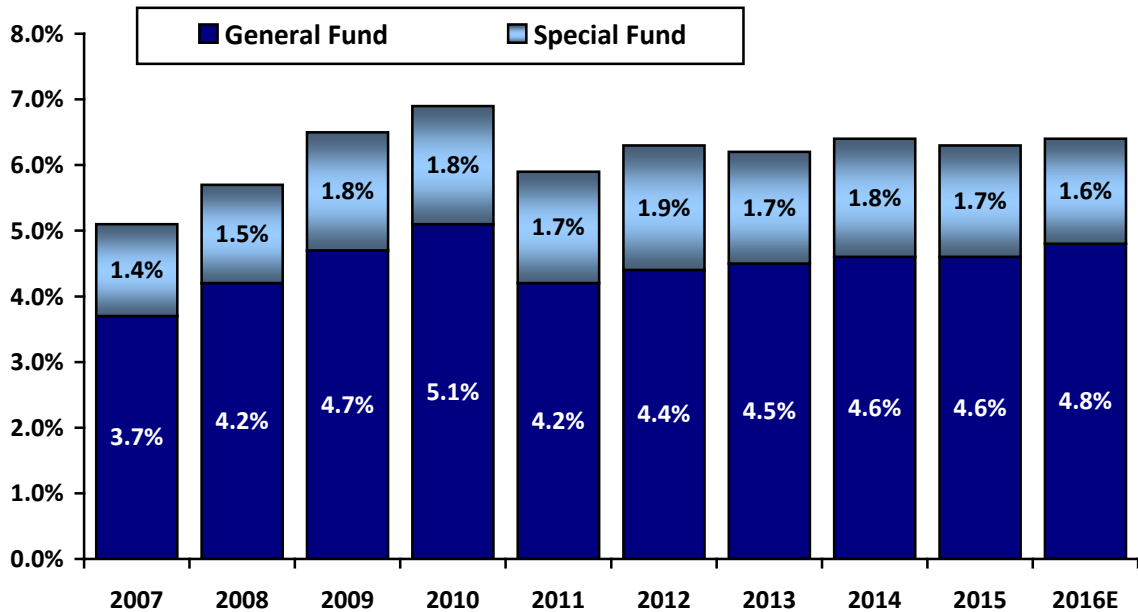
[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

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 is 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 6.8% in federal fiscal year 2016 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 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.

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, 2015, aggregate remaining lease payments total approximately \$185.9 million with \$127.0 million payable through fiscal year 2020. Real estate rentals account for 88.1% 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, 2015 total approximately \$35.1 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, 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, 2015, 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 June 30, 2015, the Delaware Transportation Authority had outstanding \$774.8 million in Transportation System Revenue Bonds and \$86.6 million in Grant Anticipation Revenue Vehicle 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 In December 2015, the Authority issued its U.S. 301 Project Revenue Bonds, Series of 2015 in an aggregate principal amount of \$212,535,000 (the "Sr. 301 Bonds") and its Subordinated U.S. 301 Project Revenue Bonds, TIFIA Series of 2015 in a principal amount up to \$211,350,000 (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.

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 - #6,

Revenue Bonds” in the State’s Basic Financial Statements included in its CAFR for the fiscal year ended June 30, 2015, 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, 2015, \$298.3 million of tax-exempt revenue bonds and \$43.7 million of taxable revenue bonds. The total \$342.0 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 - #6, Revenue Bonds” in the State’s Basic Financial Statements included in its CAFR for the fiscal year ended June 30, 2015, 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’s Bonds. As of December 31, 2015, 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 \$704.9 million in economic development revenue bonds on June 30, 2015, 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 30, 2015, DSWA had \$92.6 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 June 30, 2015, there were outstanding \$585.6 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, 2015, \$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, 2015, \$484.3 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, 2015, is outlined in the following table:

General Obligation Debt of Political Subdivisions (in millions)

New Castle County	\$ 416.3
Sussex County.....	158.0
Kent County	55.2
Wilmington	293.7 ⁽¹⁾
Other Cities and Towns.....	263.2 ⁽²⁾
School Districts	<u>533.5⁽³⁾</u>
Total	<u>\$1,719.9</u>

Source: Chief fiscal officers of respective governmental entities.

- (1) Of this total, \$4.3 million in principal is supported by payments from the Diamond State Port Corporation, an instrumentality of the State. Excludes \$16.4 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

During the most recent two business cycles, Delaware’s economic performance has largely mirrored national trends in terms of employment and income growth. In this period, Delaware has consistently posted lower unemployment rates than the United States. More recently, however, Delaware has experienced an unemployment rate aligning more closely to the national average owing to an expansion in its labor force.

The State’s recent performance is due, in part, to the changing composition of its economic base. With a heavy concentration in financial services, the State’s economy could not avoid the effects of recent industry turmoil. Despite this uncertainty, the State’s major employers, Bank of America, N.A., JPMorgan Chase & Co., Barclays Bank Delaware and Capital One, continue to maintain a major presence in the State and demonstrate the State’s importance as a financial center. Further demonstrating its commitment to Delaware, JPMorgan Chase announced 1,800 planned new hires to work primarily in technology, finance, asset management and global data operations by 2019. JPMorgan’s announcement represents the largest hiring promise by a company in the State in nearly 20 years. The State’s long-established manufacturing sectors, oil-refining and fibers, have also suffered as a result of the worst economic downturn since World War II. In response to these setbacks, 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. 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.

On December 11, 2015, E.I. du Pont de Nemours and Company (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, it was decided that the Specialty Products business was to be headquartered in Delaware and the Material Sciences business was to be headquartered in Midland, Michigan; however, the headquarters for the Agricultural business was not yet determined. The 2016 cost reductions include a range of structural actions

across all businesses and staff functions globally. Approximately 10% of DuPont's global workforce is expected to be impacted. The reductions are expected to occur ahead of DuPont's proposed merger with Dow, which is scheduled for completion in calendar year 2016.

On December 21, 2015, DEFAC took action on the announcement by reducing its forecast for personal income taxes by \$7 million in fiscal 2017 and \$9.5 million in fiscal 2018. Subsequently, on December 30, 2015, DuPont announced layoffs accounting for 28% of its current Delaware workforce notifying DuPont's 6,100 Delaware employees.

On February 19, 2016, DuPont and Dow announced that the headquarters for the Agricultural business will be located in Delaware. This announcement, and any further developments, will be considered by DEFAC at its March 21, 2016 meeting.

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.

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. In 2014, new business entities formed in Delaware brought the total number of business entities registered in the State to more than 1,114,000.

Population

Between 2014 and 2015, Delaware's population was estimated to have increased by 1.1 percent, to 945,934 inhabitants. In comparison, there was 0.2 percent growth in the Mid-Atlantic region and 0.8 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 2009 through 2015.

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>
2009	892	0.9%	47,352	0.5%	306,772	0.9%
2010	900	0.9	47,607	0.5	309,347	0.8
2011	908	0.9	47,863	0.5	311,719	0.8
2012	917	1.0	48,063	0.4	314,103	0.8
2013	925	0.9	48,243	0.4	316,427	0.7
2014	936	1.1	48,393	0.3	318,907	0.8
2015	946	1.1	48,509	0.2	321,419	0.8

(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 2014. There are three major cities: Wilmington, the largest city, with a 2014 estimated population count of 71,817; Dover, the State capital and the site of a major U.S. Air Force base, with a 2014 estimated population count of 37,355 residents; and Newark, the site of the University of Delaware, with a 2014 estimated population count of 33,008.

The following table shows the population of the State's three counties for the years 2008 through 2014. 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 twice 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>
2008	533,958	0.6%	157,925	2.6%	191,991	2.6%
2009	536,898	0.6	160,081	1.4	194,751	1.4
2010	538,873	0.4	162,954	1.8	197,904	1.6
2011	542,324	0.6	165,214	1.4	200,291	1.2
2012	546,021	0.7	167,666	1.5	203,194	1.4
2013	549,233	0.6	169,562	1.1	206,445	1.6
2014	552,778	0.6	171,987	1.4	210,849	2.1

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 4.6 percent from calendar 2013 to 2014, compared with increases of 4.0 percent for the Mid-Atlantic region and 4.4 percent for the nation. Total State personal income in calendar 2014 was \$43.4 billion.

The following table provides per capita personal income comparisons for calendar 2008 through 2014. (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 3.5 percent from calendar 2013 to 2014 compared with 3.8 percent in the Mid-Atlantic region and 3.6 percent in the U.S. over the same period. In comparison, State per capita personal income was approximately equal to 101 percent of U.S. per capita personal income in calendar 2014.

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>
2008	\$42,319	2.3%	\$47,566	3.1%	\$41,082	3.2%	103
2009	41,633	-1.6	46,324	-2.6	39,376	-4.2	106
2010	41,783	0.4	47,578	2.7	40,277	2.3	104
2011	43,555	4.2	49,814	4.7	42,453	5.4	103
2012	44,747	2.7	51,562	3.5	44,266	4.3	101
2013	44,819	0.2	51,593	0.1	44,438	0.4	101
2014	46,378	3.5	53,530	3.8	46,049	3.6	101

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 2015 fell to 4.8 percent from 5.7 percent in 2014. The region had an overall average unemployment rate of 5.4 percent in 2015, down from 6.2 percent in 2014.

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	4.8	5.4	5.3

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 2015, Delaware's annual unemployment rate of 4.8 percent was ranked 21st lowest in the nation. In the surrounding states, Maryland and Pennsylvania's unemployment rate was tied for 24th lowest at 5.2 percent, New York was tied for 27th at 5.3 percent, and New Jersey was tied for 37th at 5.9 percent.

Employment

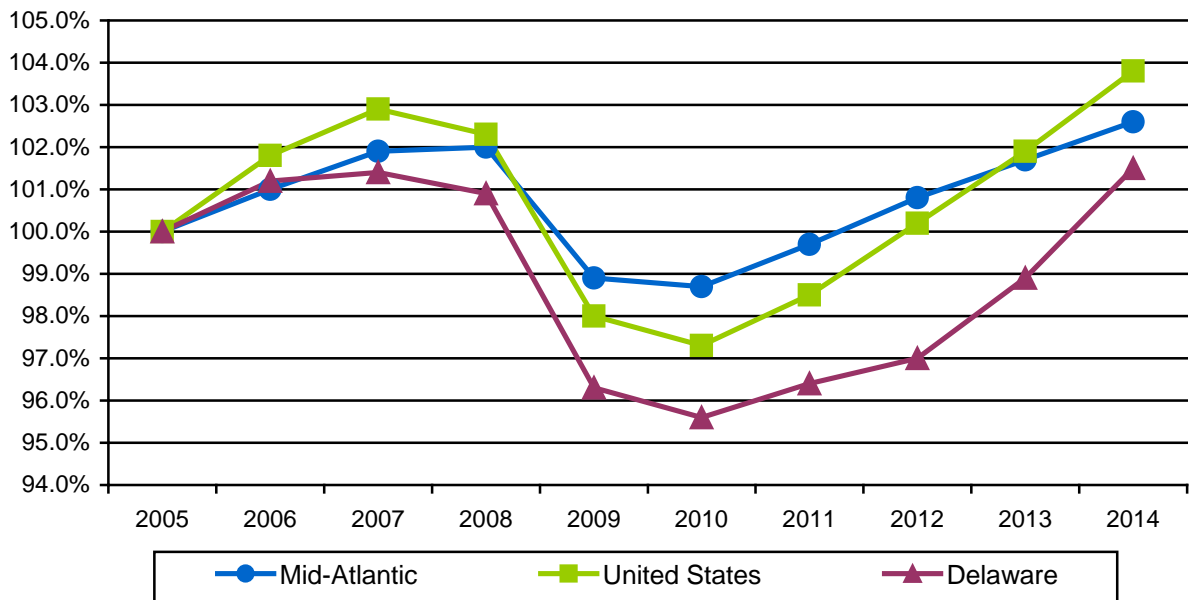
The rate of non-agricultural job growth in Delaware increased 1.7 percent in 2015. There were also job gains in the region and the nation of 1.4 percent and 2.1 percent, respectively.

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	(0.6)
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	1.0	1.7
2014	2.1	1.1	1.9
2015	1.7	1.4	2.1

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

Total Employment Growth (2005 = 100)



Source: Delaware Department of Labor

In terms of employment, Government remained the single largest industry sector in Delaware in 2015. Total employment across all federal, state and local government entities averaged 65,400 over the year, an increase of 500 jobs over 2014. Among private industry sectors, Health Care and Social Assistance remained as the state's largest industry sector with 65,300 jobs; Retail Trade was again the second-largest with 51,300.

Nine private industry sectors added jobs in 2015: Administrative and Support and Waste Management and Remediation Services (+2,100), Accommodation and Food Services (+1,800), Finance and Insurance (+1,500), Transportation, Warehousing and Utilities (+1,400), Health Care and Social Assistance (+900), Construction (+800), Education Services (+300), Professional, Scientific and Technical Services (+100), and Art, Entertainment and Recreation (+100).

Employment by Industry Sector
(in thousands)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Construction	19.3	19.3	18.5	19.7	20.4	21.2
Manufacturing	25.9	25.7	25.7	25.4	25.7	25.7
Wholesale Trade.....	12.5	12.5	12.4	12.2	11.9	11.7
Retail Trade	49.8	50.6	50.7	51.5	52.2	51.3
Transportation, Warehousing and Utilities ¹	12.1	12.3	12.8	14.0	15.3	16.7
Information.....	6.0	5.7	5.5	5.2	4.9	4.7
Finance and Insurance	37.1	36.8	37.0	38.4	39.9	41.4
Real Estate and Rental and Leasing	5.6	5.5	5.4	5.4	5.3	5.1
Professional, Scientific and Tech. Services.....	24.5	26.0	27.5	28.6	29.2	29.3
Management of Companies.....	9.1	7.8	6.8	5.9	5.4	5.1
Administrative and Support and Waste Management and Remediation Services.....	21.2	21.8	21.9	23.8	24.9	27.0
Educational Services	7.5	7.7	7.8	7.7	8.1	8.4
Health Care and Social Assistance	57.3	58.9	60.7	62.6	64.4	65.3
Arts, Entertainment and Recreation.....	9.9	10.2	9.9	9.8	9.7	9.8
Accommodation and Food Services	33.7	34.4	35.1	36.2	37.1	38.9
Other Services	18.3	18.2	18.3	18.5	18.4	18.3
Government	<u>63.8</u>	<u>63.7</u>	<u>63.6</u>	<u>64.0</u>	<u>64.9</u>	<u>65.4</u>
Total Nonfarm Employment	<u>413.8</u>	<u>417.1</u>	<u>419.4</u>	<u>428.7</u>	<u>437.7</u>	<u>445.1</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. Operating globally with over \$36.05 billion in annual sales in 2014, DuPont offers a wide range of innovative products and services for markets including agriculture, nutrition, electronics, communications, safety and protection, home and construction, transportation and apparel. DuPont Pioneer, a subsidiary of DuPont, is the world's leading developer and supplier of advanced plant genetics, providing high-quality seeds to farmers in more than 90 countries. DuPont Pioneer provides agronomic support and services to help increase farmer productivity and profitability and strives to develop sustainable agricultural systems for people everywhere.

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 265 in Delaware primarily at its research and technology center. 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.

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 \$250 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 2014, BASF employed more than 113,292 worldwide and posted global sales of about \$ 90.34 billion. Approximately 150 employees are employed in Newport, Delaware.

The Dow Chemical Company ("Dow") (NYSE: DOW), is an industry-leading company with a portfolio of specialty chemical, advanced materials, agrosociences and plastics businesses and delivers a broad range of technology-based products and solutions to customers in approximately 160 countries and in high growth sectors such as electronics, water, energy, coatings and agriculture. In 2014, Dow had annual sales of \$58.17 billion and employed approximately 53,000 people worldwide. Dow Electronic Materials, a global supplier of materials and technologies to the electronics industry has a significant presence in Delaware with over 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: AIQYU) 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 750 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 3,600 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 \$4.04 billion in 2014. 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 division of Waters Corporation, 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. TAI's division headquarters are located in Delaware where they recently completed a \$40 million expansion project.

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.

Life Sciences

Delaware is uniquely positioned in the center of one of our 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 their 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 has relocated to its newly renovated 190,800 square foot campus on 16.7 acres in North Wilmington and is actively working toward building an expansion 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, AstraZeneca, DuPont 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.

The University of Delaware's outstanding reputation for research in cooperation with industry is well recognized in many areas. Its innovative research efforts are illustrated through its partnerships with industry in composite materials, information science, biotechnology, alternative energy, virology and development of genetically engineered vaccines, and agrigenetics, including plant tissue culture research. Through its seven colleges, institutes and various centers, including the Center for Composite Materials, Center for Catalytic Science and Technology, and Center for Climatic Research, the University of Delaware has fostered growth and development in the chemical, computer, energy, food, agricultural and marine sciences industries.

The University of Delaware's Institute of Energy Conversion, one of the world's largest thin-film solar cell laboratories performing research and process development for industry, has been designated by the

U.S. Department of Energy as a national center of excellence in photovoltaic research and education. The University of Delaware's Center for Composite Materials is one of three partners in an Army Research Laboratory Materials Center of Excellence.

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.

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.

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 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 FhCMB'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 will be celebrating its 10-year anniversary this 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. 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 the 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 subsection, 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*.

* 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)

- (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 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 26,700 employees as of December 2014, 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, 2015, the bank franchise tax contributed \$95.0 million, about 2.4% 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 2015 the total number of business entities registered with the Delaware Division of Corporations exceeded 1,182,000. More than 178,000 new business entities were formed in Delaware in 2015. 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 \$18.3 million in fiscal year 2015.

Agriculture

Agriculture is a very significant industry in Delaware. In 2014, there were 2,500 farms, and land in farms at 500,000 acres, accounted for 40% of Delaware’s total land area. Farm size averaged 200 acres.

In 2014, the total market value of agricultural land and buildings was \$4.09 billion, and the average value per farm was \$1,636,000. The average market value per acre of farmland and buildings in Delaware was \$8,180, well over two times the national average of \$2,950. Only five states had a higher value per acre of farm real estate. The average value per acre was up slightly from 2013.

In 2014, the value of agricultural sector production was \$1.66 billion and the Delaware agricultural cash receipts total was \$1.48 billion for all commodities. Cash receipts in 2014 were up 11% from the 2013 level of \$1.33 billion.

Delaware's 2014 net farm income increased 9% from the 2013 level of \$524 million to \$573 million. Increased crop and livestock production were primarily responsible for the increase in net farm income.

In 2014, Delaware agricultural production value per farm was at \$665,651, and the value per acre was \$3,328 and cash receipts value was \$2,959.

The cash receipts from Delaware farms as compared to the U.S. total in 2010-2014 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>
2010	\$ 829	\$ 258	\$ 1,087	6.3	\$ 321.8	10.1
2011	750	290	1,040	(4.3)	365.8	13.9
2012	800	379	1,178	13.3	401.4	9.7
2013	980	349	1,329	12.6	403.0	0.3
2014	1,161	318	1,479	11.3	421.9	4.6

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 two 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. The total long-term debt of the DSPC outstanding as of June 30, 2015 was \$23.5 million. DSPC does not have the power to pledge the credit of the State.

In fiscal year 2015, a total of 6.6 million tons of cargo passed through the Port’s facilities, an increase of 20% compared to fiscal year 2014. The combination of growth in cargo tonnage and changes to the mix of cargo increased operating revenue by 13% from \$35.9 million in fiscal year 2014 to \$40.04 million in fiscal year 2015. In fiscal year 2015, containerized cargo was 2.2 million tons (+7.0%), liquid bulk cargo was 2.0 million tons (+56.0%) and dry bulk cargo was 1.9 million tons (+18.0%), as compared to fiscal year 2014. Over \$209 million has been provided by the State through fiscal year 2015 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 (hereinafter defined) 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, 2015, 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, 2015, 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 21, 2015.

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 “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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
18 Months Before Fiscal Year-End	\$3,176.3	\$3,444.9	\$3,566.1	\$3,663.3	\$3,774.8
9 Months Before Fiscal Year-End	3,363.0	3,379.5	3,699.0	3,732.4	3,944.8
Actual Fiscal Year-End Revenue	3,531.4	3,359.3	3,729.8	3,572.7	3,955.1

Economic Projections

Based upon national forecasts by IHS Global Insight, Inc. in December 2015, 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 2016 through 2018 for Delaware and the United States, considered by DEFAC in making its revenue forecasts as presented herein.

Projected Economic Growth Rates

Fiscal Year:	Delaware			United States		
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Population Growth.....	1.3%	1.2%	1.2%	0.8%	0.8%	0.8%
Employment Growth	1.9	1.5	1.1	1.8	1.4	1.3
Personal Income Growth	3.9	4.1	4.8	4.5	4.8	5.5

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

Revenue Summary - Fiscal Year 2016E - Fiscal Year 2018E

The following table and chart include DEFAC’s forecast of budgetary General Fund revenue from all sources as of December 21, 2015, for fiscal year 2016, fiscal year 2017 and fiscal year 2018. DEFAC forecasts General Fund revenue growth of 2.1%, -0.1% and 2.2% for fiscal years 2016, 2017 and 2018, respectively. See “Fiscal Year Ending June 30, 2016”.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

Budgetary General Fund Revenue
(in millions)

DEFAC Forecasts as of December 21, 2015

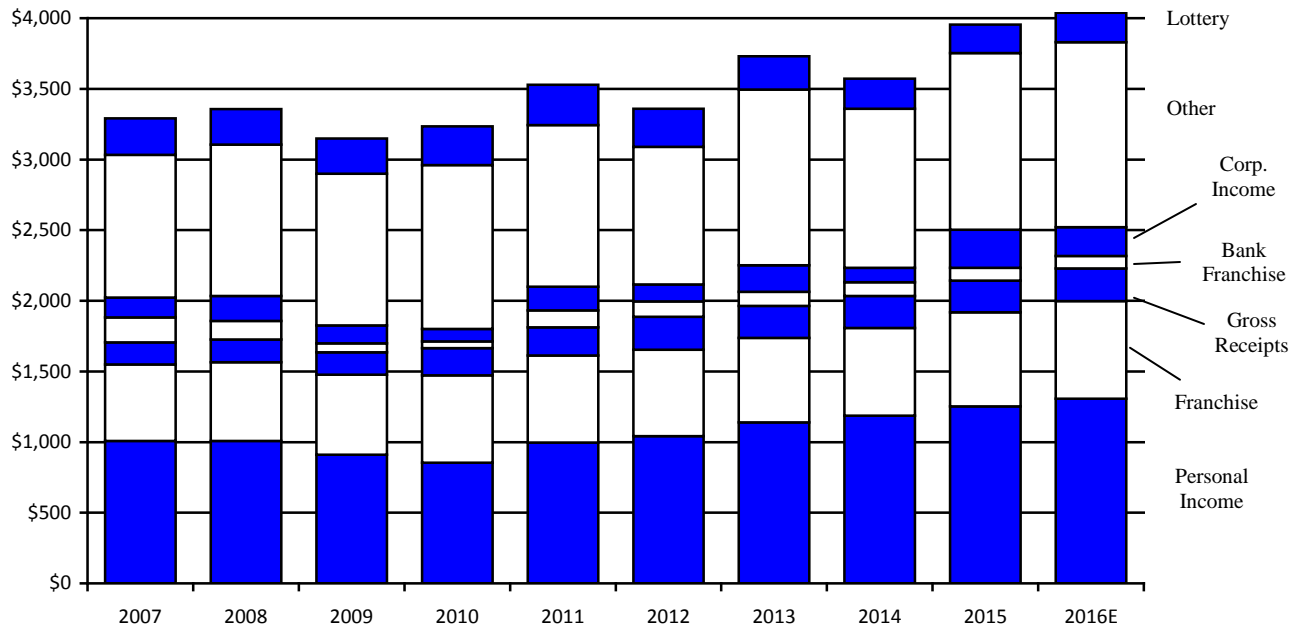
	Fiscal Year 2016		Fiscal Year 2017		Fiscal Year 2018	
	<u>Forecast</u>	<u>Change</u>	<u>Forecast</u>	<u>Change</u>	<u>Forecast</u>	<u>Change</u>
Personal Income Tax	\$1,516.8	5.0%	\$1,581.3	4.3%	\$1,656.7	4.8%
Less: Refunds	-210.0	9.2	-220.5	5.0	-231.1	4.8
PIT Less Refunds.....	1,306.8	4.4	1,360.8	4.1	1,425.6	4.8
Franchise Tax	701.1	3.8	711.0	1.4	714.5	0.5
Limited Partnerships & LLC's	261.4	7.0	275.7	5.5	289.5	5.0
Subtotal Franchise Tax and Limited Partnerships & LLCs	962.5	4.6	986.7	2.5	1,004.0	1.8
Less: Refunds	-10.0	12.3	-10.0	0.0	-10.0	0.0
Net Franchise Tax and Limited Partnerships & LLCs	952.5	4.6	976.7	2.5	994.0	1.8
Business Entity Fees	108.3	5.4	112.7	4.1	117.2	4.0
Uniform Commercial Code.....	19.0	4.1	19.0	0.0	19.0	0.0
Corporation Income Tax	260.0	-14.8	235.0	-9.6	242.1	3.0
Less: Refunds ⁽¹⁾	-55.0	53.9	-42.6	-22.5	-43.5	2.1
CIT Less Refunds	205.0	-23.9	192.4	-6.1	198.6	3.2
Bank Franchise Tax	88.3	-7.1	89.2	-1.0	91.0	2.0
Gross Receipts Tax	230.0	2.9	238.7	3.8	250.7	5.0
Lottery	208.5	3.1	210.1	0.8	215.8	2.7
Abandoned Property	554.0	7.8	470.0	-15.2	440.0	-6.4
Hospital Board and Treatment	46.5	0.5	45.8	-1.5	46.1	0.7
Dividends and Interest	3.7	30.0	7.5	102.7	12.5	66.7
Realty Transfer Tax	92.0	25.0	81.2	-11.7	84.4	3.9
Estate Tax	11.0	88.2	4.0	-63.6	4.0	0.0
Insurance Taxes	55.3	0.9	55.6	0.5	55.3	-0.5
Public Utility Tax	49.5	4.9	46.1	-6.9	47.7	3.5
Cigarette Taxes	107.0	4.2	104.9	-2.0	102.8	-2.0
Other Revenues.....	98.7	-16.7	106.5	7.9	104.3	-2.1
Less: Other Refunds	<u>-97.1</u>	14.4	<u>-95.1</u>	-2.1	<u>-95.3</u>	0.2
 Total ⁽¹⁾	 <u>\$4,039.0</u>	 <u>2.1%</u>	 <u>\$4,026.1</u>	 <u>-0.3%</u>	 <u>\$4,113.7</u>	 <u>2.2%</u>

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

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

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)**



[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

Expenditure Summary - Fiscal Year 2013 - Fiscal Year 2016E

The following table compares total budgetary General Fund expenditures by major departments for the past three fiscal years ending with fiscal year 2015 and estimated expenditures for fiscal year 2016. 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)

	<u>Fiscal Year 2013</u>	<u>Change</u>	<u>Fiscal Year 2014</u>	<u>Change</u>	<u>Fiscal Year 2015</u>	<u>Change</u>	<u>Fiscal Year 2016E⁽¹⁾</u>	<u>Change</u>
Correction.....	\$265.0	1.0%	\$273.5	3.2%	\$ 282.8	3.4%	\$ 284.1	0.5%
Health and Social Services	1,061.9	0.6	1,087.2	2.4	1,096.8	0.9	1,118.8	2.0
Higher Education.....	226.7	1.8	234.6	3.5	232.6	(0.9)	230.0	(1.1)
Public Education.....	1,194.0	3.3	1,242.6	4.1	1,277.8	2.8	1,305.1	2.1
Safety & Homeland Security.....	144.3	4.9	145.6	0.9	131.8	(9.5)	130.7	(0.8)
Services to Children, Youth & Their Families.....	141.9	5.5	149.5	5.4	149.1	(0.3)	155.1	4.0
Other Expenditures	<u>624.7</u>	<u>0.0</u>	<u>661.1</u>	<u>5.8</u>	<u>661.7</u>	<u>0.0</u>	<u>684.7</u>	<u>3.5</u>
Total.....	<u>\$3,658.5</u>	<u>1.8%</u>	<u>\$3,794.1</u>	<u>3.7%</u>	<u>\$3,832.6</u>	<u>1.0%</u>	<u>\$3,908.5</u>	<u>2.0%</u>

⁽¹⁾ Based on fiscal year 2016 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)

	<u>Fiscal Year 2013</u>	<u>Change</u>	<u>Fiscal Year 2014</u>	<u>Change</u>	<u>Fiscal Year 2015</u>	<u>Change</u>	<u>Fiscal Year 2016E</u>	<u>Change</u>
Base Budget	\$3,403.8	3.3%	\$3,534.2	3.8%	\$3,638.9	3.0%	\$3,908.5	7.4%
Supplemental Appropriations	86.8	(24.0)	86.0	(0.9)	66.4	(22.8)	43.0	(35.2)
Prior Year Carryover	<u>168.0</u>	(8.9)	<u>173.9</u>	3.7	<u>127.3</u>	(26.8)	<u>(15.9)</u>	(112.5)
Total	<u>\$3,658.5</u>	<u>1.8%</u>	<u>\$3,794.1</u>	<u>3.7%</u>	<u>\$3,832.6</u>	<u>1.0%</u>	<u>\$3,935.6⁽¹⁾</u>	<u>2.7%</u>

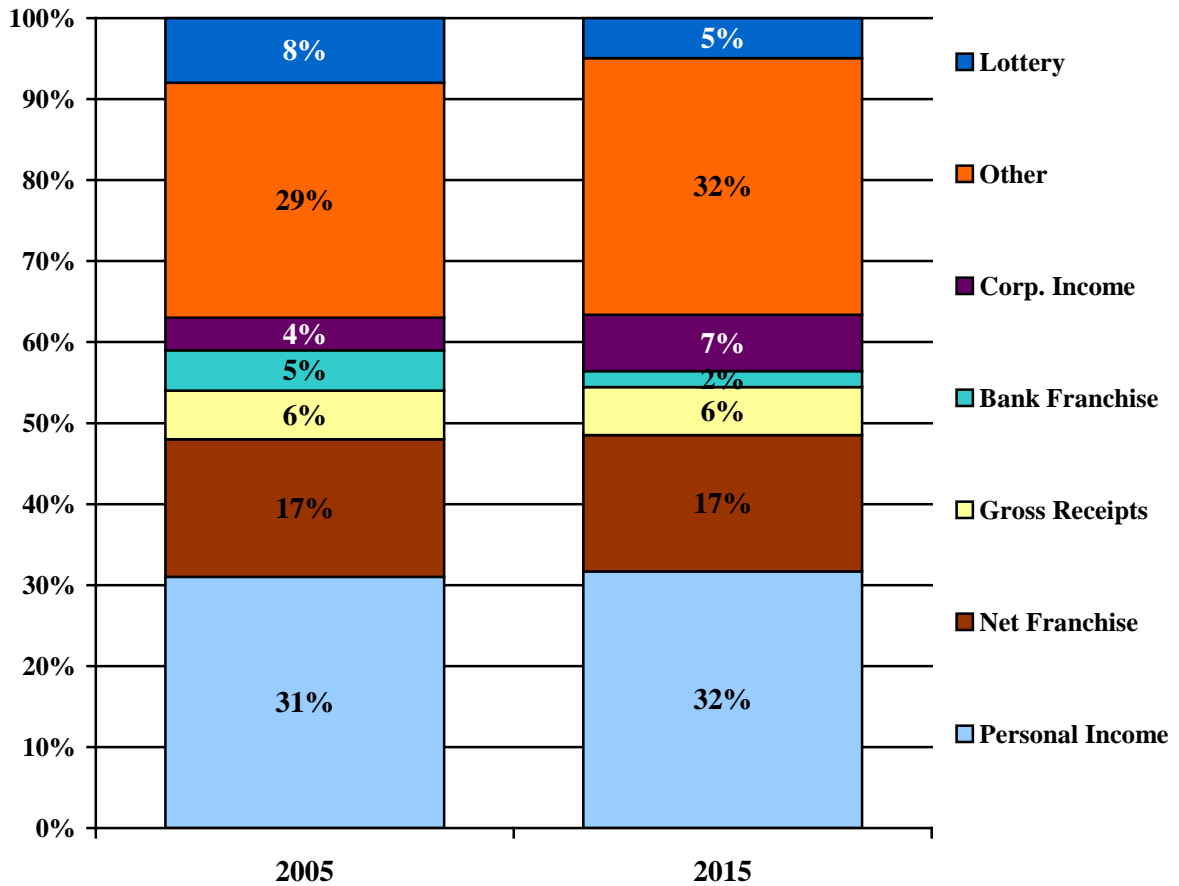
⁽¹⁾ Per December 21, 2015 DEFAC revenue and expenditures projections.

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 2015 with ten years earlier.

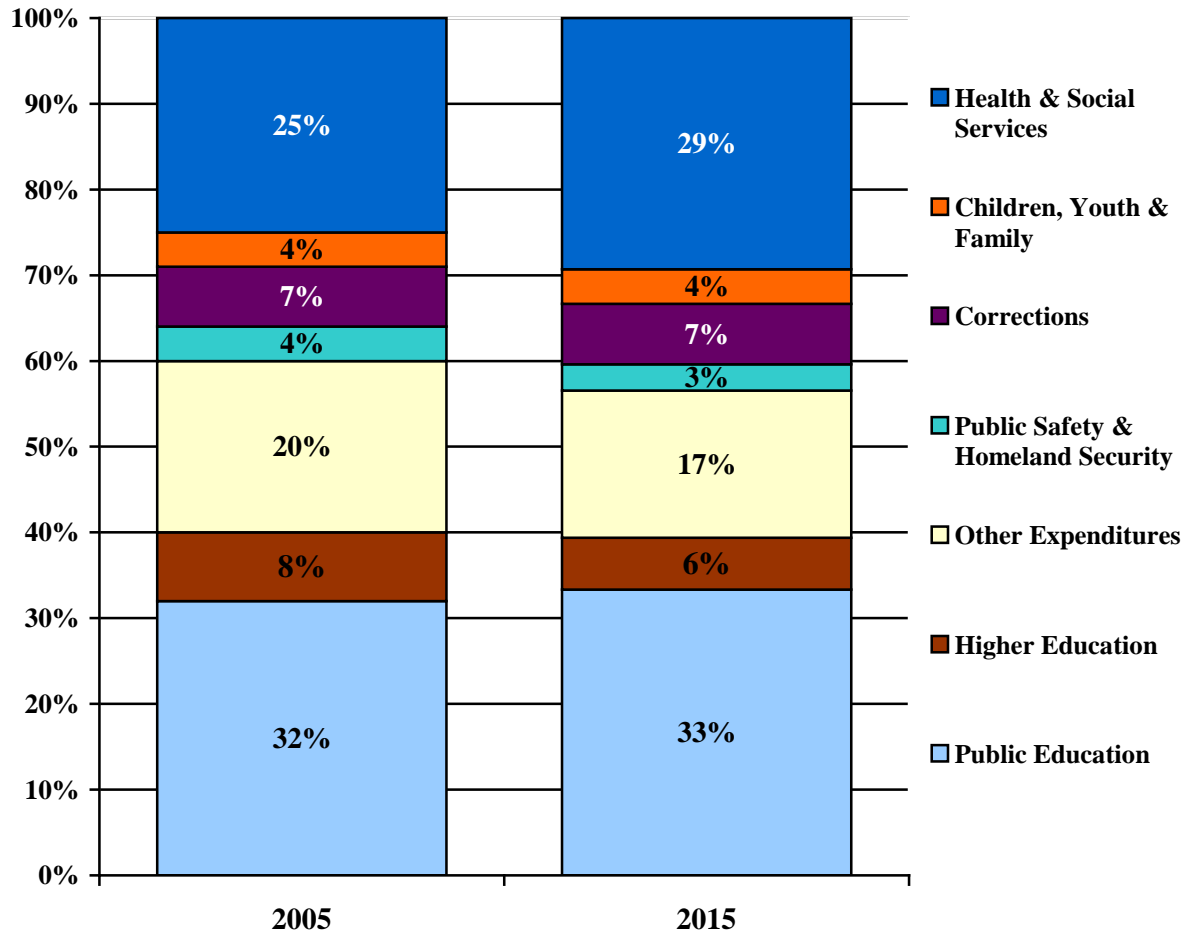
SOURCES



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

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

USES



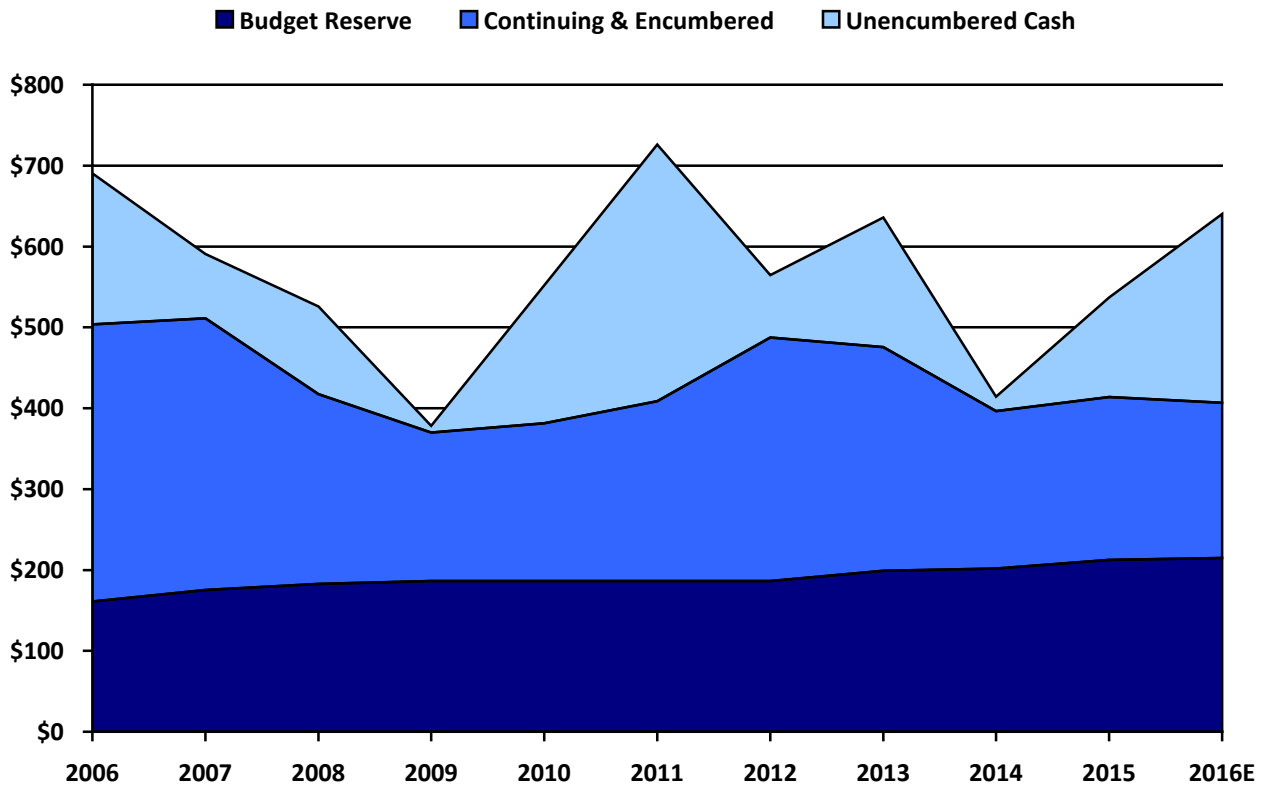
(1) Other uses include administrative services, fire prevention, National Guard, natural resources and environmental control, other elective offices, legislative and executive branches, and agriculture.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

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 2006 to fiscal year 2016E.

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



[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

FISCAL YEAR ENDED JUNE 30, 2014

The State ended fiscal year 2014 with a cumulative cash balance of \$414.4 million. This balance represented 10.9% of the State's total expenditures for the year. The Budget Reserve Account remained fully funded for the fiscal year, totaling \$201.7 million. An additional \$194.8 million was set aside for continuing and encumbered appropriations resulting in an unencumbered cash balance on June 30, 2014 of \$18.0 million.

Revenue

Net budgetary General Fund revenue for fiscal year 2014 totaled \$3,572.7 million, a decrease of 4.2% from fiscal year 2013.

Personal income taxes, after refunds were \$1,187.7 million, a 4.2% increase over fiscal year 2013.

Franchise and Limited Partnership/LLC taxes, after refunds, were \$814.6 million, a 4.9% increase over fiscal year 2013.

Business entity fees were \$96.0 million, a 6.9% increase over fiscal year 2013

Corporate income taxes, after refunds, were \$102.0 million, a 45.7% decrease from fiscal 2013 primarily due to a significant increase in refund disbursements. Before refunds, the decrease in corporate income taxes was 14.7%.

Bank franchise taxes were \$102.7 million, a 0.8% decrease from fiscal year 2013.

Business and occupational gross receipts taxes were \$226.5 million, a 0.1% increase over fiscal year 2013.

Lottery revenue was \$214.6 million, an 8.8% decrease from fiscal year 2013.

Abandoned property revenue was \$474.9 million, a 16.2% decrease from fiscal year 2013.

Expenditures

Budgetary General Fund expenditures for fiscal year 2014 totaled \$3,794.1 million, an increase of 3.7% over fiscal year 2013. The fiscal year 2014 budgetary General Fund operating budget totaled \$3,718.2 million, a 3.7% increase over the fiscal year 2013 operating budget. Cash appropriations of \$60.9 million included in the capital budget and grants-in-aid appropriations of \$44.8 million brought total fiscal year 2014 appropriations to \$3,823.8 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 2014.

Budgetary General Fund Balances - Fiscal Year 2014
(in millions)

Revenue	\$3,572.7
Expenditures	
Budget	\$3,718.2
Grants	44.8
Supplemental.....	60.9
Total appropriations	\$3,823.8
Continued and encumbered (prior years)	276.5
Total spending authorizations	\$4,100.2
Less: Continued and encumbered (present year)	(194.8)
Less: Reversions	<u>(111.3)</u>
Total expenditures.....	<u>\$ 3,794.1</u>
Operating balance.....	(221.5)
Prior year cash balance.....	<u>635.9</u>
Cumulative cash balance.....	\$ 414.4
Less: Continued and encumbered (present year)	(194.8)
Less: Budget Reserve Account	<u>(201.7)</u>
Unencumbered cash balance.....	<u>\$ 18.0⁽¹⁾</u>

(1) Totals may not add due to rounding.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

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 refund disbursements.

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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

FISCAL YEAR ENDING JUNE 30, 2016

Based upon the December 21, 2015 DEFAC revenue forecasts, net budgetary General Fund revenue for fiscal year 2016 is projected to total \$4,039.0 million, a 2.2% increase over fiscal year 2015 revenue.

Revenue

Personal income taxes, after refunds, are projected to total \$1,306.8 million, a 4.4% increase over fiscal year 2015.

Franchise and Limited Partnership/LLC taxes, after refunds, are expected to be \$952.5 million, a 4.6% increase over fiscal year 2015.

Business entity fees are projected to be \$108.3 million, an 8.5% increase over the previous fiscal year.

Corporate income taxes, after refunds, are expected to be \$205.0 million, a 23.9% decrease from fiscal year 2015.

Bank franchise taxes are projected to be \$88.3 million, a 13.5% decrease from fiscal year 2015.

Business and occupational gross receipts taxes are projected to be \$230.0 million, a 3.0% increase over fiscal year 2015.

Lottery revenue is expected to be \$208.5 million, a 3.1% increase over fiscal year 2015.

Abandoned property revenue is projected to total \$554.0 million, a 7.8% increase from fiscal year 2015. 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 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 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	\$4,039.0 ⁽¹⁾
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)	(192.2)
Less: Reversions	(25.0)
Total expenditures.....	<u>\$ 3,935.6</u>
Operating balance.....	103.4
Prior year cash balance.....	<u>536.9</u>
Cumulative cash balance.....	\$640.3
Less: Continued and encumbered (present year)	(192.2)
Less: Budget Reserve Account	(214.8)
Unencumbered cash balance.....	<u>\$233.4</u> ⁽²⁾

(1) Revenue estimates per DEFAC's December 21, 2015 forecast.
(2) Totals may not add due to rounding.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

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. The size of payments to Delaware is 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, 2015, approximately \$439.3 million has been received by the State from participating manufacturers. At June 30, 2015, the balance in the Delaware Health Fund was \$2.1 million, a portion of which was appropriated through the fiscal year 2016 budget process to various health related programs.

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 2015, the General Assembly authorized appropriations of \$3,951.5 million for fiscal year 2016, 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. Transfers of \$214.8 million have been made which fully funded the Budget Reserve Account for fiscal year 2016. 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
Thomas J. Cook	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 first 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 taxable income of \$200,000 or more in any of the last three years must pay 80% of their current year's estimated tax on a current basis.

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.

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 82 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), 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 sports lottery.

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; or 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. In addition, for those lost owners with a last known address that is in a state that does not have an applicable statute for the type of property being reported, the unclaimed property is reported to the state of incorporation of the holder.

It is forecast that abandoned property will generate revenues of \$554 million in fiscal year 2016. The fiscal year 2017 forecast indicates an \$84 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.

Claims have been presented by 20 states that allege that Delaware improperly accepted certain abandoned property that should have been escheated to those other states. Delaware has undertaken a review of those states’ claims to determine their validity. Until this review is completed, the State is unable to estimate the dollar amount of claims that may be honored. One of these 20 states, Pennsylvania, filed suit against Delaware in the District Court for the Middle District of Pennsylvania on February 26, 2016, alleging that Delaware owes Pennsylvania approximately \$10 million based upon the same claims previously disclosed to Delaware.

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, 2011 through 2015. 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 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015
Salaries.....	\$1,200.1	\$1,277.4	\$1,285.6	\$1,306.8	\$1,338.5
Debt Service.....	169.5	144.3	144.8	158.0	163.9
Contractual Services	434.5	455.1	484.0	517.3	512.1
Fringe Benefits, except Pensions ..	365.4	379.5	379.0	396.1	402.9
Pensions	222.2	252.9	271.9	285.8	287.0
Welfare and Assistance Grants	466.2	637.3	637.1	661.8	682.5
Other Grants.....	327.3	364.1	372.8	379.6	363.1
Other	<u>85.5</u>	<u>81.8</u>	<u>83.3</u>	<u>88.7</u>	<u>82.6</u>
Total Disbursements	<u>\$3,270.7</u>	<u>\$3,592.4</u>	<u>\$3,658.5</u>	<u>\$3,794.1</u>	<u>\$3,832.6</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 2014, the State provided 59.0%, the federal government 10.0% and localities 31.0% of the cost for current operations and debt service. For fiscal year 2012, the U.S.

Department of Education, National Center for Educational Statistics, Institute for Education Sciences reported that Delaware was exceeded by eight 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 2014-2015 school year, the average State-local funded classroom teacher’s salary was \$60,207, of which \$39,516 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 2015 totaled \$1,277.8 million. Appropriations of \$1,305.1 million have been made for fiscal year 2016.

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

(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 60,333 students in the 2014-2015 academic school year based upon Fall 2014 student headcount (46,271 on a full-time equivalent (“FTE”) basis). The three State-supported institutions are Delaware Technical and Community College which enrolled 13,935 students (8,678 FTE); Delaware State University, a land grant college located in the City of Dover which enrolled approximately 4,397 students (4,021 FTE); and the University of Delaware, a land grant college located in the City of Newark, which enrolled 22,680 students (21,280 FTE). The five privately supported institutions of higher education in the State enrolled an additional 19,021 students in 2014-2015 (12,292 FTE).

Budgetary General Fund expenditures for higher education in fiscal year 2015 were \$232.6 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 15.0% of the budget of Delaware State University. Appropriations of \$230.0 million have been made for fiscal year 2016, including \$118.6 million

for the University of Delaware (this includes \$1.9 million in funding for Delaware Geological Survey), \$76.6 million for Delaware Technical and Community College and \$34.6 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; (4) food benefits through the federal Supplemental Nutritional Assistance Program (“SNAP”); and (5) direct medical assistance to qualifying individuals (“Medicaid” & “CHIP”).

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.

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, 2015) is 53.63%. The FFP rate expected to become effective on October 1, 2016 is 54.83%.

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. GA program grants are entirely funded by the State. This program has experienced consistent growth since 2003. As of October 2015, the payment standard for the GA program is \$81 a month per single-person family.

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 through the budgetary General Fund.

After a period of gradual decline, the TANF caseload increased 29% between 2009 and 2011. Since 2012, the TANF caseload is again 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. In 2015, an average of 10,741 people per month received TANF cash assistance and 4,875 people per month received GA for 15,616 combined average monthly recipients.

Since fiscal year 2008, welfare caseloads and income maintenance expenditures increased, driven by a dramatic increase in applications for SNAP and medical assistance. While the TANF caseload declined slightly beginning in 2012, the GA caseload continues to increase as well as SNAP and Medicaid. The following table indicates the trends of selected State social services expenditures for fiscal year 2010 through fiscal year 2015.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

Social Services Expenditures
(dollars in millions)

	<u>Fiscal</u> <u>2010</u>	<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>
TANF						
Number of Recipients/month	13,027	14,537	13,969	11,895	11,120	10,741
Total Expenditures/year	\$21.8	\$22.4	\$20.8	\$19.6	\$18.6	\$17.14
State Share.....	\$16.3	\$13.9	\$19.9	\$18.7	\$15.1	\$17.14
GENERAL ASSISTANCE						
Number of Recipients/month	3,739	3,964	4,369	4,458	4,953	4,875
Total Expenditures/year	\$5.2	\$4.4	\$4.4	\$4.8	\$5.2	\$5.4
State Share.....	\$5.2	\$4.4	\$4.4	\$4.8	\$5.2	\$5.4
SSI						
Number of State Subsidized Recipients/month.....	830	815	820	609	608	546
State Share.....	\$1.1	\$1.0	\$0.9	\$0.9	\$0.9	\$0.8
FOSTER CARE (DSCYF)						
Number of Children/month	640	627	661	638	562	545
Total Expenditures/year	\$16.5	\$16.9	\$17.3	\$17.6	\$17.8	\$16.8
State Share.....	\$13.5	\$13.6	\$14.7	\$14.9	\$15.5	\$14.2
DAY CARE						
Number of Children/month	13,668	14,459	14,609	14,765	14,063	14,303
Total Expenditures/year	\$38.5	\$53.2	\$61.4	\$65.3	\$63.3	\$62.7
State Share.....	\$10.9	\$10.9	\$24.0	\$31.4	\$30.4	\$29.5
MEDICAID						
Number of Eligibles/month	173,771	193,633	207,067	212,693	217,658	224,198
Total Expenditures/year	\$1,315.5	\$1,424.0	\$1,552.2	\$1,618.4	\$1,620.1	\$1,834.3
State Share.....	\$505.3	\$550.9	\$700.6	\$713.7	\$750.1	\$730.1
COMMUNITY HEALTH						
State Expenditures/year.....	\$33.5	\$33.8	\$33.8	\$34.8	\$33.1	\$34.3

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

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 \$18.6 million in fiscal year 2014, \$19.7 million in fiscal year 2015 and has budgeted \$20.7 million for fiscal year 2016. The Department served 23,155 clients in fiscal year 2015 some of which were shared by each of the three divisions. The Family Services division spent \$49.9 million in fiscal year 2014, \$51.0 million in fiscal year 2015 and has budgeted \$51.5 million in fiscal year 2016. 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 \$39.6 million in fiscal year 2014, \$40.1 million in fiscal 2015 and has budgeted \$42.2 million for fiscal year 2016. The Division of Prevention and Behavioral Health Services (“DPBHS”) provides mental health services for children and youth. The DPBHS spent \$41.4 million in fiscal year 2014, \$38.3 million in fiscal 2015 and has budgeted \$40.6 million for fiscal year 2016.

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 2015 were \$282.8 million. The budget for fiscal year 2016 is \$284.0 million. As of September 2015, the incarcerated population in the custody of the Department was approximately 6,711, of which about 5,258 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, 2015.

Real Property Valuations
(in millions)

<u>County</u>	<u>Assessed Valuation</u> ⁽¹⁾	<u>Estimated Full Valuation</u>
New Castle.....	\$ 19,006.2 ⁽²⁾	\$59,334.5
Kent.....	3,739.9 ⁽³⁾	27,170.4
Sussex	<u>3,093.1</u> ⁽⁴⁾	<u>34,163.9</u>
 Total	 <u>\$25,839.2</u>	 <u>\$120,668.8</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, 2015, the Unemployment Compensation Fund reflected a net balance available for the payment of benefits of \$57.4 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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

Ratio of Federal Funds Expended by Department

	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>
Health & Social Services	57.2%	60.1%	59.6%	63.4%	66.1%	68.2%
Transportation	13.0%	10.9%	12.0%	12.1%	10.6%	11.3%
Public Education	13.1%	13.2%	13.8%	11.9%	10.9%	10.1%
Housing Authority	3.9%	1.0%	0.6%	0.1%	0.1%	0.0%
Labor	2.3%	2.4%	2.5%	2.4%	2.1%	2.1%
Higher Education	3.1%	4.3%	4.1%	3.6%	3.4%	2.7%
Natural Resources	2.3%	3.0%	2.6%	2.2%	2.8%	2.0%
Other	<u>5.1%</u>	<u>5.1%</u>	<u>4.8%</u>	<u>4.3%</u>	<u>4.0%</u>	<u>3.5%</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 2016. Additional catch-up contributions are permitted for participants age 50 and older, who may contribute an additional \$6,000 in calendar year 2016. 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 broad menu of investment options made available through the plan vendor, which range from ultra conservative to very aggressive. The total market value of plan assets as of March 31, 2015 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 2014, and remained suspended for fiscal year 2015.

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 2016. Additional catch-up contributions are permitted for participants age 50 and older, who may contribute an additional \$6,000 in calendar year 2016. 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 broad menu of investment options, including annuities and fund investments ranging from ultra conservative to very aggressive, made available through 13 plan vendors. The total market value of plan assets as of March 31, 2015 was approximately \$361.7 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, 2015, 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>	Active <u>Participants</u>	Total <u>Membership</u>
State Employees’ Plan	24,356	3,374	35,825	63,555
New State Police Plan	185	12	695	892
Judiciary Plan	48	--	55	103
Closed State Police Plan	520	--	--	520
Special Plan	<u>9</u>	<u>--</u>	<u>--</u>	<u>9</u>
Total Membership:	25,118	3,386	36,575	65,079

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
 Thomas J. Cook Secretary of Finance
 Ann S. Visalli..... 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 2015 was 3.9% on a market value basis compared to 7.4% 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 6.4%. Below is a table depicting one-year and five-year returns from fiscal year 1995 through fiscal year 2015, inclusive.

Fiscal Year	One Year RETURN	Five Year RETURN
1995	19.1%	11.1%
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%

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, 2015, 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, 2015, determined the State Employees' Plan to have a funded ratio of 91.5% based on the actuarial value of the assets and 92.9% 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 \$665.3 million as of June 30, 2015 on market value. A Schedule of Funding Progress for the State Employees' Plans is shown below. See Schedule 2 – Schedule of Net Pension Liability in the Financial Section of the Delaware Public Employees' Retirement System Comprehensive Annual Financial Report for fiscal year 2015 for the funding progress of the New State Police Plan, the Judiciary Plan, the Closed State Police Plan and the Special Plan.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

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) (2) - (1)	(4) Funded Ratios (1)/(2)	(5) Annualized Covered Payroll	(6) UAAL as a % of Covered Payroll (3)/(5)
2015	\$ 8,289,879	\$ 9,051,033	\$ 761,154	91.5%	\$ 1,911,643	39.8%
2014	8,067,032	8,740,071	673,639	92.2%	1,902,292	35.3%
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
2015	\$178,293	100.0%	\$3,832.6	4.7%	9.3%
2014	174,863	100.0%	3,794.1	4.6%	9.1%
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 2013.

State Employees' Pension Plan
(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>
Income					
Employee Contributions	\$ 46.4	\$ 47.9	\$ 50.6	\$ 52.8	\$ 55.8
State Contributions ⁽¹⁾ (budgetary General Fund and budgetary Special Funds).....	141.6	155.6	186.5	201.8	210.9
Investment Income	1,391.2	112.7	736.1	1,254.6	299.8
Total Income	\$1,579.2	\$316.2	\$973.2	\$1,509.2	\$566.5
Disbursements					
Pension Benefits Paid	\$418.5	\$443.9	\$478.0	\$501.0	\$529.6
Refunds	3.0	4.0	3.6	3.6	5.2
Other Disbursements.....	9.9	10.4	10.9	10.4	12.1
Total Disbursements	\$431.4	\$458.3	\$492.5	\$515.0	\$546.9
Excess of Income over Disbursements.....	\$1,147.8	(\$142.1)	\$480.7	\$994.2	\$19.6
Total Plan Assets.....	\$7,056.9	\$6,914.8	\$7,395.5	\$8,389.7	\$8,409.3

⁽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	Level Percent Closed for Plan Bases and Open for Aggregate Gain/Loss
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.

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 (market <u>value</u>)
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, 2015, \$33.5 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, 2015, these post-retirement increases have outstanding liabilities totaling \$99.0 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 is 2.07%

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/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, 2015, has been determined to be about \$6.32 billion using a discount rate of 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. Payroll contributions for fiscal 2016 are expected to be about \$17.5 million.

The State has established an irrevocable trust and, at June 30, 2015, has accumulated \$312 million in assets resulting in a funding ratio of 4.9%. At a 4.25% discount rate, the State's fiscal year 2016 annual required contribution ("ARC") is \$425.6 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 \$205.0 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 31,885.6 full-time equivalent ("FTE") positions budgeted for fiscal year 2016, an increase of 96.0 FTEs from fiscal year 2015. This includes 14,382.6 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 16,359.0 FTE positions in all other departments.

Since July 1966, virtually all State employees have had the right to organize for the purpose of collective bargaining. 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 non-merit system employees, such bargaining may include all terms and conditions of employment, including wages, hours and benefits. With respect to the merit system employees, individual bargaining units may not bargain wages, most benefits, classification plans or hiring practices. Effective on August 2, 2007, Senate Bill 36 permits merit system employees to negotiate 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 are not negotiable. These agreements are subject to approval by the Governor and binding to the extent sufficient appropriations are made by the General Assembly. At present, approximately 8,000 of the State's merit system employees are organized 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	Jack A. Markell
Lieutenant Governor	Vacant
Attorney General	Matthew Denn
State Treasurer	Kenneth A. Simpler
State Auditor	R. Thomas Wagner, Jr.
Insurance Commissioner	Karen Weldin Stewart

Cabinet Positions and Other Appointed Officials

Agriculture	Edwin Kee
Correction	Robert Coupe
Delaware Economic Development Office.....	Bernice Whaley
Education	Dr. Steven Godowsky
Finance.....	Thomas J. Cook
Health and Social Services	Rita Landgraf
Housing.....	Anas Ben-Addi
Labor	Patrice Gilliam-Johnson
Management and Budget.....	Ann Visalli
National Guard.....	Francis D. Vavala
Natural Resources and Environmental Control.....	David Small
Safety and Homeland Security	Lewis Schiliro
Services for Children, Youth and Their Families.....	Carla Benson-Green
State.....	Jeffrey W. Bullock
Technology and Information	James Collins
Transportation.....	Jennifer Cohan

LITIGATION

The State recognized \$1.1 million in governmental activities as probable litigation expenses as of June 30, 2015. 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, and automobile accident claims. Although the State believes it has valid defenses to these actions, the State has identified a potential aggregate exposure which could exceed \$19.8 million, as of January 14, 2016.

In addition to the types of cases mentioned in the preceding paragraph, two matters relating to abandoned property are ongoing in the U.S. District Court for the District of Delaware. In both cases, the plaintiffs have challenged the use of a statistical model used by the Delaware Department of Finance to estimate obligations under Delaware’s Abandoned and Unclaimed Property Law as a violation of the federal constitution. In the earlier-filed case, summary judgment motions have been filed by both sides, with a hearing on the cross-motions scheduled for March 16, 2016. While the State would not be required to make payments to either plaintiff if the court ruled in favor of either plaintiff, there may be a future decrease in abandoned property revenues as a result. DEFAC has accounted for this prospect 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 effect 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 (including accrued original issue discount) on the 2016A Bonds and interest on the 2016C 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 2016A and the 2016C 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 2016A Bonds and the 2016C 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 2016A Bonds and the 2016C 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.

In the opinion of Bond Counsel, interest on the 2016B Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, except as to interest on any 2016B Bond during any period such 2016B Bond is held by a person who is a “substantial user” of the facilities financed with the 2016B Bond proceeds or a “related person,” as those terms are used in Section 147(a) of the Code. The opinion of Bond Counsel is further 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 2016B 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 2016B Bonds is treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations. 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 Original Issue Discount and Amortizable Bond Premium” below.

Under Treasury Regulation Section 1.150-1(c)(3), the State has the ability to treat bonds that would otherwise be treated as one issue as separate issues for certain purposes of the Code if a particular series could otherwise qualify as a separate tax-exempt bond issue. The 2016A Bonds and the 2016C Bonds are being treated as an issue separate and apart from the 2016B Bonds for certain purposes of the Code; that is, the 2016A Bonds and the 2016C Bonds are being treated as traditional governmental bonds and the 2016B Bonds are being treated as qualified exempt facility bonds to provide port facilities under Section 142(a)(2) of the Code. Under Treasury Regulation Section 1.150-1(c)(3), however, the Bonds may not be treated as separate issues for certain provisions of the Code, including those provisions relating to general arbitrage and

arbitrage rebate. With respect to the 2016B Bonds, failure of the State to comply with certain of the programmatic requirements relating to qualified exempt port facility bonds under Section 142(a)(2) of the Code and the applicable Treasury Regulations and rulings thereunder could cause the interest on the 2016B Bonds to be includable in gross income of the 2016B Bondholders retroactive to the date of issuance of the 2016B Bonds, but may not cause the interest on the 2016A Bonds or the 2016B Bonds to be so includable in the gross income of those Bondholders as a result of the treatment of the 2016B Bonds as a separate issue under Treasury Regulation Section 1.150-1(c)(3).

Alternative Minimum Tax

With respect to the 2016A Bonds and the 2016C 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 2016A Bonds and the 2016C 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.

With respect to the 2016B Bonds, interest on the 2016B Bonds is treated as an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations under Section 57 of the Code and the interest on the 2016B Bonds may be included in "adjusted current earnings" for purposes of computing the alternative minimum tax applicable to corporations.

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 Original Issue Discount and Amortizable Bond Premium

The 2016A Bonds maturing on March 1 in the years 2028, 2035 and 2036 are herein referred to as the "Discount Bonds." In the opinion of Co-Bond Counsel, the difference between the initial public offering price of the Discount Bonds set forth on the cover page and the stated redemption price at maturity of each such 2016A Bonds constitutes "original issue discount," all or a portion of which will, on the disposition or payment of such Bonds, be treated as tax-exempt interest for federal income tax purposes. Original issue discount will be apportioned to an owner of the Discount Bonds under a "constant interest method," which utilizes a periodic compounding of accrued interest. If an owner of a Discount Bond who purchases it in the original offering at the initial public offering price owns that Discount Bond to maturity, that Bondholder will not realize taxable gain for federal income tax purposes upon payment of the Discount Bond at maturity. An owner of a Discount Bond who purchases it in the original offering at the initial public offering price and who later disposes of the Discount Bond prior to maturity will be deemed to have accrued tax-exempt income in a manner described above; amounts realized in excess of the sum of the original offering price of such Discount Bond and the amount of accrued original issue discount will be taxable gain.

Purchasers of Discount Bonds should consider possible state and local income, excise or franchise tax consequences arising from original issue discount on the Discount Bonds. Prospective purchasers of the Discount Bonds should consult their tax advisors regarding the Delaware tax treatment of original issue discount.

The 2016A Bonds maturing on March 1 in the years 2019 through 2027, inclusive, and in the years 2029 through 2034, inclusive, all of the 2016B Bonds and all of the 2016C 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, 2015 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, 2015 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/2015cafr.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 2016A Bonds are being purchased by Morgan Stanley & Co. LLC, as representative of a group of underwriters (the "2016A Underwriters"). The 2016A Underwriters have agreed to purchase said Bonds at a purchase price of \$203,500,291.86 (which is equal to the aggregate principal amount of \$180,385,000.00 plus net original issue premium of \$23,442,203.60 less underwriters' discount of \$326,911.74). The 2016A Underwriters' obligation to make such purchase is subject to the approval of certain legal matters by Bond Counsel and certain other conditions.

The 2016B Bonds are being purchased by J.P. Morgan Securities LLC, as representative of a group of underwriters (the "2016B Underwriters"). The 2016B Underwriters have agreed to purchase said Bonds at a purchase price of \$21,505,088.76 (which is equal to the aggregate principal amount of \$20,220,000.00 plus original issue premium of \$1,298,442.05 less underwriters' discount of \$13,353.29). The 2016B Underwriters' obligation to make such purchase is subject to the approval of certain legal matters by Bond Counsel and certain other conditions.

The 2016C Bonds are being purchased by Bank of America Merrill Lynch, as representative of a group of underwriters (the "2016C Underwriters," and together with the 2016A Underwriters and the 2016B Underwriters, the "Underwriters"). The 2016C Underwriters have agreed to purchase said Bonds at a purchase price of \$43,085,734.45 (which is equal to the aggregate principal amount of \$35,455,000.00 plus original issue premium of \$7,802,691.20 less underwriters' discount of \$171,956.75). The 2016C Underwriters' obligation to make such purchase is subject to the approval of certain legal matters by Bond Counsel and certain other conditions.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC., an underwriter of the 2016A Bonds, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2016A Bonds.

The Underwriters for each series of Bonds reserve the right to change the initial prices of the respective series of Bonds in connection with the marketing of such 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.

Each of 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. Each of 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, each of 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. Each of 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.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of the mathematical computations of (i) the adequacy of the maturing principal of and interest earned on the escrow securities together with other available funds held in the escrow account, to provide for the payment of the Refunded Bonds; and (ii) the “yield” on the escrow securities and on the Bonds, will be examined by PFM Asset Management LLC.

The computations will be based upon information and assumptions supplied by the financial advisor on behalf of the State. PFM Asset Management LLC has restricted its procedures to examining the arithmetical accuracy of the computations and has not evaluated or audited the assumptions or information used in the computations. PFM Asset Management LLC is an affiliate of the Financial Advisor and part of The PFM Group.

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 effect 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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

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

JACK A. MARKELL,
Governor

THOMAS J. COOK,
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 2011 through 2015**

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

	Fiscal Years Ended June 30				
	<u>2011⁽¹⁾</u>	<u>2012⁽¹⁾</u>	<u>2013⁽¹⁾</u>	<u>2014⁽¹⁾</u>	<u>2015⁽¹⁾</u>
Receipts					
Tax Revenue					
Personal Income.....	\$1,175,933	\$1,231,722	\$1,318,915	\$1,384,985	\$1,444,278
Franchise.....	614,486	611,812	605,594	625,643	675,490
Corporation Income	221,181	149,012	205,696	175,514	305,226
Gross Receipts	201,104	233,358	226,254	226,524	223,411
Public Utility.....	57,174	45,351	44,481	47,445	47,190
Cigarette	129,105	120,848	115,190	114,657	102,696
Pari-Mutual.....	110	96	80	80	72
Inheritance and Estate.....	16,165	12,001	5,298	1,272	5,846
Realty Transfer	44,054	31,598	42,255	60,348	73,590
Alcoholic Beverage.....	16,883	17,654	18,412	19,617	20,710
Insurance Taxes	62,881	63,398	53,942	52,962	54,815
Bank Franchise	119,739	112,541	103,531	102,695	95,002
All Other.....	<u>595,046</u>	<u>495,753</u>	<u>758,394</u>	<u>682,874</u>	<u>770,312</u>
Total Taxes.....	3,253,861	3,125,144	3,498,042	3,494,616	3,818,638
Revenue Refunds.....	<u>291,815</u>	<u>264,557</u>	<u>235,400</u>	<u>357,952</u>	<u>321,844</u>
Net Taxes.....	2,962,046	2,860,587	3,262,642	3,136,664	3,496,794
Other Revenue					
Fees	124,567	126,699	132,807	140,702	148,712
Interest Earnings	8,867	10,648	6,295	2,866	2,926
Sales ⁽²⁾	357,561	334,320	295,075	263,750	248,659
Grants, Donations & Special Income	91	-	-	283	65
Licenses	17,447	12,272	19,508	13,572	21,426
Other Revenue.....	4,186	5,832	5,404	4,687	3,851
Non-revenue and Transfers	<u>56,652</u>	<u>8,937</u>	<u>8,020</u>	<u>10,131</u>	<u>32,694</u>
Total Other Revenue.....	569,371	498,708	467,109	435,991	458,333
Total Receipts	<u>\$3,531,417</u>	<u>\$3,359,295</u>	<u>\$3,729,751</u>	<u>\$3,572,655</u>	<u>\$3,955,127</u>
Disbursements					
Legislative	\$ 12,047	\$ 13,149	\$ 13,286	\$ 14,351	\$ 14,684
Judicial	90,445	95,256	91,403	93,783	92,720
Executive	124,161	144,678	134,492	133,490	148,928
Technology and Information	36,292	35,462	41,300	38,479	38,700
Other Elective Offices.....	190,261	168,666	170,891	185,240	190,710
Legal	44,051	49,638	52,629	56,014	55,634
Dept. of State.....	26,653	28,037	23,889	24,994	23,824
Dept. of Finance.....	21,092	18,939	20,358	34,081	22,308
Dept. of Health & Social Services.....	834,901	1,055,134	1,061,885	1,087,203	1,096,818
Dept. of Children, Youth & Their Families...	120,678	134,493	141,895	149,517	149,053
Dept. of Correction.....	245,402	262,307	264,989	273,474	282,769
Dept. of Natural Resources & Env. Control ..	42,585	41,766	44,602	49,598	41,600
Dept. of Safety & Homeland Security.....	126,594	137,524	144,288	145,584	131,766
Dept. of Transportation.....	14,000	-	-	-	-
Dept. of Labor	6,522	7,239	7,886	8,965	9,106
Other	<u>23,370</u>	<u>21,629</u>	<u>24,058</u>	<u>22,150</u>	<u>23,544</u>
Total Departments	1,959,054	2,213,917	2,237,851	2,316,923	2,322,164
Higher Education	220,023	222,656	226,714	234,645	232,637
Public Education	<u>1,091,673</u>	<u>1,155,825</u>	<u>1,193,976</u>	<u>1,242,567</u>	<u>1,277,809</u>
Total Education	1,311,696	1,378,481	1,420,690	1,477,212	1,510,446
Total Disbursements	<u>\$3,270,750</u>	<u>\$3,592,398</u>	<u>\$3,658,541</u>	<u>\$3,794,135</u>	<u>\$3,832,610</u>
Receipts Over (Under) Disbursements	260,667	(233,103)	71,210	(221,480)	122,517
Cash Balance-Beginning of Period	537,104	797,771	564,668	635,878	414,398
General Fund Advances to Other Funds	-	-	-	-	-
Cash Balance	<u>\$ 797,771</u>	<u>\$ 564,668</u>	<u>\$ 635,878</u>	<u>\$ 414,398</u>	<u>\$ 536,915</u>

(1) Unaudited. The State has audited GAAP financial statements for the fiscal years ending June 30, 2011 through June 30, 2015.

(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>2011</u>⁽¹⁾	<u>2012</u>⁽¹⁾	<u>2013</u>⁽¹⁾	<u>2014</u>⁽¹⁾	<u>2015</u>⁽¹⁾
Receipts					
Taxes					
Insurance	\$ 31,223	\$ 21,857	\$ 27,088	\$ 30,152	\$ 36,020
Local School Property	402,552	474,829	506,850	536,160	544,138
All Other	<u>341,242</u>	<u>382,675</u>	<u>281,771</u>	<u>247,251</u>	<u>258,477</u>
Total Taxes	<u>775,017</u>	<u>879,361</u>	<u>815,709</u>	<u>813,563</u>	<u>838,635</u>
Other Revenue					
Federal Grants and Reimbursements	1,478,960	1,836,862	1,836,012	1,940,496	2,121,662
Pension Fund Receipts	209,888	238,767	249,552	267,072	251,373
Interest Earnings	11,178	21,104	10,720	9,866	10,707
All Other	<u>857,267</u>	<u>390,504</u>	<u>452,853</u>	<u>505,633</u>	<u>511,982</u>
Total Other Revenue	<u>2,557,293</u>	<u>2,487,237</u>	<u>2,549,137</u>	<u>2,723,067</u>	<u>2,895,724</u>
Non-Revenue and Transfer					
Sale of Bonds	269,862	257,391	247,669	248,626	260,811
Receipts from Pension Fund	497,978	477,541	522,921	563,365	547,523
All Other	<u>329,243</u>	<u>1,046,607</u>	<u>1,078,799</u>	<u>1,112,122</u>	<u>1,202,339</u>
Total Non-Revenue and Transfer	<u>1,097,083</u>	<u>1,781,539</u>	<u>1,849,389</u>	<u>1,924,113</u>	<u>2,010,673</u>
Total Receipts	4,429,393	5,148,137	5,214,235	5,460,743	5,745,032
Total Disbursements	<u>4,347,718</u>	<u>5,085,043</u>	<u>5,267,578</u>	<u>5,455,581</u>	<u>5,614,068</u>
Receipts Over (Under) Disbursements	81,675	63,094	(53,343)	5,162	130,964
Operating Cash Balance-Beginning of Period ...	<u>1,277,667</u>	<u>1,398,763</u>	<u>1,526,992</u>	<u>1,430,695</u>	<u>1,355,397</u>
Operating Cash Balance-End of Period	<u>\$1,359,342</u>	<u>\$1,461,857</u>	<u>\$1,473,649</u>	<u>\$1,435,857</u>	<u>\$1,486,361</u>
Other Cash					
Payables ⁽²⁾	39,421	65,135	(42,954)	(80,460)	(83,888)
Cash Balance	<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>

- (1) Unaudited. The State has audited GAAP financial statements for the fiscal years ending June 30, 2011 through June 30, 2015.
(2) Payroll withholdings are no longer considered a State budgetary Special Fund. They are a General Ledger liability entry starting in fiscal 1987.

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>2011</u>⁽¹⁾	<u>2012</u>⁽¹⁾	<u>2013</u>⁽¹⁾	<u>2014</u>⁽¹⁾	<u>2015</u>⁽¹⁾
Receipts					
Net Taxes	\$ 3,737,064	\$ 4,004,507	\$ 4,078,352	\$ 3,950,227	\$ 4,335,429
Interest Earnings.....	20,053	31,752	17,015	12,732	13,633
Grants, Donations and Special Income.....	1,433,101	1,791,868	1,788,677	1,918,380	2,062,623
Licenses.....	29,987	18,933	28,143	20,877	31,298
Fees	537,145	606,463	606,418	639,710	673,459
Sales	449,671	430,130	415,471	391,092	380,409
Other Revenue.....	<u>563,521</u>	<u>599,758</u>	<u>640,289</u>	<u>688,658</u>	<u>712,386</u>
Total Revenue	6,806,542	7,483,411	7,574,365	7,621,676	8,209,237
Non-Revenue and Transfers.....	<u>1,154,269</u>	<u>1,288,578</u>	<u>1,369,621</u>	<u>1,411,722</u>	<u>1,490,922</u>
Total Receipts	7,960,811	8,771,989	8,943,986	9,033,398	9,700,159
Total Disbursements.....	<u>7,618,468</u>	<u>8,941,998</u>	<u>8,926,119</u>	<u>9,249,716</u>	<u>9,446,678</u>
Receipts Over (Under) Disbursements	342,343	(170,009)	17,867	(216,318)	253,481
Cash Balance-Beginning of Period.....	1,814,771	2,196,534	2,091,660	2,066,573	1,769,795
General Fund Advances to Other Funds.....	-	-	-	-	-
Operating Cash Balance-End of Period.....	<u>\$2,157,114</u>	<u>\$2,026,525</u>	<u>\$2,109,527</u>	<u>\$1,850,255</u>	<u>\$2,023,276</u>
Other Cash					
Payables ⁽²⁾	39,421	65,135	(42,954)	(80,460)	(83,888)
Cash Balance	<u>\$2,196,535</u>	<u>\$2,091,660</u>	<u>\$2,066,573</u>	<u>\$1,769,795</u>	<u>\$1,939,388</u>

- (1) Unaudited. The State has audited GAAP financial statements for the fiscal years ending June 30, 2011 through June 30, 2015.
 (2) Payroll withholdings are no longer considered a State budgetary Special Fund. They are a General Ledger liability entry starting in fiscal 1987.

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

APPENDIX B

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

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 be 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
\$306,870,000 General Obligation Bonds - Series 2014B

SUPPLEMENT TO CONTINUING DISCLOSURE AGREEMENT

This Supplement to Continuing Disclosure Agreement dated November 6, 2014 (the “2014 Supplement”) is executed and delivered by the State of Delaware (the “Issuer”) in connection with the issuance of the above-captioned bonds dated November 6, 2014 (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 2014 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 2014 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 2014 Supplement to be duly executed as of the day and year first above written.

THE STATE OF DELAWARE

By: _____
Secretary of Finance

APPENDIX C
FORM OF OPINION OF BOND COUNSEL

[FORM OF OPINION OF BOND COUNSEL]

March [16], 2016

OPINION OF BOND COUNSEL

RE: The State of Delaware
\$180,385,000 General Obligation Bonds, Series 2016A
\$20,220,000 General Obligation Bonds (AMT), Series 2016B
\$35,455,000 General Obligation Refunding Bonds, Series 2016C

TO THE PURCHASERS OF THE ABOVE-CAPTIONED BONDS:

We have acted as bond counsel in connection with the issuance of \$180,385,000 General Obligation Bonds, Series 2016A (the "2016A Bonds"), \$20,220,000 General Obligation Bonds (AMT), Series 2016B (the "2016B Bonds") and \$35,455,000 General Obligation Refunding Bonds, Series 2016C Bonds (the "2016C Bonds," and together with the 2016A Bonds and the 2016B Bonds, 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 March 1, 2016 (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 each series 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 (including accrued original issue discount) on the 2016A Bonds and interest on the 2016C 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 2016A Bonds and the 2016C 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 2016A Bonds and 2016C 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 2016A Bonds and 2016C 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.

Interest on the 2016B Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, except as to interest on any 2016B Bond during any period such 2016B Bond is held by a person who is a "substantial user" of the facilities financed with the 2016B Bond proceeds or a "related person," as those terms are used in Section 147(a) of the Code. 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 2016B 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 2016B Bonds is treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations. 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.