ANNUAL REPORT
FISCAL YEAR ENDED JUNE 30, 2018

The State of California (the "State"), acting by and through the Treasurer of the State of California (the "State Treasurer"), hereby provides this annual report for the Bonds (defined below) as required pursuant to the Continuing Disclosure Agreement for the fiscal year ended June 30, 2018.

Bond Issue

Name of Issue	Dated Date	Date of Continuing Disclosure Agreement
Redevelopment Agency of the City of Riverside Lease Revenue Refunding Bonds (State of California Department of General Services Project) 2003 Series A (Tax-Exempt) and 2003 Series B (Taxable) (the "Bonds")	7/8/2003	7/8/2003

The base CUSIP number for the Bonds listed above is 76904K - _ _ _.

Note: The base CUSIP number provided is for the convenience of bondholders. The State Treasurer is not responsible for the accuracy or completeness of such number.

Annual Report

This Annual Report for the Bonds (as defined in the Continuing Disclosure Agreement for the Bonds) for the fiscal year ended June 30, 2018 consists of:

1. Unaudited Basic Financial Statements of the State for the year ended June 30, 2018, attached as Exhibit 1. The unaudited financial statements attached as Exhibit 1 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Audited Basic Financial Statements of the State for the year ended June 30, 2018 will be promptly filed on the Electronic Municipal Market Access ("EMMA") website when available.

2. Certain financial information contained in "Appendix A – The State of California," attached as Exhibit 2, as more particularly described in the Continuing Disclosure Agreement. The Appendix A attached as Exhibit 2 is identical in all respects to the Appendix A included in the Preliminary Official Statement, dated March 26, 2019, with respect to the State Public Works Board of the State of California Lease Revenue Bonds (Board of State and Community Corrections) 2019 Series A (Solano Jail Project) and the Appendix A included in the Preliminary Official Statement, dated March 26, 2019 with respect to the State of California Veterans General Obligation Bonds Series CS (Non-AMT), including, in each case, the exhibits to Appendix A therein.

3. The insurance required by the Lease relating to the Bonds is in effect.

Other Matters

This Annual Report is provided solely for compliance with the provisions of the Continuing Disclosure Agreement. The filing of this report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the State, or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the fiscal year to which this report relates (other than as referred to in this report), or that no other information exists, which may have a bearing on the State's financial condition, the security for the Bonds, or an investor's decision to buy, sell, or hold the Bonds. The information contained in this report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this Annual Report should be construed as a prediction or representation about the future financial performance of the State.

Dated: March 29, 2019

TREASURER OF THE STATE OF CALIFORNIA

Original Signed by Julie Giordano
Deputy Treasurer
For California State Treasurer Fiona Ma
As Dissemination Agent

Exhibit 1

STATE OF CALIFORNIA

UNAUDITED BASIC FINANCIAL STATEMENTS

For the Fiscal Year Ended
June 30, 2018

Prepared by
The Office of the State Controller

BETTY T. YEE
California State Controller

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Basic Financial Statements

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Government-wide Financial Statements

Statement of Net Position

June 30, 2018
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and pooled investments	$ 47,495,895	$ 6,472,437	$ 53,968,332	$ 2,905,032
Amount on deposit with U.S. Treasury	—	2,970,373	2,970,373	—
Investments	494,505	2,750,013	3,244,518	7,458,829
Restricted assets:				
Cash and pooled investments	440,303	1,295,898	1,736,201	347,283
Investments	—	—	—	49,107
Due from other governments	—	155,541	155,541	—
Net investment in direct financing leases	23,589	11,384	34,973	—
Receivables (net)	22,035,797	2,072,187	24,107,984	4,834,661
Internal balances	(337,739)	337,739	—	—
Due from primary government	—	—	—	237,372
Due from other governments	19,838,132	279,633	20,117,765	133,472
Prepaid items	233,767	66,169	299,936	4,445
Inventories	72,489	16,038	88,527	244,706
Recoverable power costs (net)	—	109,000	109,000	—
Other current assets	29,218	7,248	36,466	440,413
Total current assets	90,325,956	16,543,660	106,869,616	16,655,320
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	176,851	729,400	906,251	39,908
Investments	—	352,066	352,066	67,679
Loans receivable	—	2,054,876	2,054,876	—
Investments	—	1,961,682	1,961,682	33,799,835
Net investment in direct financing leases	265,937	218,229	484,166	—
Receivables (net)	2,046,378	448,140	2,494,518	2,398,005
Loans receivable	3,468,095	4,727,643	8,195,738	3,087,842
Recoverable power costs (net)	—	1,631,000	1,631,000	—
Long-term prepaid charges	1,370	1,860,013	1,861,383	142
Capital assets:				
Land	20,208,641	271,240	20,479,881	1,347,708
State highway infrastructure	77,067,674	—	77,067,674	—
Collections – nondepreciable	22,627	24,604	47,231	544,051
Buildings and other depreciable property	31,700,263	14,696,314	46,396,577	53,850,588
Intangible assets – amortizable	2,222,889	431,102	2,653,991	1,607,137
Less: accumulated depreciation/amortization	(15,220,711)	(6,089,314)	(21,310,025)	(26,811,356)
Construction/development in progress	16,289,087	2,474,761	18,763,848	3,004,984
Intangible assets – nonamortizable	417,669	118,412	536,081	5,411
Other noncurrent assets	—	25,612	25,612	377,142
Total noncurrent assets	138,666,770	25,935,780	164,602,550	73,319,076
Total assets	**228,992,726**	**42,479,440**	**271,472,166**	**89,974,396**
DEFERRED OUTFLOWS OF RESOURCES	31,608,094	4,471,685	36,079,779	4,763,120
Total assets and deferred outflows of resources	**$ 260,600,820**	**$ 46,951,125**	**$ 307,551,945**	**$ 94,737,516**

The notes to the financial statements are an integral part of this statement.

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	$ 26,346,864	$ 529,802	$ 26,876,666	$ 3,137,105
Due to component units	237,372	—	237,372	—
Due to other governments	9,396,769	154,151	9,550,920	—
Revenues received in advance	2,043,266	366,580	2,409,846	1,512,088
Tax overpayments	6,240,122	—	6,240,122	—
Deposits	442,450	—	442,450	1,107,909
Contracts and notes payable	3,633	—	3,633	13,353
Unclaimed property liability	985,801	—	985,801	—
Interest payable	1,221,406	64,459	1,285,865	28,017
Securities lending obligations	—	—	—	1,209,769
Benefits payable	—	508,722	508,722	—
Current portion of long-term obligations	5,466,955	2,051,597	7,518,552	4,104,731
Other current liabilities	705,162	554,573	1,259,735	1,418,517
Total current liabilities	53,089,800	4,229,884	57,319,684	12,531,489
Noncurrent liabilities:				
Loans payable	247,149	—	247,149	1,037
Lottery prizes and annuities	—	712,236	712,236	—
Compensated absences payable	3,593,097	191,000	3,784,097	333,772
Workers' compensation benefits payable	3,874,233	4,147	3,878,380	487,528
Commercial paper and other borrowings	859,695	742,748	1,602,443	2,926
Capital lease obligations	412,444	290,145	702,589	405,977
General obligation bonds payable	76,062,632	668,125	76,730,757	—
Revenue bonds payable	15,558,641	13,164,196	28,722,837	22,634,129
Mandated cost claims payable	1,911,013	—	1,911,013	—
Net other postemployment benefits liability	72,025,264	15,678,509	87,703,773	19,169,577
Net pension liability	86,191,480	10,066,991	96,258,471	10,085,998
Revenues received in advance	—	10,149	10,149	—
Other noncurrent liabilities	1,515,366	239,681	1,755,047	2,355,691
Total noncurrent liabilities	262,251,014	41,767,927	304,018,941	55,476,635
Total liabilities	**315,340,814**	**45,997,811**	**361,338,625**	**68,008,124**
DEFERRED INFLOWS OF RESOURCES	10,462,852	2,928,596	13,391,448	6,929,318
Total liabilities and deferred inflows of resources	**$ 325,803,666**	**$ 48,926,407**	**$ 374,730,073**	**$ 74,937,442**

(continued)

Statement of Net Position (continued)

June 30, 2018
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
NET POSITION				
Net investment in capital assets	$ 109,614,321	$ 2,469,723	$ 112,084,044	$ 14,153,342
Restricted:				
Nonexpendable – endowments	—	1,708	1,708	6,888,846
Expendable:				
Endowments and gifts	—	—	—	12,384,775
General government	13,224,754	149,678	13,374,432	—
Education	638,621	103,463	742,084	1,911,126
Health and human services	3,325,123	1,963,389	5,288,512	—
Natural resources and environmental protection	5,187,743	2,800,511	7,988,254	—
Business, consumer services, and housing	4,006,045	22,356	4,028,401	—
Transportation	9,090,734	6,866	9,097,600	—
Corrections and rehabilitation	28,382	—	28,382	—
Unemployment programs	—	6,971,597	6,971,597	—
Indenture	—	—	—	620,505
Statute	—	—	—	1,751,828
Other purposes	—	—	—	16,893
Total expendable	35,501,402	12,017,860	47,519,262	16,685,127
Unrestricted	(210,318,569)	(16,464,573)	(226,783,142)	(17,927,241)
Total net position (deficit)	**(65,202,846)**	**(1,975,282)**	**(67,178,128)**	**19,800,074**
Total liabilities, deferred inflows of resources, and net position	**$ 260,600,820**	**$ 46,951,125**	**$ 307,551,945**	**$ 94,737,516**

(concluded)

The notes to the financial statements are an integral part of this statement.

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Statement of Activities

Year Ended June 30, 2018

(amounts in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 18,292,015	$ 5,726,899	$ 1,586,619	$ —
Education	70,280,444	37,147	7,422,025	—
Health and human services	136,534,687	13,226,326	74,026,694	—
Natural resources and environmental protection	8,444,130	6,319,880	362,249	—
Business, consumer services, and housing	1,258,104	957,885	43,944	—
Transportation	14,259,461	6,053,140	3,203,095	1,688,004
Corrections and rehabilitation	14,918,136	39,887	67,562	—
Interest on long-term debt	4,154,485	—	—	—
Total governmental activities	268,141,462	32,361,164	86,712,188	1,688,004
Business-type activities:				
Electric Power	952,000	952,000	—	—
Water Resources	1,221,866	1,221,866	—	—
State Lottery	7,006,591	6,975,168	—	—
Unemployment Programs	12,133,531	15,594,045	—	—
California State University	9,806,114	3,387,420	2,006,533	—
State Water Pollution Control Revolving	32,335	86,789	—	46,304
Safe Drinking Water State Revolving	21,994	22,675	—	79,828
Housing Loan	57,088	52,735	—	—
Other enterprise programs	99,237	86,911	—	—
Total business-type activities	31,330,756	28,379,609	2,006,533	126,132
Total primary government	**$ 299,472,218**	**$ 60,740,773**	**$ 88,718,721**	**$ 1,814,136**
Component Units				
University of California	35,229,304	23,321,094	9,972,697	144,998
California Housing Finance Agency	130,742	81,924	—	—
Nonmajor component units	2,211,654	1,074,325	685,361	14,578
Total component units	**$ 37,571,700**	**$ 24,477,343**	**$ 10,658,058**	**$ 159,576**

General revenues:
- Personal income taxes
- Sales and use taxes
- Corporation taxes
- Motor vehicle excise tax
- Insurance taxes
- Managed care organization enrollment tax
- Other taxes
- Investment and interest income (loss)
- Escheat
- Other

Transfers

Total general revenues and transfers

Change in net position

Net position (deficit) – beginning

Net position (deficit) – ending

* Restated

The notes to the financial statements are an integral part of this statement.

Net (Expenses) Revenues and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (10,978,497)		$ (10,978,497)	
(62,821,272)		(62,821,272)	
(49,281,667)		(49,281,667)	
(1,762,001)		(1,762,001)	
(256,275)		(256,275)	
(3,315,222)		(3,315,222)	
(14,810,687)		(14,810,687)	
(4,154,485)		(4,154,485)	
(147,380,106)		(147,380,106)	
	$ —	—	
	—	—	
	(31,423)	(31,423)	
	3,460,514	3,460,514	
	(4,412,161)	(4,412,161)	
	100,758	100,758	
	80,509	80,509	
	(4,353)	(4,353)	
	(12,326)	(12,326)	
	(818,482)	(818,482)	
$ (147,380,106)	**$ (818,482)**	**$ (148,198,588)**	
			$ (1,790,515)
			(48,818)
			(437,390)
			$ (2,276,723)
$ 94,460,551	$ —	$ 94,460,551	$ —
39,784,494	—	39,784,494	—
12,608,756	—	12,608,756	—
6,680,858	—	6,680,858	—
2,754,056	—	2,754,056	—
2,397,531	—	2,397,531	—
3,573,848	—	3,573,848	—
297,782	—	297,782	2,500,161
378,180	—	378,180	—
—	—	—	3,326,055
(4,339,995)	4,339,995	—	—
158,596,061	**4,339,995**	**162,936,056**	**5,826,216**
11,215,955	3,521,513	14,737,468	3,549,493
(76,418,801)*	**(5,496,795)***	**(81,915,596)**	**16,250,581 ***
$ (65,202,846)	**$ (1,975,282)**	**$ (67,178,128)**	**$ 19,800,074**

The notes to the financial statements are an integral part of this statement.

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Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2018
(amounts in thousands)

	General	Federal
ASSETS		
Cash and pooled investments	$ 16,898,548	$ 286,580
Investments	—	—
Receivables (net)	16,930,903	81,870
Due from other funds	3,624,089	—
Due from other governments	715,626	18,175,423
Interfund receivables	552,739	—
Loans receivable	35,697	225,717
Other assets	3,707	—
Total assets	**$ 38,761,309**	**$ 18,769,590**
LIABILITIES		
Accounts payable	$ 2,112,022	$ 686,325
Due to other funds	5,500,126	15,303,538
Due to component units	124,954	—
Due to other governments	2,869,939	2,437,532
Interfund payables	6,232,158	—
Revenues received in advance	650,871	61,749
Tax overpayments	6,240,122	—
Deposits	3,102	—
Unclaimed property liability	985,801	—
Other liabilities	389,684	34,525
Total liabilities	**25,108,779**	**18,523,669**
DEFERRED INFLOWS OF RESOURCES	1,656,859	17,267
Total liabilities and deferred inflows of resources	**26,765,638**	**18,540,936**
FUND BALANCES		
Nonspendable	559,644	—
Restricted	9,807,729	228,654
Committed	171,020	—
Assigned	—	—
Unassigned	1,457,278	—
Total fund balances	**11,995,671**	**228,654**
Total liabilities, deferred inflows of resources, and fund balances	**$ 38,761,309**	**$ 18,769,590**

The notes to the financial statements are an integral part of this statement.

Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
$ 6,673,508	$ 9,307,336	$ 12,613,532	$ 45,779,504
—	—	494,505	494,505
1,434,462	463,831	5,016,032	23,927,098
1,743,556	117,837	1,150,461	6,635,943
2,680	6,139	921,187	19,821,055
1,755,668	2,225,031	1,997,974	6,531,412
—	231,335	2,758,536	3,251,285
13,391	—	12,120	29,218
$ 11,623,265	**$ 12,351,509**	**$ 24,964,347**	**$ 106,470,020**
$ 539,315	$ 244,898	$ 546,893	$ 4,129,453
381,669	217,503	6,866,408	28,269,244
6,754	—	105,664	237,372
379,732	141,598	3,958,840	9,787,641
319,580	126,665	135,963	6,814,366
17,895	197,597	156,234	1,084,346
—	—	—	6,240,122
2,872	927	433,594	440,495
—	—	—	985,801
574,176	9,645	143,174	1,151,204
2,221,993	**938,833**	**12,346,770**	**59,140,044**
57,080	37,770	211,973	1,980,949
2,279,073	**976,603**	**12,558,743**	**61,120,993**
—	—	69,868	629,512
9,294,367	5,112,157	10,864,570	35,307,477
49,825	6,262,749	1,444,820	7,928,414
—	—	26,346	26,346
—	—	—	1,457,278
9,344,192	**11,374,906**	**12,405,604**	**45,349,027**
$ 11,623,265	**$ 12,351,509**	**$ 24,964,347**	**$ 106,470,020**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

(amounts in thousands)

Total fund balances – governmental funds		**$ 45,349,027**
Amounts reported for governmental activities in the Statement of Net Position are different from those in the Governmental Funds Balance Sheet because:		
• The following capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Land	20,206,561	
State highway infrastructure	77,067,674	
Collections – nondepreciable	22,627	
Buildings and other depreciable property	31,063,376	
Intangible assets – amortizable	2,151,760	
Less: accumulated depreciation/amortization	(14,712,382)	
Construction/development in progress	15,305,452	
Intangible assets – nonamortizable	417,669	
		131,522,737
• State revenues that are earned and measurable, but not available within 12 months of the end of the reporting period, are reported as deferred inflows of resources in the funds.		1,980,949
• Internal service funds are used by management to charge the costs of certain activities, such as building construction and architectural services, procurement, and technology services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position, excluding amounts for activity between the internal service funds and governmental funds.		(10,598,967)
• Bond premiums/discounts and prepaid insurance charges are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Position.		(5,874,364)
• Deferred inflows and outflows of resources related to pension transactions are not reported in the funds.		20,285,520
• Deferred inflows and outflows of resources resulting from bond refunding gains and losses, respectively, are amortized over the life of the bonds and are not reported in the funds.		438,081
• General obligation bonds and related accrued interest totaling $75,216,385, revenue bonds totaling $6,522,482, and commercial paper totaling $859,695 are not due and payable in the current period and are not reported in the funds.		(82,598,562)
• The following liabilities are not due and payable in the current period and are not reported in the funds:		
Compensated absences	(3,456,370)	
Capital leases	(481,261)	
Net pension liability	(84,772,435)	
Net other postemployment benefits liability	(69,677,449)	
Mandated cost claims	(1,911,013)	
Workers' compensation	(3,829,948)	
Proposition 98 funding guarantee	(340,003)	
Pollution remediation obligations	(1,141,189)	
Other noncurrent liabilities	(97,599)	
		(165,707,267)
Net position of governmental activities		**$ (65,202,846)**

The notes to the financial statements are an integral part of this statement.

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Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2018
(amounts in thousands)

	General	Federal
REVENUES		
Personal income taxes	$ 92,808,996	$ —
Sales and use taxes	25,090,956	—
Corporation taxes	12,597,928	—
Motor vehicle excise taxes	101,307	—
Insurance taxes	2,563,904	—
Managed care organization enrollment tax	—	—
Other taxes	614,421	—
Intergovernmental	—	88,402,314
Licenses and permits	6,193	—
Charges for services	389,297	—
Fees	44,302	—
Penalties	248,828	97
Investment and interest	264,675	—
Escheat	378,177	—
Other	516,036	—
Total revenues	**135,625,020**	**88,402,411**
EXPENDITURES		
Current:		
General government	5,669,626	1,571,618
Education	61,331,083	7,424,246
Health and human services	36,321,236	73,552,476
Natural resources and environmental protection	2,338,402	369,165
Business, consumer services, and housing	68,550	39,297
Transportation	144,046	4,879,706
Corrections and rehabilitation	12,960,903	67,562
Capital outlay	405,930	—
Debt service:		
Bond and commercial paper retirement	2,467,541	9,830
Interest and fiscal charges	2,723,232	1,563
Total expenditures	**124,430,549**	**87,915,463**
Excess (deficiency) of revenues over (under) expenditures	11,194,471	486,948
OTHER FINANCING SOURCES (USES)		
General obligation bonds and commercial paper issued	—	—
Refunding debt issued	—	—
Payment to refund long-term debt	—	—
Premium on bonds issued	169,262	—
Remarketing bonds issued	—	—
Payment to remarket long-term debt	—	—
Capital leases	405,930	—
Transfers in	660,597	—
Transfers out	(6,244,975)	(486,173)
Total other financing sources (uses)	**(5,009,186)**	**(486,173)**
Net change in fund balances	6,185,285	775
Fund balances (deficit) – beginning	**5,810,386**	**227,879**
Fund balances – ending	**$ 11,995,671**	**$ 228,654**

* Restated

The notes to the financial statements are an integral part of this statement.

Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
$ —	$ —	$ 1,675,447	$ 94,484,443
712,895	—	13,973,218	39,777,069
—	—	—	12,597,928
6,406,668	58,742	114,141	6,680,858
—	—	190,152	2,754,056
—	—	2,397,531	2,397,531
—	173,944	2,759,817	3,548,182
—	—	3,105,144	91,507,458
4,881,585	507,182	3,366,660	8,761,620
150,978	130,560	304,479	975,314
956,451	2,586,480	9,259,841	12,847,074
8,177	200,272	603,951	1,061,325
74,768	118,178	149,797	607,418
—	—	4,616	382,793
117,109	3,216,894	1,468,700	5,318,739
13,308,631	**6,992,252**	**39,373,494**	**283,701,808**
565,613	128,545	11,042,987	18,978,389
12,699	5,846	1,128,753	69,902,627
2,450	89,920	26,758,143	136,724,225
257,762	4,906,300	256,217	8,127,846
122,957	108,489	850,072	1,189,365
11,946,227	187,226	11,835	17,169,040
—	—	1,637,059	14,665,524
—	147,131	59,708	612,769
412,436	870,053	4,838,996	8,598,856
14,624	9,948	1,212,337	3,961,704
13,334,768	**6,453,458**	**47,796,107**	**279,930,345**
(26,137)	538,794	(8,422,613)	3,771,463
1,738,610	1,616,985	1,927,770	5,283,365
1,062,740	838,695	4,355,420	6,256,855
(1,017,036)	(716,219)	(1,567,949)	(3,301,204)
146,473	161,501	559,084	1,036,320
325,000	—	100,000	425,000
(325,000)	—	(100,000)	(425,000)
—	—	—	405,930
8,401	45,787	3,551,811	4,266,596
(1,657,123)	(49,481)	(117,842)	(8,555,594)
282,065	**1,897,268**	**8,708,294**	**5,392,268**
255,928	2,436,062	285,681	9,163,731
9,088,264	**8,938,844** *	**12,119,923** *	**36,185,296**
$ 9,344,192	**$ 11,374,906**	**$ 12,405,604**	**$ 45,349,027**

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

(amounts in thousands)

Net change in fund balances – total governmental funds		**$ 9,163,731**

Amounts reported for governmental activities in the Statement of Activities are different from those in the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds because:

- Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current year, these amounts are:

Purchase of assets	5,951,091	
Disposal of assets	(2,508,158)	
Depreciation expense, net of asset disposal	(986,944)	
		2,455,989

- Some revenues in the Statement of Activities do not provide current financial resources and, therefore, are unavailable in governmental funds. (34,724)

- Internal service funds are used by management to charge the costs of certain activities, such as building construction and architectural services, procurement, and technology services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. (54,687)

- The issuance of long-term debt instruments provides current financial resources to governmental funds, while the repayment of the principal of long-term debt is an expenditure of governmental funds. Neither transaction, however, has any effect on the Statement of Activities. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The following shows the effect of these differences in the treatment of long-term debt and related items:

	General Obligation Bonds	Revenue Bonds	Commercial Paper	Total	
Debt issued	(8,869,045)	(1,785,190)	(1,310,985)	(11,965,220)	
Premium on debt issued	(942,938)	(93,383)	—	(1,036,321)	
Accreted interest	—	(45,928)	—	(45,928)	
Principal repayments	4,904,299	2,085,186	1,609,370	8,598,855	
Payments to refund long-term debt	3,726,204	—	—	3,726,204	
Related expenses not reported in governmental funds:					
Premium/discount amortization	271,186	72,899	—	344,085	
Deferred gain/loss on refunding	(11,595)	(56,095)	—	(67,690)	
Prepaid insurance	—	(245)	—	(245)	
Accrued interest	(15,417)	8,146	—	(7,271)	
	(937,306)	185,390	298,385		(453,531)

(continued)

- The following expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized as expenditures in governmental funds. Once the use of current financial resources is required, expenditures are recognized in governmental funds but are eliminated from the Statement of Activities. In the current period, the net adjustment consists of:

Compensated absences	(82,052)	
Capital leases	(64,793)	
Net pension liability	2,571,250	
Net other postemployment benefits liability	(2,437,967)	
Mandated cost claims	542,026	
Workers' compensation	(229,292)	
Proposition 98 funding guarantee	100,000	
Pollution remediation obligations	(171,796)	
Other noncurrent liabilities	(88,199)	
		139,177
Change in net position of governmental activities		**$ 11,215,955**

(concluded)

Statement of Net Position

Proprietary Funds

June 30, 2018
(amounts in thousands)

	Electric Power	Water Resources
ASSETS		
Current assets:		
Cash and pooled investments	$ —	$ 731,382
Amount on deposit with U.S. Treasury	—	—
Investments	—	—
Restricted assets:		
Cash and pooled investments	658,000	—
Due from other governments	—	—
Net investment in direct financing leases	—	—
Receivables (net)	—	97,140
Due from other funds	8,000	4,229
Due from other governments	—	53,636
Prepaid items	—	—
Inventories	—	5,437
Recoverable power costs (net)	109,000	—
Other current assets	—	—
Total current assets	775,000	891,824
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments	582,000	147,297
Investments	302,000	50,066
Loans receivable	—	—
Investments	—	—
Net investment in direct financing leases	—	—
Receivables (net)	—	—
Interfund receivables	—	95,129
Loans receivable	—	10,924
Recoverable power costs (net)	1,631,000	—
Long-term prepaid charges	—	1,858,668
Capital assets:		
Land	—	162,457
Collections – nondepreciable	—	—
Buildings and other depreciable property	—	5,185,367
Intangible assets – amortizable	—	39,483
Less: accumulated depreciation/amortization	—	(2,185,494)
Construction/development in progress	—	1,396,750
Intangible assets – nonamortizable	—	111,439
Other noncurrent assets	—	—
Total noncurrent assets	2,515,000	6,872,086
Total assets	**3,290,000**	**7,763,910**
DEFERRED OUTFLOWS OF RESOURCES	99,000	401,026
Total assets and deferred outflows of resources	$ **3,389,000**	**$ 8,164,936**

The notes to the financial statements are an integral part of this statement.

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ 428,696	$ 3,309,014	$ 814,235	$ 1,189,110	$ 6,472,437	$ 1,716,391
—	2,970,373	—	—	2,970,373	—
48,234	—	2,701,779	—	2,750,013	—
—	—	—	637,898	1,295,898	440,303
—	—	—	155,541	155,541	—
—	—	11,384	—	11,384	493,644
550,014	1,191,096	192,753	41,184	2,072,187	89,648
4,034	25,050	4,950	14,866	61,129	841,909
—	36,823	—	189,174	279,633	17,077
—	—	66,078	91	66,169	233,767
7,292	—	—	3,309	16,038	72,489
—	—	—	—	109,000	—
7,248	—	—	—	7,248	—
1,045,518	7,532,356	3,791,179	2,231,173	16,267,050	3,905,228
—	—	103	—	729,400	176,851
—	—	—	—	352,066	—
—	—	—	2,054,876	2,054,876	—
738,736	—	1,204,731	18,215	1,961,682	—
—	—	218,229	—	218,229	7,996,250
—	79,766	368,374	—	448,140	—
—	1,047,879	—	49,008	1,192,016	32,576
—	—	70,647	4,646,072	4,727,643	216,810
—	—	—	—	1,631,000	—
1,345	—	—	—	1,860,013	719
18,798	—	88,713	1,272	271,240	2,080
—	—	24,604	—	24,604	—
291,312	28,572	9,171,853	19,210	14,696,314	636,887
—	244,118	145,820	1,681	431,102	71,129
(112,804)	(53,564)	(3,718,982)	(18,470)	(6,089,314)	(508,329)
—	—	1,077,824	187	2,474,761	983,635
—	—	6,973	—	118,412	—
—	—	20,476	5,136	25,612	—
937,387	1,346,771	8,679,365	6,777,187	27,127,796	9,608,608
1,982,905	**8,879,127**	**12,470,544**	**9,008,360**	**43,394,846**	**13,513,836**
62,049	133,337	3,752,587	23,686	4,471,685	733,002
$ 2,044,954	**$ 9,012,464**	**$ 16,223,131**	**$ 9,032,046**	**$ 47,866,531**	**$ 14,246,838**

(continued)

Statement of Net Position (continued)

Proprietary Funds

June 30, 2018
(amounts in thousands)

	Electric Power	Water Resources
LIABILITIES		
Current liabilities:		
Accounts payable	$ 2,000	$ 184,962
Due to other funds	—	53,216
Due to other governments	—	118,940
Revenues received in advance	—	—
Deposits	—	—
Contracts and notes payable	—	—
Interest payable	23,000	10,685
Benefits payable	—	—
Current portion of long-term obligations	806,000	179,334
Other current liabilities	—	—
Total current liabilities	831,000	547,137
Noncurrent liabilities:		
Interfund payables	628	60,910
Lottery prizes and annuities	—	—
Compensated absences payable	—	26,926
Workers' compensation benefits payable	—	—
Commercial paper and other borrowings	—	580,672
Capital lease obligations	—	—
General obligation bonds payable	—	28,090
Revenue bonds payable	2,542,000	2,739,607
Net other postemployment benefits liability	8,000	912,912
Net pension liability	5,372	630,912
Revenues received in advance	—	—
Other noncurrent liabilities	—	97,316
Total noncurrent liabilities	2,556,000	5,077,345
Total liabilities	**3,387,000**	**5,624,482**
DEFERRED INFLOWS OF RESOURCES	2,000	1,335,026
Total liabilities and deferred inflows of resources	**3,389,000**	**6,959,508**
NET POSITION		
Net investment in capital assets	—	826,871
Restricted:		
Nonexpendable – endowments	—	—
Expendable:		
Construction	—	—
Debt service	—	378,557
Security for revenue bonds	—	—
Lottery	—	—
Unemployment programs	—	—
Other purposes	—	—
Total expendable	—	378,557
Unrestricted	—	—
Total net position (deficit)	**—**	**1,205,428**
Total liabilities, deferred inflows of resources, and net position	**$ 3,389,000**	**$ 8,164,936**

The notes to the financial statements are an integral part of this statement.

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ 66,116	$ —	$ 271,560	$ 5,119	$ 529,757	$ 540,458
385,956	217,269	136	12,255	668,832	277,903
—	34,614	—	597	154,151	12,141
2,177	37,105	327,235	63	366,580	958,920
—	—	—	—	—	1,955
—	—	—	—	—	22,575
—	—	—	30,774	64,459	148,490
—	508,722	—	—	508,722	—
668,401	—	301,797	96,065	2,051,597	612,382
241	56,814	497,363	155	554,573	17,966
1,122,891	854,524	1,398,091	145,028	4,898,671	2,592,790
13,798	—	156,283	15,000	246,619	942,168
712,236	—	—	—	712,236	—
—	55,177	99,898	8,999	191,000	145,414
2,458	—	—	1,689	4,147	44,285
—	—	162,076	—	742,748	—
—	—	290,145	—	290,145	—
—	—	—	640,035	668,125	—
—	—	6,134,207	1,748,382	13,164,196	8,880,040
218,073	517,915	13,918,525	103,084	15,678,509	2,347,815
140,043	343,505	8,899,962	47,197	10,066,991	1,419,045
—	—	10,149	—	10,149	—
—	—	110,664	31,701	239,681	27,948
1,086,608	916,597	29,781,909	2,596,087	42,014,546	13,806,715
2,209,499	**1,771,121**	**31,180,000**	**2,741,115**	**46,913,217**	**16,399,505**
24,868	50,619	1,504,986	11,097	2,928,596	245,932
2,234,367	**1,821,740**	**32,684,986**	**2,752,212**	**49,841,813**	**16,645,437**
197,306	219,127	1,225,523	896	2,469,723	509,253
—	—	1,708	—	1,708	—
—	—	18,348	—	18,348	193,925
—	—	27,974	211,650	618,181	—
—	—	—	2,210,416	2,210,416	—
55,950	—	—	—	55,950	—
—	6,971,597	—	—	6,971,597	—
—	—	57,141	2,086,227	2,143,368	—
55,950	6,971,597	103,463	4,508,293	12,017,860	193,925
(442,669)	—	(17,792,549)	1,770,645	(16,464,573)	(3,101,777)
(189,413)	**7,190,724**	**(16,461,855)**	**6,279,834**	**(1,975,282)**	**(2,398,599)**
$ 2,044,954	**$ 9,012,464**	**$ 16,223,131**	**$ 9,032,046**	**$ 47,866,531**	**$ 14,246,838**

(concluded)

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds

Year Ended June 30, 2018
(amounts in thousands)

	Electric Power	Water Resources
OPERATING REVENUES		
Unemployment and disability insurance	$ —	$ —
Lottery ticket sales	—	—
Power sales	—	88,148
Student tuition and fees	—	—
Services and sales	—	1,118,365
Investment and interest	—	—
Rent	—	—
Grants and contracts	—	—
Other	—	—
Total operating revenues	**—**	**1,206,513**
OPERATING EXPENSES		
Lottery prizes	—	—
Power purchases (net of recoverable power costs)	(8,000)	342,115
Personal services	—	374,955
Supplies	—	—
Services and charges	8,000	103,093
Depreciation	—	80,101
Scholarships and fellowships	—	—
Distributions to beneficiaries	—	—
Interest expense	—	—
Amortization of long-term prepaid charges	—	—
Other	—	—
Total operating expenses	**—**	**900,264**
Operating income (loss)	—	306,249
NONOPERATING REVENUES (EXPENSES)		
Donations and grants	—	—
Private gifts	—	—
Investment and interest income (loss)	952,000	15,353
Interest expense and fiscal charges	(952,000)	(105,429)
Lottery payments for education	—	—
Other	—	(216,173)
Total nonoperating revenues (expenses)	**—**	**(306,249)**
Income (loss) before capital contributions and transfers	—	—
Capital contributions	—	—
Transfers in	—	—
Transfers out	—	—
Change in net position	—	—
Total net position (deficit) – beginning	**—**	**1,205,428**
Total net position (deficit) – ending	**$ —**	**$ 1,205,428**

* Restated

The notes to the financial statements are an integral part of this statement.

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ —	$ 15,535,487	$ —	$ —	$ 15,535,487	$ —
6,965,792	—	—	—	6,965,792	—
—	—	—	—	88,148	—
—	—	2,220,797	—	2,220,797	—
—	—	575,908	94,442	1,788,715	3,335,466
—	—	—	134,270	134,270	14,683
—	—	—	—	—	426,219
—	—	77,792	—	77,792	—
—	—	229,550	1,744	231,294	—
6,965,792	**15,535,487**	**3,104,047**	**230,456**	**27,042,295**	**3,776,368**
4,476,580	—	—	—	4,476,580	—
—	—	—	—	334,115	—
101,055	247,796	6,801,999	55,300	7,581,105	1,137,783
12,658	—	1,532,795	42,364	1,587,817	24,510
701,133	70,859	—	43,260	926,345	2,147,934
18,311	10,567	355,263	390	464,632	52,390
—	—	891,148	—	891,148	—
—	11,804,309	—	—	11,804,309	—
—	—	—	31,056	31,056	416,069
—	—	—	—	—	179
—	—	—	9,536	9,536	—
5,309,737	**12,133,531**	**9,581,205**	**181,906**	**28,106,643**	**3,778,865**
1,656,055	3,401,956	(6,477,158)	48,550	(1,064,348)	(2,497)
—	—	2,006,533	—	2,006,533	—
—	—	61,386	—	61,386	—
9,252	58,558	67,351	18,399	1,120,913	4,241
(31,967)	—	(224,909)	(28,748)	(1,343,053)	(37)
(1,664,887)	—	—	—	(1,664,887)	—
124	—	154,636	255	(61,158)	(5,397)
(1,687,478)	**58,558**	**2,064,997**	**(10,094)**	**119,734**	**(1,193)**
(31,423)	3,460,514	(4,412,161)	38,456	(944,614)	(3,690)
—	—	—	126,132	126,132	—
—	—	4,338,333	1,662	4,339,995	8,945
—	—	—	—	—	(59,942)
(31,423)	3,460,514	(73,828)	166,250	3,521,513	(54,687)
(157,990)*	**3,730,210 ***	**(16,388,027)***	**6,113,584 ***	**(5,496,795)**	**(2,343,912)***
$ (189,413)	**$ 7,190,724**	**$ (16,461,855)**	**$ 6,279,834**	**$ (1,975,282)**	**$ (2,398,599)**

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2018
(amounts in thousands)

	Electric Power	Water Resources
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers/employers	$ 8,000	$ 1,222,810
Receipts from interfund services provided	—	—
Payments to suppliers	(4,000)	(421,068)
Payments to employees	(14,000)	(374,955)
Payments for interfund services used	—	—
Payments for Lottery prizes	—	—
Claims paid to other than employees	—	—
Other receipts (payments)	23,000	59,083
Net cash provided by (used in) operating activities	**13,000**	**485,870**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Changes in interfund receivables and loans receivable	—	1,010
Changes in interfund payables and loans payable	—	—
Receipt of bond charges	918,000	—
Proceeds from general obligation bonds	(719,000)	—
Retirement of general obligation bonds	—	—
Proceeds from revenue bonds	—	—
Retirement of revenue bonds	—	—
Interest received	—	—
Interest paid	(176,000)	—
Transfers in	—	—
Transfers out	—	—
Grants received	—	—
Lottery payments for education	—	—
Net cash provided by (used in) noncapital financing activities	**23,000**	**1,010**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	—	(716,441)
Proceeds from sale of capital assets	—	—
Proceeds from notes payable and commercial paper	—	500,484
Principal paid on notes payable and commercial paper	—	(66,976)
Proceeds from capital leases	—	—
Payment on capital leases	—	—
Retirement of general obligation bonds	—	(34,235)
Proceeds from revenue bonds	—	(39,760)
Retirement of revenue bonds	—	(138,570)
Interest paid	—	(79,462)
Grants received	—	—
Net cash provided by (used in) capital and related financing activities	**—**	**(574,960)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	—	(202,547)
Proceeds from maturity and sale of investments	—	211,911
Change in interfund receivables and loans receivable	—	—
Earnings on investments	32,000	14,650
Net cash provided by (used in) investing activities	**32,000**	**24,014**
Net increase (decrease) in cash and pooled investments	68,000	(64,066)
Cash and pooled investments – beginning	**1,172,000**	**942,745**
Cash and pooled investments – ending	**$ 1,240,000**	**$ 878,679**

* Restated

The notes to the financial statements are an integral part of this statement.

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ 6,939,646	$ 15,511,212	$ 2,796,368	$ 357,421	$ 26,835,457	$ 320,490
—	—	—	3,826	3,826	4,101,406
(234,403)	(70,889)	(1,524,764)	(61,058)	(2,316,182)	(1,532,995)
(63,997)	(245,174)	(5,332,423)	(54,066)	(6,084,615)	(874,473)
(26,033)	(17,094)	—	(908)	(44,035)	(7,319)
(4,713,465)	—	—	—	(4,713,465)	—
(480,513)	(11,752,892)	—	(9,353)	(12,242,758)	(506,839)
50	38,621	(1,665,006)	(619,563)	(2,163,815)	(444,434)
1,421,285	**3,463,784**	**(5,725,825)**	**(383,701)**	**(725,587)**	**1,055,836**
—	—	(30,844)	—	(29,834)	—
—	(385,137)	375	12,996	(371,766)	783,738
—	—	—	—	918,000	—
—	—	—	110,257	(608,743)	—
—	—	—	(85,660)	(85,660)	—
—	—	—	527,000	527,000	—
—	—	(15,149)	(41,350)	(56,499)	—
—	—	27,644	—	27,644	—
—	—	(20,953)	(43,386)	(240,339)	(37)
—	—	4,338,333	1,662	4,339,995	8,945
—	—	—	—	—	(59,942)
—	—	2,146,698	46,414	2,193,112	—
(1,701,168)	—	—	—	(1,701,168)	—
(1,701,168)	**(385,137)**	**6,446,104**	**527,933**	**4,911,742**	**732,704**
(29,923)	(1,833)	(890,328)	(335)	(1,638,860)	(1,108,551)
108	—	5,159	2	5,269	(2,063)
—	—	—	—	500,484	—
—	—	—	—	(66,976)	—
—	—	19,054	—	19,054	—
—	—	(413,793)	—	(413,793)	—
—	—	—	—	(34,235)	—
—	—	168,039	—	128,279	615,418
—	—	—	—	(138,570)	(806,025)
—	—	—	—	(79,462)	—
—	—	60,773	—	60,773	—
(29,815)	**(1,833)**	**(1,051,096)**	**(333)**	**(1,658,037)**	**(1,301,221)**
(42,539)	—	(9,359,378)	(6,055)	(9,610,519)	—
55,267	(2,958,643)	9,130,461	5,804	6,444,800	—
—	(813,878)	—	(235,831)	(1,049,709)	(457,602)
22,560	58,558	67,757	96,041	291,566	4,241
35,288	**(3,713,963)**	**(161,160)**	**(140,041)**	**(3,923,862)**	**(453,361)**
(274,410)	(637,149)	(491,977)	3,858	(1,395,744)	33,958
703,106	**3,946,163**	**1,306,315**	**1,823,150 ***	**9,893,479**	**2,299,587**
$ 428,696	**$ 3,309,014**	**$ 814,338**	**$ 1,827,008**	**$ 8,497,735**	**$ 2,333,545**

(continued)

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2018

(amounts in thousands)

	Electric Power	Water Resources
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	$ —	$ 306,249
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	—	80,101
Provisions and allowances	—	—
Amortization of premiums and discounts	—	—
Amortization of long-term prepaid charges and credits	—	(890,707)
Other	—	59,083
Change in account balances:		
Receivables	—	9,535
Due from other funds	—	—
Due from other governments	—	(18,383)
Prepaid items	—	—
Inventories	—	(427)
Net investment in direct financing leases	—	—
Recoverable power costs (net)	19,000	—
Other current assets	—	—
Loans receivable	—	—
Deferred outflow of resources	(7,000)	—
Accounts payable	—	712,174
Due to other funds	—	(14,233)
Due to component units	—	23,590
Due to other governments	—	—
Deposits	—	—
Contracts and notes payable	—	—
Interest payable	—	—
Revenues received in advance	—	—
Other current liabilities	—	—
Benefits payable	—	—
Lottery prizes and annuities	—	—
Compensated absences payable	—	—
Other noncurrent liabilities	1,000	218,888
Deferred inflow of resources	—	—
Total adjustments	13,000	179,621
Net cash provided by (used in) operating activities	**$ 13,000**	**$ 485,870**
Noncash investing, capital, and financing activities:		
Long-term debt retirement from bond issuance	$ —	$ 531,255
Amortization/defeasance of bond premium and discount	61,000	50,505
Issuance of notes receivable through proceeds from long-term debt	—	—
Amortization of deferred loss on refundings	30,000	10,151
Unclaimed lottery prizes directly allocated to another entity	—	—
Interest accreted on annuitized prizes	—	—
Unrealized loss on investments	—	—
Interest accreted on zero coupon bonds	—	—
Contributed capital assets	—	—
Change in accrued capital asset purchases	—	—
Acquisition of capital assets through long-term debt	—	—
Other miscellaneous noncash transactions	—	—

The notes to the financial statements are an integral part of this statement.

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ 1,656,055	$ 3,401,956	$ (6,477,158)	$ 48,550	$ (1,064,348)	$ (2,497)
18,311	10,567	355,263	390	464,632	52,390
12,847	—	—	768	13,615	—
—	—	—	(300)	(300)	(95,734)
—	—	—	—	(890,707)	179
33	—	(1,089,854)	(11,786)	(1,042,524)	16,716
(60,276)	(6,070)	(15,543)	(1,022)	(73,376)	(66,559)
(1,426)	(23,672)	15,143	(7,259)	(17,214)	(30,324)
—	2,082	—	(3,642)	(19,943)	(5,526)
3,532	—	(7,915)	(79)	(4,462)	(15,757)
1,497	—	—	(437)	633	7,312
—	—	—	—	—	497,726
—	—	—	—	19,000	—
(649)	—	—	(2,022)	(2,671)	—
—	—	—	(415,478)	(415,478)	—
—	(55,419)	(404,597)	(6,069)	(473,085)	(233,079)
11,388	(1)	2,364	2,362	728,287	121,398
(22,886)	34,560	—	7,848	5,289	134,418
—	—	—	—	23,590	—
—	(2,052)	—	573	(1,479)	745
—	—	344	—	344	393
—	—	—		—	3,557
—	—	—	426	426	47,295
(549)	(18,205)	9,608	8	(9,138)	132,288
186	10,609	12,828	661	24,284	(2,654)
—	51,417	18,954	(3,232)	67,139	—
(236,884)	—	—	—	(236,884)	—
—	5,498	(33,995)	(305)	(28,802)	2,574
40,106	2,611	401,142	(1,664)	662,083	256,215
—	49,903	1,487,591	8,008	1,545,502	234,760
(234,770)	61,828	751,333	(432,251)	338,761	1,058,333
$ 1,421,285	**$ 3,463,784**	**$ (5,725,825)**	**$ (383,701)**	**$ (725,587)**	**$ 1,055,836**

(concluded)

$ —	$ —	$ —	$ —	$ 531,255	$ —
—	—	30,100	—	141,605	—
—	—	48,706	—	48,706	—
—	—	6,198	—	46,349	—
36,049	—	—	—	36,049	—
31,967	—	—	—	31,967	—
29,851	—	—	—	29,851	—
15,991	—	—	—	15,991	—
—	—	15,580	—	15,580	—
—	—	14,133	—	14,133	—
—	—	8,055	—	8,055	—
—	—	3,846	1,678	5,524	—

Statement of Fiduciary Net Position

Fiduciary Funds and Similar Component Units

June 30, 2018

(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust: Local Agency Investment	Agency
ASSETS				
Cash and pooled investments	$ 119,640	$ 1,906,458	$ 22,653,745	$ 4,382,491
Investments, at fair value:				
Short-term	—	28,915,319	—	—
Equity securities	4,419,457	294,024,596	—	—
Debt securities	2,644,621	152,614,259	—	—
Real estate	256,325	67,527,332	—	—
Securities lending collateral	—	27,956,202	—	—
Other	1,271,428	66,397,337	—	—
Total investments	8,591,831	637,435,045	—	—
Receivables (net)	16,742	16,338,633	—	4,617,460
Due from other funds	2,293	789,660	—	20,885,045
Due from other governments	—	7	—	35,854
Interfund receivable	—	—	—	247,149
Loans receivable	—	2,727,864	—	3,636
Other assets	207,205	778,284	—	37,048
Total assets	**8,937,711**	**659,975,951**	**22,653,745**	**$ 30,208,683**
DEFERRED OUTFLOWS OF RESOURCES	—	252,235	—	
Total assets and deferred outflows of resources	**8,937,711**	**660,228,186**	**22,653,745**	
LIABILITIES				
Accounts payable	52,141	3,364,074	—	$ 18,411,628
Due to other governments	—	—	104,785	9,855,782
Tax overpayments	—	—	—	487
Benefits payable	—	433,985	—	—
Revenues received in advance	—	—	—	728
Deposits	207,205	—	—	1,197,406
Securities lending obligations	—	27,931,478	—	—
Loans payable	—	2,731,737	—	—
Other liabilities	1,128	20,237,009	—	742,652
Total liabilities	**260,474**	**54,698,283**	**104,785**	**$ 30,208,683**
DEFERRED INFLOWS OF RESOURCES	—	61,049	—	
Total liabilities and deferred inflows of resources	**260,474**	**54,759,332**	**104,785**	
NET POSITION				
Restricted for pension and other postemployment benefits	—	588,953,464	—	
Held in trust for:				
Deferred compensation participants	—	16,504,402	—	
Pool participants	—	—	22,548,960	
Individuals, organizations, or other governments	8,677,237	10,988	—	
Total net position	**$ 8,677,237**	**$ 605,468,854**	**$ 22,548,960**	

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Position

Fiduciary Funds and Similar Component Units

Year Ended June 30, 2018
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment
ADDITIONS			
Contributions:			
Employer	$ —	$ 29,009,482	$ —
Plan member	—	8,763,330	—
Non-employer	—	2,796,673	—
Total contributions	—	40,569,485	—
Investment income:			
Net appreciation (depreciation) in fair value of investments	71,944	40,468,921	—
Interest, dividends, and other investment income	485,351	9,454,952	306,945
Less: investment expense	(3,645)	(1,762,122)	—
Net investment income	553,650	48,161,751	306,945
Receipts from depositors	4,428,891	—	24,871,909
Other	—	146,181	—
Total additions	**4,982,541**	**88,877,417**	**25,178,854**
DEDUCTIONS			
Distributions paid and payable to participants	—	40,361,462	305,175
Refunds of contributions	—	396,625	—
Administrative expense	—	759,357	1,770
Interest expense	—	94,249	—
Payments to and for depositors	4,191,253	522,098	25,135,770
Total deductions	**4,191,253**	**42,133,791**	**25,442,715**
Change in net position	791,288	46,743,626	(263,861)
Net position – beginning	**7,885,949** *	**558,725,228** *	**22,812,821**
Net position – ending	**$ 8,677,237**	**$ 605,468,854**	**$ 22,548,960**

* Restated

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Discretely Presented Component Units Financial Statements

Statement of Net Position

Discretely Presented Component Units – Enterprise Activity

June 30, 2018

(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
ASSETS				
Current assets:				
Cash and pooled investments	$ 696,900	$ 945,923	$ 1,262,209	$ 2,905,032
Investments	6,870,127	14,342	574,360	7,458,829
Restricted assets:				
Cash and pooled investments	—	—	347,283	347,283
Investments	—	—	49,107	49,107
Receivables (net)	4,156,224	142,558	535,879	4,834,661
Due from primary government	237,372	—	—	237,372
Due from other governments	133,472	—	—	133,472
Prepaid items	—	447	3,998	4,445
Inventories	244,706	—	—	244,706
Other current assets	404,652	401	35,360	440,413
Total current assets	12,743,453	1,103,671	2,808,196	16,655,320
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	—	—	39,908	39,908
Investments	—	—	67,679	67,679
Investments	31,363,609	312,378	2,123,848	33,799,835
Receivables (net)	2,164,823	—	233,182	2,398,005
Loans receivable	—	2,737,351	350,491	3,087,842
Long-term prepaid charges	—	—	142	142
Capital assets:				
Land	1,191,128	—	156,580	1,347,708
Collections – nondepreciable	531,156	—	12,895	544,051
Buildings and other depreciable property	51,748,617	1,322	2,100,649	53,850,588
Intangible assets – amortizable	1,596,914	—	10,223	1,607,137
Less: accumulated depreciation/amortization	(25,673,962)	(728)	(1,136,666)	(26,811,356)
Construction/development in progress	2,931,254	—	73,730	3,004,984
Intangible assets – nonamortizable	—	—	5,411	5,411
Other noncurrent assets	327,573	2,895	46,674	377,142
Total noncurrent assets	66,181,112	3,053,218	4,084,746	73,319,076
Total assets	**78,924,565**	**4,156,889**	**6,892,942**	**89,974,396**
DEFERRED OUTFLOWS OF RESOURCES	4,649,403	23,778	89,939	4,763,120
Total assets and deferred outflows of resources	**$ 83,573,968**	**$ 4,180,667**	**$ 6,982,881**	**$ 94,737,516**

(continued)

The notes to the financial statements are an integral part of this statement.

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
LIABILITIES				
Current liabilities:				
Accounts payable	$ 2,316,426	$ 48,063	$ 772,616	$ 3,137,105
Revenues received in advance	1,429,221	—	82,867	1,512,088
Deposits	860,585	245,524	1,800	1,107,909
Contracts and notes payable	—	—	13,353	13,353
Interest payable	—	23,908	4,109	28,017
Securities lending obligations	1,209,769	—	—	1,209,769
Current portion of long-term obligations	3,820,815	34,183	249,733	4,104,731
Other current liabilities	1,157,861	109,851	150,805	1,418,517
Total current liabilities	10,794,677	461,529	1,275,283	12,531,489
Noncurrent liabilities:				
Compensated absences payable	315,659	2,373	15,740	333,772
Workers' compensation benefits payable	455,963	—	31,565	487,528
Loans payable	—	—	1,037	1,037
Commercial paper and other borrowings	—	—	2,926	2,926
Capital lease obligations	168,537	—	237,440	405,977
Revenue bonds payable	20,787,219	1,401,024	445,886	22,634,129
Net other postemployment benefits liability	18,862,265	78,177	229,135	19,169,577
Net pension liability	9,775,120	54,928	255,950	10,085,998
Other noncurrent liabilities	1,602,493	211,803	541,395	2,355,691
Total noncurrent liabilities	51,967,256	1,748,305	1,761,074	55,476,635
Total liabilities	**62,761,933**	**2,209,834**	**3,036,357**	**68,008,124**
DEFERRED INFLOWS OF RESOURCES	6,841,722	18,198	69,398	6,929,318
Total liabilities and deferred inflows of resources	**69,603,655**	**2,228,032**	**3,105,755**	**74,937,442**
NET POSITION				
Net investment in capital assets	13,578,222	594	574,526	14,153,342
Restricted:				
Nonexpendable – endowments	5,590,596	—	1,298,250	6,888,846
Expendable:				
Endowments and gifts	12,372,902	—	11,873	12,384,775
Education	865,216	—	1,045,910	1,911,126
Indenture	—	620,505	—	620,505
Statute	—	1,379,541	372,287	1,751,828
Other purposes	—	—	16,893	16,893
Total expendable	13,238,118	2,000,046	1,446,963	16,685,127
Unrestricted	(18,436,623)	(48,005)	557,387	(17,927,241)
Total net position	**13,970,313**	**1,952,635**	**3,877,126**	**19,800,074**
Total liabilities, deferred inflows of resources, and net position	**$ 83,573,968**	**$ 4,180,667**	**$ 6,982,881**	**$ 94,737,516**

(concluded)

Statement of Activities

Discretely Presented Component Units – Enterprise Activity

Year Ended June 30, 2018
(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
OPERATING EXPENSES				
Personal services	$ 21,833,260	$ 39,098	$ 539,369	$ 22,411,727
Scholarships and fellowships	766,857	—	74,599	841,456
Supplies	3,610,171	—	11,532	3,621,703
Services and charges	303,773	8,558	1,374,938	1,687,269
Department of Energy laboratories	1,054,475	—	—	1,054,475
Depreciation	2,027,343	201	75,689	2,103,233
Interest expense and fiscal charges	746,526	49,325	35,727	831,578
Other	4,886,899	33,560	99,800	5,020,259
Total operating expenses	**35,229,304**	**130,742**	**2,211,654**	**37,571,700**
PROGRAM REVENUES				
Charges for services	23,321,094	81,924	1,074,325	24,477,343
Operating grants and contributions	9,972,697	—	685,361	10,658,058
Capital grants and contributions	144,998	—	14,578	159,576
Total program revenues	**33,438,789**	**81,924**	**1,774,264**	**35,294,977**
Net revenues (expenses)	(1,790,515)	(48,818)	(437,390)	(2,276,723)
GENERAL REVENUES				
Investment and interest income (loss)	2,083,825	257,283	159,053	2,500,161
Other	2,856,755	13,280	456,020	3,326,055
Total general revenues	**4,940,580**	**270,563**	**615,073**	**5,826,216**
Change in net position	3,150,065	221,745	177,683	3,549,493
Net position – beginning	**10,820,248** *	**1,730,890** *	**3,699,443** *	**16,250,581**
Net position – ending	**$ 13,970,313**	**$ 1,952,635**	**$ 3,877,126**	**$ 19,800,074**

* Restated

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements – Index

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Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The provisions of the following Governmental Accounting Standards Board (GASB) Statements have been implemented for the fiscal year ended June 30, 2018:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for the fiscal year ended June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB) by state and local governments. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to the State's defined benefit OPEB plan. This Statement supersedes GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Implementation of GASB Statement No. 75 resulted in a restatement of beginning net position, recognition of deferred outflows and inflows of resources, and additional note disclosures and required supplementary information related to the State's OPEB plan.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, is effective for the fiscal year ended June 30, 2018. The objective of this Statement is to provide recognition and measurement guidance for situations in which a government is a beneficiary of an irrevocable split-interest agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Implementation of GASB Statement No. 81 resulted in the recognition of assets, liabilities, and deferred inflows of resources in the financial statements related to irrevocable split-interest agreements for the California State University Auxiliary Organizations and the University of California, discretely presented component units.

GASB Statement No. 85, *Omnibus 2017*, is effective for the fiscal year ended June 30, 2018. This Statement addresses practice issues identified during the implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). Implementation of GASB Statement No. 85 had no impact on the financial statements for the fiscal year ended June 30, 2018.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, is effective for the fiscal year ended June 30, 2018. This Statement provides guidance for transactions in which cash and other monetary assets acquired with only the State's existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. Except for

a minor change in the notes to the financial statements, the implementation of GASB Statement No. 86 had no impact on the financial statements for the year ended June 30, 2018, as there were no debt defeasances from only the State's existing resources during the fiscal year.

A. Reporting Entity

These financial statements present the primary government of the State and its component units. The **primary government** consists of all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from the State. **Component units** are organizations that are legally separate from the State, but for which the State is financially accountable, or organizations whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading. Following is information on the blended, fiduciary, and discretely presented component units of the State.

1. Blended Component Units

Blended component units, although legally separate entities, are in substance part of the primary government's operations. Therefore, data from these blended component units are integrated into the appropriate funds for reporting purposes.

Building authorities are blended component units because they have been created through the use of joint exercise of powers agreements with various cities to finance the construction of state buildings. The building authorities' financial activities are reported in capital projects funds. As a result, capital lease arrangements between the building authorities and the State have been eliminated from the financial statements. Instead, only the underlying capital assets and the debt used to acquire them are reported in the government-wide financial statements. For information regarding obtaining copies of the financial statements of the building authorities, email the State Controller's Office, State Accounting and Reporting Division at StateGovReports@sco.ca.gov.

The *Golden State Tobacco Securitization Corporation (GSTSC)* is a not-for-profit corporation established through legislation in September 2002 solely for the purpose of purchasing Tobacco Settlement Revenues from the State. The five voting members of the State Public Works Board serve ex officio as the directors of the corporation. The GSTSC is authorized to issue bonds as necessary to provide sufficient funds for carrying out its purpose. The GSTSC's financial activity is reported in the combining statements in the Nonmajor Governmental Funds section as a special revenue fund. For information regarding obtaining copies of the financial statements of GSTSC, contact the Department of Finance, Natural Resources, Energy, Environmental, and Capital Outlay Section, 915 L Street, 9th Floor, Sacramento, California 95814.

2. Fiduciary Component Units

The State has two legally separate fiduciary component units that administer pension and other employee benefit trust funds. The State appoints a voting majority of the board members of both plans which, due to their fiduciary nature, are presented in the fiduciary fund statements as pension and other employee benefit trust funds, along with other primary government fiduciary funds.

The *California Public Employees' Retirement System (CalPERS)* administers pension and health benefit plans for state employees, non-teaching school employees, and employees of California public agencies. Its Board of Administration has plenary authority and fiduciary responsibility for the investment of monies and the administration of the plan. CalPERS administers the following seven pension and other employee

benefit trust funds: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, the Legislators' Retirement Fund, the Public Employees' Deferred Compensation Fund, the public employee Supplemental Contributions Program Fund, and the California Employers' Retiree Benefit Trust Fund. CalPERS' separately issued financial statements may be found on its website at www.CalPERS.ca.gov.

The *California State Teachers' Retirement System (CalSTRS)* administers pension benefit plans for California public school teachers and certain other employees of the public school system. The State is financially accountable for CalSTRS. CalSTRS administers a hybrid retirement system consisting of the State Teachers' Retirement Plan, a defined benefit plan, composed of the Defined Benefit Program, the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefits Program; two defined contribution plans; a postemployment benefit plan; and a fund used to account for ancillary activities associated with various deferred compensation plans and programs. CalSTRS' separately issued financial statements may be found on its website at www.CalSTRS.com.

3. Discretely Presented Component Units

Enterprise activity of discretely presented component units is reported in a separate column in the government-wide financial statements. Discretely presented component units are legally separate from the primary government and usually provide services to entities and individuals outside the primary government. Discretely presented component units that report enterprise activity include the University of California, the California Housing Finance Agency, and nonmajor component units. Most component units separately issue their own financial statements. In general, the notes to the financial statements in this publication do not include information found in the component units' separately issued financial statements. Instead, references to the individual component unit financial statements are provided where applicable.

The *University of California* was founded in 1868 as a public, state-supported, land-grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by a governing board, the Regents of the University of California (Regents). The University is a component unit of the State because the State appoints a voting majority of the Regents and provides financial assistance to the University. The University offers defined benefit pension plans and defined contribution pension plans to its employees through the University of California Retirement System (UCRS), a fiduciary responsibility of the Regents. The financial information of the UCRS is not included in the financial statements of this report due to its fiduciary nature. The University's financial statements may be found on its website at www.ucop.edu.

The *California Housing Finance Agency (CalHFA)* was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act, as amended. CalHFA's purpose is to finance the housing needs of persons and families of low and moderate income. It is a component unit of the State because the State appoints a voting majority of CalHFA's governing board and the executive director, who administers the day-to-day operations. CalHFA's financial statements may be found on its website at www.CalHFA.ca.gov.

State legislation created various nonmajor component units to provide certain services outside the primary government and to provide certain private and public entities with a low-cost source of financing for programs deemed to be in the public interest. California State University Auxiliary Organizations are considered component units because they exist entirely or almost entirely for the direct benefit of the universities. The remaining nonmajor component units are considered component units because the majority of members of their governing boards are appointed by or are members of the primary government, and

the primary government can impose its will on the entity; or the entity provides a specific financial benefit to or imposes a financial burden on the primary government. For information regarding obtaining copies of the financial statements of these component units, email the State Controller's Office, State Accounting and Reporting Division at StateGovReports@sco.ca.gov.

The nonmajor consolidated component unit segments are:

California State University Auxiliary Organizations, which provide services primarily to university students through foundations, associated student organizations, student unions, food service entities, book stores, and similar organizations.

Financing authorities, which provide financing for specific purposes. These agencies include:

- The *California Alternative Energy and Advanced Transportation Financing Authority*, which provides financing for alternative energy and advanced transportation technologies;
- The *California Infrastructure and Economic Development Bank*, which provides financing for business development and public improvements; and
- The *California Urban Waterfront Area Restoration Financing Authority*, which provides financing for coastal and inland urban waterfront restoration projects.

District agricultural associations, which exhibit all of the industries, industrial enterprises, resources, and products of the State (the district agricultural associations' financial report is as of and for the year ended December 31, 2017).

Other component units, which include the following entities:

- The *University of California Hastings College of the Law*, which was established as the law department of the University of California to provide legal education programs and operates independently under its own board of directors. The college has a discretely presented component unit, the Foundation, which provides private sources of funds for academic programs, scholarships, and faculty research;
- The *State Assistance Fund for Enterprise, Business and Industrial Development Corporation*, which provides financial assistance to small business; and
- The *Public Employees' Contingency Reserve*, which provides health benefit plans for state employees and annuitants.

4. Joint Venture

A joint venture is an entity resulting from a contractual arrangement; it is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. In such an arrangement, the participants retain an ongoing financial interest or an ongoing financial responsibility in the entity. These entities are not part of the primary government or a component unit.

The State participates in a joint venture called the *Capitol Area Development Authority (CADA)*. CADA was created in 1978 by the joint exercise of powers agreement between the primary government and the City of Sacramento for the location of state buildings and other improvements. CADA is a public entity, separate from the primary government and the city; it is administered by a board composed of five members —two appointed by the primary government, two appointed by the city, and one appointed by the affirmative vote of at least three of the other four members of the board. The primary government designates the chairperson of the board. Although the primary government does not have an equity interest in CADA, it does have an ongoing financial interest. The primary government subsidizes CADA's operations by leasing land to CADA without consideration; however, the primary government is not obligated to do so. At June 30, 2018, CADA had total assets and deferred outflows of resources of $37.0 million, total liabilities and deferred inflows of resources of $25.1 million, and total net position of $11.9 million. Total revenues for the fiscal year were $14.3 million and expenses were $12.2 million, resulting in an increase in net position of $2.1 million. As the primary government does not have equity interest in CADA, CADA's financial information is not included in the financial statements of this report. Separately issued financial statements may be obtained on its website at www.cadanet.org.

5. Related Organizations

A related organization is an organization for which a primary government is accountable because that government appoints a voting majority of the organization's governing board, but for which the primary government is not financially accountable.

Chapter 854 of the Statutes of 1996 created an *Independent System Operator (ISO)*, a state-chartered, nonprofit market institution. The ISO provides centralized control of the statewide electrical transmission grid to ensure the efficient use and reliable operation of the transmission system. The ISO is governed by a five-member board, the members of which are appointed by the Governor and confirmed by the Senate. The State's accountability for this institution does not extend beyond making the initial oversight board appointments. As the primary government is not financially accountable for the ISO, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the ISO, go to its website at www.caiso.com.

The *California Earthquake Authority (CEA)*, a legally separate organization, offers earthquake insurance for California homeowners, renters, condominium owners, and mobilehome owners. A three-member board composed of state-elected officials governs the CEA. The State's accountability for this institution does not extend beyond making the appointments. As the primary government is not financially accountable for the CEA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CEA, go to its website at www.earthquakeauthority.com.

The *State Compensation Insurance Fund (State Fund)* was established by the State through legislation enacted in 1913 to provide an available market for workers' compensation insurance to employees located in California. State Fund operates in competition with other insurance carriers to serve California businesses. The State appoints all 11 members of the State Fund's governing board. The State's accountability for this institution does not extend beyond making the initial oversight board appointments. As the primary government is not financially accountable for the State Fund, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the State Fund, go to its website at www.statefundca.com.

The *California Health Benefit Exchange (Exchange)*, an independent public entity, offers health insurance to individuals, families, and small businesses. A five-member board of state-appointed officials governs the Exchange. The State's accountability for this institution does not extend beyond making the appointments. As the primary government is not financially accountable for the Exchange, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the Exchange, contact Covered California, P.O. Box 989725, West Sacramento, California 95798-9725.

The *California Pollution Control Financing Authority (CPCFA)* was created through the California Pollution Control Financing Authority Act of 1972. The CPCFA is a legally separate entity that provides financing for pollution control facilities. A three-member board composed of state-elected officials and an appointee governs the CPCFA. The State's accountability for this institution does not extend beyond making the appointments. As the primary government is not financially accountable for the CPCFA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CPCFA, go to its website at www.treasurer.ca.gov/cpcfa.

The *California Health Facilities Financing Authority (CHFFA)* was established by the State through legislation enacted in 1979. The CHFFA is a legally separate entity that provides financing for the construction, equipping, and acquisition of health facilities. A nine-member board composed of state-elected officials and appointees govern the CHFFA. The State's accountability for this institution does not extend beyond making the appointments. As the primary government is not financially accountable for the CHFFA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CHFFA, go to its website at www.treasurer.ca.gov/chffa.

The *California Educational Facilities Authority (CEFA)* was created by the State through legislation effective in 1973. The CEFA is a legally separate entity established to issue revenue bonds to finance loans for students attending public and private colleges and universities, and to assist private educational institutions of higher learning in financing the expansion and construction of educational facilities. A five-member board composed of state-elected officials and appointees govern the CEFA. The State's accountability for this institution does not extend beyond making the appointments. As the primary government is not financially accountable for the CEFA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements for the CEFA, go to its website at www.treasurer.ca.gov/cefa.

The *California School Finance Authority (CSFA)* was created in 1985. The CSFA is a legally separate entity that provides loans to school and community college districts to assist them in obtaining equipment and facilities. A three-member board composed of state-elected officials and an appointee governs the CSFA. The State's accountability for this institution does not extend beyond making the appointments. As the primary government is not financially accountable for the CSFA, the financial information for this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CSFA, go to its website at www.treasurer.ca.gov/csfa.

B. Government-wide and Fund Financial Statements

Government-wide financial statements (the Statement of Net Position and the Statement of Activities) provide information on all of the nonfiduciary activities of the primary government and its component units. The primary government is reported separately from legally separate component units for which the State is financially accountable. Within the primary government, the State's governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The effect of interfund activity has been removed from the statements, with the exception of amounts between governmental and business-type activities, which are presented as internal balances and transfers. Centralized services provided by the General Fund for other funds are charged as direct costs to the funds that received those services. Also, the General Fund recovers the cost of centralized services provided to federal programs from the federal government.

The Statement of Net Position reports all of the financial and capital resources of the government as a whole in a format in which assets and deferred outflows of resources equal liabilities and deferred inflows of resources, plus net position. The Statement of Activities demonstrates the degree to which the expenses of a given function are offset by program revenues. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items that are not program-related are reported as general revenues.

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The State maintains the minimum number of funds consistent with legal and managerial requirements. Fiduciary funds, although excluded from the government-wide statements, are included in the fund financial statements. Major governmental and enterprise funds are reported in separate columns in the fund financial statements. Nonmajor governmental and proprietary funds are grouped into separate columns. Discretely presented component unit statements, which follow the fiduciary fund statements, also separately report the enterprise activity of the major discretely presented component units. In this report, the enterprise activity of nonmajor discretely presented component units is grouped in a separate column.

Governmental fund types are used to account for activities primarily supported by taxes, grants, and similar revenue sources.

The State reports the following major governmental funds:

The *General Fund* is the main operating fund of the State. It accounts for transactions related to resources obtained and used for those services that need not be accounted for in another fund.

The *Federal Fund* accounts for the receipt and use of grants, entitlements, and shared revenues received from the federal government that are all restricted by federal regulations.

The *Transportation Fund* accounts for fuel taxes, including the State's diesel, motor vehicle, and fuel use taxes; bond proceeds; automobile registration fees; and other revenues that are restricted for

transportation purposes, including highway and passenger rail construction and transportation safety programs.

The *Environmental and Natural Resources Fund* accounts for fees, bond proceeds, and other revenues that are restricted for maintaining the State's natural resources and improving the environmental quality of its air, land, and water.

Proprietary fund types focus on the determination of operating income, changes in net position, financial position, and cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. For its proprietary funds, the State applies all applicable GASB pronouncements.

The State has two proprietary fund types: enterprise funds and internal service funds.

Enterprise funds record business-type activity for which a fee is charged to external users for goods and services. In addition, the State is required to report activities as enterprise funds in the context of the activity's principal revenue sources when any of the following criteria are met:

- The activity's debt is secured solely by fees and charges of the activity;
- There is a legal requirement to recover costs; or
- The pricing policies of fees and charges are designed to recover costs.

The State reports the following major enterprise funds:

The *Electric Power Fund* accounts for the acquisition and resale of electric power to retail end-use customers.

The *Water Resources Fund* accounts for charges to local water districts and the sale of excess power to public utilities.

The *State Lottery Fund* accounts for the sale of California State Lottery (Lottery) tickets and the Lottery's payments for education.

The *Unemployment Programs Fund* accounts for employer and worker contributions used for payments of unemployment insurance and disability benefits.

The *California State University Fund* accounts for student fees and other receipts from gifts, bequests, donations, federal and state grants, and loans that are used for educational purposes.

Nonmajor enterprise funds account for additional operations that are financed and operated in a manner similar to private business enterprises.

Additionally, the State reports *internal service funds* as a proprietary fund type with governmental activity. Internal service funds account for goods or services provided to other agencies, departments, or governments on a cost-reimbursement basis. The goods and services provided include architectural services, public building construction and improvements, printing and procurement services, goods produced by inmates of state prisons, data processing services, and administrative services related to water delivery. Internal service funds are included in the governmental activities at the government-wide level.

Fiduciary fund types are used to account for assets held by the State. The State acts as a trustee or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds, including fiduciary component units, are not included in the government-wide financial statements.

The State has the following four fiduciary fund types:

Private purpose trust funds account for all trust arrangements, other than those properly reported in pension or investment trust funds, whereby principal and income benefit individuals, private organizations, or other governments. The following are the State's largest private purpose trust funds:

The *Scholarshare Program Trust Fund* accounts for money received from participants to fund their beneficiaries' higher education expenses at certain postsecondary educational institutions.

The *Unclaimed Property Fund* accounts for unclaimed money and properties held in trust by the State. Unclaimed money is remitted to the General Fund where it can be used by the State until it is claimed.

Pension and other employee benefit trust funds of the primary government and fiduciary component units account for transactions, assets, liabilities, and net position available for plan benefits of the retirement systems and for other employee benefit programs.

An *investment trust fund* accounts for the deposits, withdrawals, and earnings of the Local Agency Investment Fund, an external investment pool for local governments and public agencies.

Agency funds account for assets held by the State, which acts as an agent for individuals, private organizations, or other governments. The following are the State's largest agency funds:

The *Receipting and Disbursing Fund* accounts for the collection and disbursement of revenues and receipts on behalf of local governments. This fund also accounts for receipts from numerous state funds, typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

The *Deposit Fund* accounts for various deposits, such as those from condemnation and litigation proceedings.

Discretely presented component units consist of certain organizations that have enterprise activity. The enterprise activity component units are the University of California, the California Housing Finance Agency, and nonmajor component units. In this report, all of the enterprise activity of the discretely presented component units is reported in a separate column in the government-wide financial statements and on separate pages following the fund financial statements.

C. Measurement Focus and Basis of Accounting

1. Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when they are earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar transactions are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

2. Fund Financial Statements

The measurement focus and basis of accounting for the fund financial statements vary with the type of fund. **Governmental fund types** are presented using the current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets; the unassigned fund balance is a measure of available, spendable resources.

The accounts of the governmental fund types are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. The State records revenue sources when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months. When an asset is recorded in a governmental fund statement, but the revenue is not available within the ensuing 12 months, the State reports a deferred inflow of resources until such time as the revenue becomes available. Principal tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and corporation taxes), as sales are made (consumption and use taxes), and as a taxable event occurs (miscellaneous taxes), net of estimated tax overpayments. Principal tax revenues are reported net of immaterial tax abatements from programs that promote economic development and otherwise benefit the State, such as the Film and Television Tax Credit, the California Competes Tax Credit, the Low-Income Housing Tax Credit, and the Sales and Use Tax Exclusion.

Proprietary fund types, the **investment trust fund**, **private purpose trust funds**, and **pension and other employee benefit trust funds** are accounted for using the economic resources measurement focus. **Agency funds** are custodial in nature and do not measure the results of operations.

The accounts of the proprietary fund types, the investment trust fund, private purpose trust funds, pension and other employee benefit trust funds, and agency funds are reported using the accrual basis of accounting. Under the accrual basis, most transactions are recorded when they occur, regardless of when cash is received or disbursed.

Lottery revenue and the related prize expenses are recognized when sales are made. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

Discretely presented component units are accounted for using the economic resources measurement focus and the accrual basis of accounting.

D. Cash and Investments

The State considers cash and pooled investments, for the purpose of the Statement of Cash Flows, as cash and cash equivalents. Cash and cash equivalents are considered to be cash on hand; deposits in the State's pooled investment program; restricted cash and pooled investments for debt service, construction, and operations; restricted cash on deposit with fiscal agents (for example, revenue bond trustees); and highly liquid investments with an original maturity date of three months or less.

The State reports investments at fair value, as prescribed by GAAP. Additional information on the State's investments and fair value measurement can be found in Note 3, Deposits and Investments.

E. Receivables

Amounts are aggregated into a single receivables account net of allowance for uncollectible amounts. The detail of the primary government's accounts receivable can be found in Note 4, Accounts Receivable.

F. Inventories

Inventories of supplies are reported at cost and inventories held for resale are stated at the lower of average cost or market. In the government-wide financial statements, inventories for both governmental and business-type activities are expensed when they are consumed and unused inventories are reported as an asset on the Statement of Net Position. In the fund financial statements, governmental funds report inventories as expenditures when purchased, and proprietary funds report inventories as expenditures when consumed. The discretely presented component units have inventory policies similar to those of the primary government.

G. Net Investment in Direct Financing Leases

The State Public Works Board accounts for its activities in the Public Buildings Construction Fund, an internal service fund, and has entered into lease-purchase agreements with various other primary government agencies and certain local agencies. The payments from these leases are used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the cost of projects such as acquisition and construction of facilities and equipment. Upon expiration of these leases, title to the facilities and projects transfers to the primary government agency or the local agency. The State Public Works Board records the net investment in direct financing leases at the net present value of the minimum lease payments in the internal service fund financial statements. As the majority of this lease receivable is from governmental funds, it is eliminated within the governmental activities column of the government-wide Statement of Net Position.

The California State University (CSU) system accounts for its lease activities in the California State University Fund, a major enterprise fund, and has entered into 30-year capital lease agreements with various auxiliary organizations. These agreements lease existing and newly constructed facilities to the CSU Auxiliary Organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.

H. Long-term Prepaid Charges

The long-term prepaid charges account in the enterprise funds primarily represents operating and maintenance costs that will be recognized in the Water Resources Fund as expenses over the remaining life of long-term state water supply contracts. These costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as long-term prepaid charges. These charges are recognized when billed in the future years under the terms of water supply contracts. Long-term prepaid charges are also included in the State Lottery Fund. These prepaid charges are incurred in connection with certain contracts that extend beyond a one-year period, which are amortized as expenses over the remaining life of the contracts. The long-term prepaid charges for the Public Buildings Construction Fund, an internal service fund, include prepaid insurance costs on revenue bonds issued. In the government-wide financial statements, the prepaid charges for governmental activities include prepaid insurance costs on revenue bonds issued.

I. Capital Assets

Capital assets are categorized into land, state highway infrastructure, collections, buildings and other depreciable property, intangible assets, and construction in progress. The buildings and other depreciable property account includes buildings, improvements other than buildings, equipment, certain infrastructure assets, certain books, and other capitalized and depreciable property. Intangible assets include computer software, land-use rights, patents, copyrights, and trademarks. The value of the capital assets, including the related accumulated depreciation and amortization, is reported in the applicable governmental, business-type, or component unit activities columns in the government-wide Statement of Net Position.

The primary government has a large collection of historical and contemporary treasures that have important documentary and artistic value. These assets are not capitalized or depreciated because they are cultural resources and cannot reasonably be valued and/or the assets have inexhaustible useful lives. These treasures and works of art include furnishings, portraits and other paintings, books, statues, photographs, and miscellaneous artifacts. These collections meet the conditions for exemption from capitalization because the collections are held for public exhibition, education, or research in furtherance of public service, rather than financial gain; protected, kept unencumbered, cared for, and preserved; and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

In general, capital assets of the primary government are defined as assets that have a normal useful life of at least one year and a unit cost of at least $5,000. These assets are recorded at historical cost or estimated historical cost, including all costs related to the acquisition. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value on the date received. Major capital asset outlays are capitalized as projects are constructed.

Buildings and other depreciable or amortizable capital assets are depreciated using the straight-line method with no salvage value for governmental activities. Generally, buildings and other improvements are depreciated over 40 years, equipment is depreciated over five years, and intangible assets are amortized over 10 to 20 years. Depreciable or amortizable assets of business-type activities are depreciated or amortized using the straight-line method over their estimated useful or service lives, ranging from 3 to 100 years.

California has elected to use the modified approach for capitalizing the infrastructure assets of the state highway system. The state highway system is maintained by the California Department of Transportation. By using the modified approach, the infrastructure assets of the state highway system are not depreciated and all expenditures made for those assets, except for additions and improvements, are expensed in the period incurred. All additions and improvements made after June 30, 2001, are capitalized. All infrastructure assets that are related to projects completed prior to July 1, 2001, are recorded at the historical costs contained in annual reports of the American Association of State Highway and Transportation Officials and the Federal Highway Administration.

The capital assets of the discretely presented component units are reported at cost at the date of acquisition or at fair market value at the date of donation, in the case of gifts. They are depreciated or amortized over their estimated useful service lives.

J. Long-term Obligations

Long-term obligations consist of unmatured general obligation bonds, unmatured revenue bonds, capital lease obligations, certificates of participation, commercial paper, net pension liability, net other postemployment benefits liability, employees' compensated absences and workers' compensation claims, pollution remediation obligations, amounts owed for lawsuits, reimbursement for costs mandated by the State, outstanding Proposition 98 funding guarantee owed to schools, the liability for lottery prizes and annuities, loans from other governments, and the primary government's share of the University of California's pension liability that is due in more than one year. In the government-wide financial statements, the obligations are reported as liabilities in the applicable governmental activities, business-type activities, and component units columns of the Statement of Net Position. The current portion—amount due within one year—of the long-term obligations is reported under current liabilities.

Pollution remediation obligations are recorded by the State when one or more of the GASB Statement No. 49 obligating events have occurred and when a reasonable estimate of the remediation cost is available. These liabilities are measured using actual contract costs, where no change in cost is expected, or the expected cash flow technique. The remediation obligation estimates that appear in this report are subject to change over time. Costs may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations, and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation.

Bond premiums and discounts for business-type activities and component units are deferred and amortized over the life of the bonds. In these instances, bonds payable is reported net of the applicable premium and discount. Bond premiums and discounts for governmental funds are reported as other financing sources (uses). However, in the government-wide financial statements, the bonds payable for governmental activities is reported net of the applicable unamortized premium and discount. Bond issuance costs, excluding prepaid insurance, are expensed when incurred.

With advance approval from the Legislature, certain authorities and state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds, building authorities, and agencies. The General Fund has no legal liability for payment of principal and interest on revenue bonds. With the exception of certain special revenue funds (Transportation and the Golden State Tobacco Securitization Corporation) and the building authorities capital projects fund, the liability for revenue bonds is recorded in the respective fund.

K. Compensated Absences

The government-wide financial statements report both the current and the noncurrent liabilities for compensated absences, which are vested unpaid vacation, annual leave, and other paid leave programs. However, unused sick-leave balances are not included in the compensated absences because they do not vest to employees. In the governmental fund financial statements, only the compensated absences liability for employees who have left state service and have unused reimbursable leave at fiscal year-end is included. The amounts of vested unpaid vacation and annual leave accumulated by state employees are accrued in proprietary funds when incurred. In the discretely presented component units, the compensated absences are accounted for in the same manner as in the proprietary funds of the primary government.

L. Deferred Outflows and Deferred Inflows of Resources

The government-wide and fund financial statements report deferred outflows of resources and deferred inflows of resources.

1. Deferred Outflows of Resources

Deferred outflows of resources are the consumption of assets that are applicable to future reporting periods. Deferred outflows of resources are presented separately after "Total Assets" in the Balance Sheet and Statement of Net Position.

Deferred outflows of resources consist of the following transactions:

- *Loss on Refunding of Debt*: The defeasance of previously outstanding general obligation and revenue bonds results in deferred refunding losses for governmental activities, business-type activities, and component units. These deferred losses are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

- *Decrease in Fair Value of Hedging Derivatives*: Negative changes in the fair value of hedging derivatives are reported for component units.

- *Net Pension Liability*: Increases in net pension liability that are not recognized in pension expense for the reporting period are reported as deferred outflows of resources related to pensions. Differences between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic or demographic factors, or of other inputs used by the actuaries to determine total pension liability; and increases in the State's proportionate share of net pension liability for plans that have a special funding situation, such as CalSTRS, are all recognized in pension expense over the average of the expected remaining service lives of participating employees. A deferred outflow of resources is also reported when projected earnings on pension plan investments exceed actual earnings, with the net difference amortized to pension expense over a five-year period beginning in the current reporting period. Employer contributions, and state contributions in the case of CalSTRS' special funding situation, made subsequent to the measurement date are reported as deferred outflows of resources related to pensions and reduce net pension liability in the following year. Deferred outflows of resources related to net pension liability are reported for governmental activities, business-type activities, fiduciary funds, and component units.

- *Net Other Postemployment Benefits Liability*: Increases in net OPEB liability that are not recognized in OPEB expense for the reporting period are reported as deferred outflows of resources related to OPEB. Differences between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic or demographic factors, or of other inputs used by the actuaries to determine total OPEB liability; and differences between the actual and proportionate share of OPEB contribution amounts, are all recognized as OPEB expense over the average of the expected remaining service lives of participating employees. A deferred outflow of resources is also reported when projected earnings on OPEB plan investments exceed actual earnings, with the net difference amortized to OPEB expense over a five-year period beginning in the current reporting period. Employer contributions made subsequent to the measurement date are reported as deferred outflows of resources related to OPEB and reduce net OPEB liability in the following year. Deferred outflows of resources related to net OPEB liability are reported for governmental activities, business-type activities, fiduciary funds, and component units.

2. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of assets that are applicable to future reporting periods. Deferred inflows of resources are presented separately after "Total Liabilities" in the Balance Sheet and Statement of Net Position.

The State's deferred inflows of resources consist of the following transactions:

- *Unavailable Revenues*: Governmental funds report deferred inflows of resources for earned and measurable revenue from long-term receivables that is not available within 12 months of the end of the reporting period. These deferred amounts are recognized as revenue in the periods that they become available.

- *Gain on Refunding of Debt*: The defeasance of previously outstanding general obligation and revenue bonds results in deferred refunding gains for governmental activities and discretely presented component units. These deferred gains are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

- *Service Concession Arrangements*: The State and its component units have entered into service concession arrangements with third parties for park facility services, student housing, and certain other services. The upfront payment received or present value of installment payments expected to be received from the third parties are reported as deferred inflows of resources.

- *Irrevocable Split-Interest Agreements*: The State and its discretely presented component units have entered into irrevocable split-interest agreements with third parties to receive donations of monetary assets and real property. The value of assets received or expected to be received from the third parties are reported as deferred inflows of resources.

- *Net Pension Liability*: Reductions in net pension liability that are not recognized in pension expense for the reporting period are reported as deferred inflows of resources related to pensions. Differences between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic or demographic factors, or of other inputs used by the actuaries to determine total pension liability; and decreases in the State's proportionate share of net pension liability for plans that have a special funding situation, such as CalSTRS, are all recognized against

pension expense over the average of the expected remaining service lives of participating employees. A deferred inflow of resources is also reported when actual earnings on pension plan investments exceed projected earnings, with the net difference amortized against pension expense over a five-year period beginning in the current reporting period. Deferred inflows of resources related to net pension liability are reported for governmental activities, business-type activities, fiduciary funds, and component units.

- *Net Other Postemployment Benefits Liability*: Reductions in net OPEB liability that are not recognized in OPEB expense for the reporting period are reported as deferred inflows of resources related to OPEB. Differences between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic or demographic factors, or of other inputs used by the actuaries to determine total OPEB liability; and differences between the actual and proportionate share of OPEB contribution amounts, are all recognized against OPEB expense over the average of the expected remaining service lives of participating employees. A deferred inflow of resources is also reported when actual earnings on OPEB plan investments exceed projected earnings, with the net difference amortized against OPEB expense over a five-year period beginning in the current reporting period. Deferred inflows of resources related to net OPEB liability are reported for governmental activities, business-type activities, fiduciary funds, and component units.

- *Other Deferred Inflows of Resources*: Revenues generated from current rates charged by regulated business-type activities that are intended to recover costs expected to be incurred in the future are reported in the government-wide Statement of Net Position. A component unit's sale of future royalty payments and nonexchange transactions are reported as a deferred inflow of resources.

M. Nonmajor Enterprise Segment Information

Three nonmajor enterprise fund segments are displayed discretely in the Combining Statement of Net Position; the Combining Statement of Revenues, Expenses, and Changes in Fund Net Position; and the Combining Statement of Cash Flows of the nonmajor enterprise funds. A *segment* is an identifiable activity reported as or within an enterprise fund or another stand-alone entity for which debt is outstanding and a revenue stream has been pledged in support of that debt. In addition, to qualify as a segment, an activity must be subject to an external requirement to separately account for revenues, expenses, gains and losses, assets and deferred outflows of resources, and liabilities and deferred inflows of resources. All of the activities reported for the fund segments listed below meet these requirements.

State Water Pollution Control Revolving Fund: Interest charged on loans to communities for construction of water pollution control facilities and projects.

Safe Drinking Water State Revolving Fund: Interest charged on loans for construction of publicly owned water systems for drinking water infrastructure projects.

Housing Loan Fund: Interest payments from low-interest, long-term farm and home mortgage loan contracts to eligible veterans living in California.

N. Net Position and Fund Balance

The difference between fund assets, deferred outflows of resources, liabilities, and deferred inflows of resources is called "net position" on the government-wide financial statements, the proprietary and fiduciary fund statements, and the component unit statements; it is called "fund balance" on the governmental fund statements.

1. Net Position

The government-wide financial statements include the following categories of net position:

Net investment in capital assets represents capital assets, net of accumulated depreciation, reduced by the outstanding debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position results from transactions with purpose restrictions and is designated as either *nonexpendable* or *expendable*. *Nonexpendable restricted* net position is subject to externally imposed restrictions that must be retained in perpetuity. *Expendable restricted* net position is subject to externally imposed restrictions that can be fulfilled by actions of the State. As of June 30, 2018, the government-wide financial statements show restricted net position for the primary government of $47.5 billion, of which $8.1 billion is due to enabling legislation.

Unrestricted net position is neither restricted nor invested in capital assets.

2. Fund Balance

In the fund financial statements, proprietary funds include categories of net position similar to those in the government-wide financial statements. Fund balance amounts for governmental funds are reported as nonspendable, restricted, committed, assigned, or unassigned.

Nonspendable fund balance includes amounts that cannot be spent because they are not in spendable form (inventories; prepaid amounts; long-term portion of loans or notes receivable; or property held for resale unless the proceeds are restricted, committed, or assigned) or they are legally or contractually required to remain intact.

Restricted fund balance has constraints placed upon the use of the resources either by an external party (creditors, grantors, contributors, or laws and regulations of other governments) or through a constitutional provision or enabling legislation.

Committed fund balance can be used only for specific purposes pursuant to constraints imposed by state law as adopted by the California State Legislature. The state law that commits fund balance to a specific purpose must have been adopted prior to the end of the reporting period, but the amount subject to the constraint may be determined in a subsequent period. Committed fund balance incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance: California does not have a formal policy to delegate authority to assign resources. However, fund balance can be classified as assigned when a purchase order creates an outstanding encumbrance amount, unless the purchase order relates to restricted or committed resources.

Furthermore, in governmental funds created by state law for a specific purpose, other than the General Fund, all resources that are not reported as nonspendable, restricted, or committed are classified as assigned for the purpose of the respective funds.

Unassigned fund balance is the residual amount of the General Fund not included in the four classifications described above. In other governmental funds in which expenditures incurred for specific purposes exceeded amounts restricted, committed, or assigned to those purposes, a negative unassigned fund balance is reported.

Fund balance spending order: For the purpose of reporting fund balance in this financial report under GASB Statement No. 54, the State considers resources to be spent in the following order when an expenditure is incurred for which these classifications are available: restricted, committed, assigned, and unassigned.

Fiduciary fund net position represents amounts held in trust for pension and other postemployment benefits, deferred compensation participants, pool participants, individuals, organizations, or other governments.

3. Budget Stabilization Account

In accordance with Article 16, Section 20 of the California State Constitution, the State maintains the Budget Stabilization Account. The Budget Stabilization Account is reported in the General Fund. By October 1 of each fiscal year, a transfer must be made from the General Fund to the Budget Stabilization Account in an amount equal to one-half of (a) 1.5% of the estimated General Fund revenues for that fiscal year and (b) personal capital gains tax revenues in excess of 8.0% of estimated General Fund taxes for that fiscal year less amounts that must be spent on Proposition 98. The remaining half of the calculated amount is used as appropriated by the State Legislature to pay down (1) interfund loans, (2) specified debts to local governments, and (3) debts for pension and retiree health benefits.

The State Legislature may suspend or reduce the transfer of funds to, or withdrawal of funds from, the Budget Stabilization Account if the Governor declares a budget emergency. For this purpose, budget emergency means either (1) a natural disaster or other event that creates a condition of extreme peril to the safety of persons or property, or (2) there is not enough money to keep General Fund spending at the highest level of the past three fiscal years (adjusted for changes in state population and cost of living). The amount of the withdrawal from the Budget Stabilization Account is limited to the actual amount needed for the natural disaster or to keep General Fund spending at the highest level of the past three years. In addition, if there was no budget emergency in the prior fiscal year, no more than one-half of the Budget Stabilization Account balance may be withdrawn; the entire remaining balance could be withdrawn in the second straight year of a budget emergency.

When the balance of the Budget Stabilization Account reaches 10% of the estimated General Fund revenues for that fiscal year, the amount that would have been transferred to the Budget Stabilization Account would instead be used to build and maintain infrastructure. At June 30, 2018, the Budget Stabilization Account had a restricted fund balance of $9.4 billion.

O. Restatement of Beginning Fund Balances and Net Position

1. Fund Financial Statements

The beginning fund balance of *governmental funds* decreased by $1.7 billion primarily for the reclassification of the Safe Drinking Water State Revolving Fund from the Environmental and Natural Resources Fund to a nonmajor enterprise fund.

The beginning net position of the *internal service funds* decreased by $1.7 billion. This decrease is comprised of a $1.7 billion decrease due to the recognition of net other postemployment benefits (OPEB) liability and deferred outflows of resources in all applicable funds resulting from the implementation of GASB Statement No. 75 and a $19 million increase for overstated prior-year expenses in the Financial Information Systems Fund. In addition, the transfer of operations from the Technology Services Revolving Fund to other internal service programs caused a $38 million transfer of beginning net position between internal service funds.

Internal Service Funds (amounts in thousands)	**Net Position (Deficit) June 30, 2017 (previously reported)**	**GASB Statement No. 75 Implementation**	**Other Restatements**	**Net Position (Deficit) Beginning of Year (restated)**
Architecture Revolving	$ (92,873)	$ (66,359)	$ —	$ (159,232)
Service Revolving	(537,521)	(500,181)	—	(1,037,702)
Prison Industries	195,570	(215,109)	—	(19,539)
Financial Information Systems	227,309	(76,198)	19,684	170,795
Technology Services Revolving	(242,955)	(242,667)	38,458	(447,164)
Other internal service programs	(335,799)	(631,269)	(38,458)	(1,005,526)
	$ (786,269)	**$ (1,731,783)**	**$ 19,684**	**$ (2,498,368)**

The beginning net position of the *enterprise funds* decreased by $12.8 billion. This decrease is comprised of a $14.5 billion decrease due to the recognition of net OPEB liability and deferred outflows of resources in all applicable funds resulting from the implementation of GASB Statement No. 75, a $1.7 billion increase for the reclassification of the Safe Drinking Water State Revolving Fund from the Environmental and Natural Resources Fund, and a $4 million decrease for the reclassification of a program previously report in other enterprise programs to a nonmajor governmental fund.

Enterprise Funds (amounts in thousands)	**Net Position (Deficit) June 30, 2017 (previously reported)**	**GASB Statement No. 75 Implementation**	**Other Restatements**	**Net Position (Deficit) Beginning of Year (restated)**
State Lottery	$ (2,838)	$ (155,152)	$ —	$ (157,990)
Unemployment Programs	4,064,646	(334,436)	—	3,730,210
California State University	(2,464,323)	(13,923,704)	—	(16,388,027)
Safe Drinking Water State Revolving	—	—	1,728,875	1,728,875
Housing Loan	123,728	(25,184)	—	98,544
Other enterprise programs	283,058	(65,757)	(4,539)	212,762
	$ 2,004,271	**$ (14,504,233)**	**$ 1,724,336**	**$ (10,775,626)**

The beginning net position of the *private purpose trust funds* increased by $106 million. The increase is comprised of a $114 million increase due to the implementation of GASB Statement No. 75 and an

$8 million decrease for the reclassification of a program previously reported in other private purpose trust funds to a nonmajor governmental fund.

The beginning net position of the fiduciary funds and similar component units decreased by $1.5 billion. This decrease is comprised of a $1.1 billion decrease due to the recognition of net OPEB liability and deferred outflows of resources in all applicable funds resulting from the implementation of GASB Statement No. 75 and a $396 million decrease due to the recognition of net pension liability and deferred outflows and inflows of resources due to GASB Statements No. 68 and No. 71.

Fiduciary Funds and Similar Component Units (amounts in thousands)	**Net Position June 30, 2017 (previously reported)**	**GASB Statement No. 75 Implementation**	**GASB Statements No. 68 and No. 71 Impact**	**Net Position Beginning of Year (restated)**
Public Employees' Retirement	$ 326,498,998	$ (572,830)	$ (386,327)	$ 325,539,841
State Teachers' Retirement	210,289,900	(510,819)	—	209,779,081
Judges' Retirement	48,275	(2,625)	(1,771)	43,879
Judges' Retirement II	1,356,099	(3,256)	(2,196)	1,350,647
Legislators' Retirement	116,884	(868)	(586)	115,430
Annuitants' Health Care Coverage	6,791,289	(5,366)	(3,619)	6,782,304
Deferred Compensation	14,990,010	(6,492)	(1,688)	14,981,830
Other pension and other employee benefit trust	132,101	259	(144)	132,216
	$ 560,223,556	**$ (1,101,997)**	**$ (396,331)**	**$ 558,725,228**

The beginning net position of the *discretely presented component units* decreased by $389 million. This decrease is comprised of a $160 million decrease due to the recognition of net OPEB liability and deferred outflows of resources in all applicable funds resulting from the implementation of GASB Statement No. 75, a $201 million decrease due to the University of California and the California State University Auxiliary Organizations' implementation of GASB Statement No. 81, and a $28 million decrease due to the recognition of net pension liability and deferred outflows and inflows of resources due to GASB Statements No. 68 and No. 71 by an other component unit.

Discretely Presented Component Units (amounts in thousands)	**Net Position June 30, 2017 (previously reported)**	**GASB Statement No. 75 Implementation**	**Other Restatements**	**Net Position Beginning of Year (restated)**
University of California	$ 10,987,491	$ —	$ (167,243)	$ 10,820,248
California Housing Finance Agency	1,778,240	(47,350)	—	1,730,890
Financing authorities	387,389	(13,409)	—	373,980
California State University Auxiliary Organizations	3,080,493	(10,930)	(33,583)	3,035,980
Other component units	149,064	(88,374)	(27,646)	33,044
	$ 16,382,677	**$ (160,063)**	**$ (228,472)**	**$ 15,994,142**

2. Government-wide Financial Statements

The beginning net position of *governmental activities* decreased by $47.8 billion. In addition to the amounts described in the previous section for governmental funds and internal service funds, the restatement includes a $44.3 billion decrease due to the recognition of net OPEB liability and deferred outflows of resources resulting from the implementation of GASB Statement No. 75 and a $61 million decrease for overstated capital assets.

The beginning net position of *business-type activities* and *component units* were restated as described in the previous sections for enterprise funds and discretely presented component units, respectively.

P. Guaranty Deposits

The State is the custodian of guaranty deposits held to protect consumers, to secure the State's deposits in financial institutions, and to ensure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not shown on the financial statements.

NOTE 2: BUDGETARY AND LEGAL COMPLIANCE

A. Budgeting and Budgetary Control

The State's annual budget is primarily prepared on a modified accrual basis for governmental funds. The Governor recommends a budget for approval by the Legislature each year. This recommended budget includes estimated revenues, but revenues are not included in the annual budget bill adopted by the Legislature. Under state law, the State cannot adopt a spending plan that exceeds estimated revenues.

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the Budget Act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations and establish the legal level of control for the annual operating budget. The budget can be amended throughout the year by special legislative action, budget revisions by the Department of Finance, or executive orders of the Governor. Amendments to the original budget for the fiscal year ended June 30, 2018, increased spending authority for the budgetary/legal basis-reported General Fund, Transportation Funds, and the Environmental and Natural Resources Funds.

Appropriations are generally available for expenditure or encumbrance either in the year appropriated or for a period of three years if the legislation does not specify a period of availability. At the end of the availability period, the encumbering authority for the unencumbered balance lapses. Some appropriations continue indefinitely, while others are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period in which the appropriation is available. If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapses.

B. Legal Compliance

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office is responsible for overall appropriation control and does not allow expenditures in excess of authorized appropriations.

Financial activities are mainly controlled at the appropriation level but can vary, depending on the presentation and wording contained in the Budget Act. The Budget Act appropriations are identified by department, reference item, and fund. The annual appropriated budget may establish detailed allocations to specific programs, projects, or sources of reimbursement within an appropriation. The Department of Finance can authorize adjustments between the detail allocations but cannot increase the amount of the overall appropriation. While the financial activities are controlled at various levels, the legal level of

budgetary control—the extent to which management may amend the budget without seeking approval of the governing body—has been established in the Budget Act for the annual operating budget.

The Budgetary Comparison Schedule is not presented in this document at the legal level of budgetary control because such a presentation would be extremely lengthy and cumbersome. The State prepares a separate report, the Comprehensive Annual Financial Report Supplement, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, section 2400.121. The supplement includes the comparison of the annual appropriated budget with expenditures at the legal level of control. A copy of the Comprehensive Annual Financial Report Supplement is available upon email request to the State Controller's Office, State Accounting and Reporting Division at StateGovReports@sco.ca.gov.

NOTE 3: DEPOSITS AND INVESTMENTS

Cash balances not required for immediate use are invested by the State Treasurer. The State Treasurer administers a single pooled investment program comprising both an internal investment pool and an external investment pool (the Local Agency Investment Fund). A single portfolio of investments exists, with all participants having an undivided interest in the portfolio. Both pools are administered in the same manner.

A. Primary Government

1. Control of State Funds

The State's pooled investment program and certain funds of the primary government are allowed by state statutes, bond resolutions, and investment policy resolutions to invest in U. S. government securities, federal agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, other debt securities, repurchase agreements, reverse repurchase agreements, and other investments.

Certain discretely presented component units and related organizations participate in the State Treasurer's Office pooled investment program. As of June 30, 2018, these discretely presented component units and related organizations account for approximately 3.2% of the State Treasurer's pooled investment portfolio. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs.

Both deposits and investments are included in the State's investment program. For certain banks, the State Treasurer's Office maintains cash deposits that cover uncleared checks deposited in the State's accounts and earn income that compensates the banks for their services.

Demand and time deposits held by financial institutions as of June 30, 2018, totaling approximately $5.5 billion, were insured by federal depository insurance or by collateral held by the State Treasurer's Office or an agent of the State Treasurer's Office in the State's name, with the exception of one demand deposit account that contained $70 million in uninsured and uncollateralized deposits as of June 30, 2018, due to larger than expected deposits beyond the time of day that additional collateral could be received. The California Government Code requires that collateral pledged for demand and time deposits be deposited with the State Treasurer.

As of June 30, 2018, the State Treasurer's Office had on deposit with a fiscal agent amounts totaling $23 million related to principal and interest payments to bondholders. These deposits were insured by federal depository insurance or by collateral held by an agent of the State Treasurer's Office in the State's name.

Certain funds have elected to participate in the pooled investment program even though they have the authority to invest on their own. Others may be required by legislation to participate in the program; as a result, the deposits of these funds may be considered involuntary. However, these funds are part of the State's reporting entity. The remaining participant in the pool, the Local Agency Investment Fund, is voluntary.

Certain funds that have deposits in the State Treasurer's pooled investment program do not receive the interest earnings on their deposits. Instead, by law, the earnings are assigned to the State's General Fund. Most of the $254 million in interest revenue received by the General Fund from the pooled investment program in fiscal year 2017-18 was earned on balances in these funds.

Enterprise funds and special revenue funds also make separate investments, which are presented at fair value.

2. Valuation of State Investments

The State Treasurer's Office reports its investments at fair value. The State Treasurer's Office performs a quarterly fair market valuation of the pooled investment program portfolio. The fair value of securities in the State Treasurer's pooled investment program is generally based on quoted market prices. In addition, the State Treasurer's Office performs a monthly fair market valuation of all securities held against carrying cost. These valuations can be obtained from the State Treasurer's Office website at www.treasurer.ca.gov.

Table 1 categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets and liabilities. Level 1 inputs are quoted prices for identical assets or liabilities in active markets at the date of measurement; Level 2 inputs are significant other directly or indirectly observable inputs other than quoted prices; and Level 3 inputs are significant unobservable inputs. The State has no investments measured at Level 3.

Table 1

Schedule of Investments – Primary Government – Investments by Fair Value Level
June 30, 2018
(amounts in thousands)

		Fair Value Measurements Using	
	June 30, 2018	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**
Pooled Investments			
U.S. Treasury bills and notes	$ 42,226,466	$ 42,226,466	$ —
U.S. Agency bonds and discount notes	14,087,600	14,087,600	—
Supranational debentures and discount notes	1,781,759	1,781,759	—
Small Business Administration loans	815,955	815,955	—
Mortgage-backed securities	29,847	29,847	—
Certificates of deposit	15,819,664	—	15,819,664
Bank notes	899,730	—	899,730
Commercial paper	7,521,009	—	7,521,009
Total pooled investments at fair value	**83,182,030**	**$ 58,941,627**	**$ 24,240,403**
Other primary government investments			
U.S. Treasuries and agencies	2,806,092	$ 688,512	$ 2,117,580
Commercial paper	30,106	—	30,106
Corporate debt securities	1,111,111	—	1,111,111
Repurchase agreements	9,928	—	9,928
Other	1,046,932	271,468	775,464
Total other primary government investments at fair value	**5,004,169**	**$ 959,980**	**$ 4,044,189**
Investments measured at the net asset value (NAV)			
Money market funds/2a-7 money market funds	354,097		
Total investments measured at the NAV	**354,097**		
Other investment instruments			
Guaranteed investment contracts[1]	200,000		
Total other investment instruments	**200,000**		
Funds outside primary government included in pooled investments			
Less: investment trust funds	22,544,018		
Less: other trust and agency funds	2,157,996		
Less: discretely presented component units and related organizations	2,663,740		
Total primary government investments	**$ 61,374,542**		

[1] Reported at carrying value.

As of June 30, 2018, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 199 days. Weighted average maturity is the average number of days, given a dollar-weighted value of individual investments, that the securities in the portfolio have remaining from evaluation date to stated maturity.

3. Oversight of Investing Activities

The Pooled Money Investment Board (PMIB) provides oversight of the State Treasurer's pooled investment program. The purpose of the board is to design and administer an effective cash management and investment program, using all monies flowing through the State Treasurer's Office bank accounts and keeping all available funds invested in a manner consistent with the goals of safety, liquidity, and yield. The PMIB is comprised of the State Treasurer as chair, the State Controller, and the Director of Finance. This board designates the amounts of money available for investment. The State Treasurer is charged with making the actual investment transactions for this program. This investment program is not registered with the Securities and Exchange Commission as an investment company.

The value of the deposits in the State Treasurer's pooled investment program, including the Local Agency Investment Fund, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2018, this difference was immaterial to the valuation of the program. The pool is run with "dollar-in, dollar-out" participation. There are no share-value adjustments to reflect changes in fair value.

The State Treasurer's pooled investment program values participants' shares on an amortized cost basis. Specifically, the program distributes income to participants quarterly, based on their relative participation during the quarter. This participation is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and (4) investment and administrative expenses. This amortized cost method differs from the fair value method used to value investments in these financial statements; the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair value of the pool's investments. Because the total difference between the fair value of the investments in the pool and the value distributed to pool participants using the amortized cost method described above is not material, no adjustment was made to the financial statements. The State Treasurer's Office also reports participant fair value as a ratio of amortized cost on a quarterly basis. The State Treasurer's Office has not provided or obtained a legally binding guarantee to support the principal invested in the investment program.

As of June 30, 2018, structured notes and medium-term asset-backed securities comprised approximately 2.0% of the pooled investments. A portion of the structured notes was callable agency securities which represented 0.4% of the pooled investments. The asset-backed securities consist of mortgage-backed securities, Small Business Administration (SBA) pools, and asset-backed commercial paper. The mortgage-backed securities, called *real estate mortgage investment conduits* (REMICs), are securities backed by pools of mortgages. The REMICs in the State's portfolio have a fixed principal payment schedule. A portion of the asset-backed securities consisted of floating-rate SBA notes. For floating-rate SBA notes held in the portfolio during the fiscal year, the interest received by the State Treasurer's pooled investment program rose or fell as the underlying index rate rose or fell. The structure of the floating-rate SBA notes in the State Treasurer's pooled investment program portfolio provided a hedge against the risk of increasing interest

rates. A portion of the asset-backed portfolio holdings were short-term, asset-backed commercial paper (ABCP), which represented 0.8% of the pooled investments.

Table 2 identifies the investment types that are authorized by the California Government Code and the State Treasurer's Office Investment Policy for the Pooled Investment Program. Maturities are limited by the State Treasurer's Office Investment Policy for the Pooled Money Investment Program. For commercial paper, the Investment Policy matches the Government Code. For corporate bonds and notes, the Government Code requires that a security falls within the top three ratings of a nationally recognized statistical ratings organization (NRSRO). Items reported as N/A have no limitation in either the Government Code or the State Treasurer's Office Investment Policy.

Table 2

Authorized Investments

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Credit Rating
U.S. Treasury securities	5 years	N/A	N/A	N/A
Federal agency and supranational securities	5 years	N/A	N/A	N/A
Certificates of deposit	5 years	N/A	N/A	N/A
Bankers' acceptances	180 days	N/A	N/A	N/A
Commercial paper	270 days	30%	10% of issuer's outstanding Commercial paper	A-3/P-3/F-3
Corporate bonds/notes	5 years	N/A	N/A	A-/A3/A-
Repurchase agreements	1 year	N/A	N/A	N/A
Reverse repurchase agreements	1 year	10%	N/A	N/A

4. Risk of Investments

The following types of risks are common in deposits and investments, including those of the State:

Interest Rate Risk is the risk that the value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with longer time to maturity tend to be more sensitive to changes in interest rates than those with shorter durations.

Credit Risk is the risk that a debt issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline.

Custodial Credit Risk is the risk that, in the event a financial institution or counterparty fails, the investor will not be able to recover the value of deposits, investments, or collateral.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

a. Interest Rate Risk

Table 3 presents the interest rate risk of the primary government's investments. In calculating SBA holdings' weighted average maturity, the State Treasurer's Office assumes that stated maturity is the quarterly reset date. Total pooled investments do not include $4.9 billion of time deposits and $734 million of internal loans to state funds. Repurchase agreements of the California State University system mature in two days. Most mortgage-backed securities are issued by U.S. government agencies, or government-sponsored enterprises such as the Federal National Mortgage Association, and entitle the purchaser to receive a share of the cash flows, such as principal and interest payments, from a pool of mortgages. Mortgage-backed securities are highly sensitive to interest rate changes because principal prepayments either increase (in a low interest rate environment) or decrease (in a high interest rate environment) the security yield. As of June 30, 2018, only $30 million, or 0.04% of the total pooled investments, was invested in mortgage-backed securities.

Table 3

Schedule of Investments – Primary Government – Interest Rate Risk
June 30, 2018
(amounts in thousands)

	Fair Value at Year End	Weighted Average Maturity (in years)
Pooled investments		
U.S. Treasury bills and notes	$ 42,226,466	0.76
U.S. Agency bonds and discount notes	14,087,600	0.47
Supranational debentures and discount notes	1,781,759	0.66
Small Business Administration loans	815,955	0.25
Mortgage-backed securities	29,847	2.18
Certificates of deposit	15,819,664	0.24
Bank notes	899,730	0.26
Commercial paper	7,521,009	0.17
Total pooled investments	**83,182,030**	
Other primary government investments		
U.S. Treasuries and agencies	2,806,092	2.67
Commercial paper	30,106	2.38
Guaranteed investment contracts	200,000	3.83
Corporate debt securities	1,111,111	0.93
Repurchase agreements	9,928	0.01
Other	1,401,029	1.89
Total other primary government investments	**5,558,266**	
Funds outside primary government included in pooled investments		
Less: investment trust funds	22,544,018	
Less: other trust and agency funds	2,157,996	
Less: discretely presented component units and related organizations	2,663,740	
Total primary government investments	**$ 61,374,542**	

b. Credit Risk

Table 4 presents the credit risk of the primary government's debt securities. If a particular security has multiple ratings, the lowest rating of the three major NRSROs is used. Similar to interest rate risk shown in Table 3, time deposits and internal loans to state funds are not included.

Table 4

Schedule of Investments in Debt Securities – Primary Government – Credit Risk
June 30, 2018
(amounts in thousands)

Credit Rating as of Year End			
Short-term	**Long-term**		**Fair Value**
Pooled investments			
A-1+/P-1/F-1+	AAA/Aaa/AAA	$	18,413,031
A-1/P-1/F-1	AA/Aa/AA		20,427,114
A-2/P-2/F-2	A/A/A		1,249,659
Not rated			49,805
Not applicable			43,042,421
Total pooled investments		**$**	**83,182,030**
Other primary government investments			
A-1+/P-1/F-1+	AAA/Aaa/AAA	$	1,088,458
A-1/P-1/F-1	AA/Aa/AA		2,598,654
A-2/P-2/F-2	A/A/A		1,088,365
A-3/P-3/F-3	BBB/Baa/BBB		21,236
B/NP/B	BB/Ba/BB		4,912
B/NP/B	BB/B		14,898
Not rated			741,743
Total other primary government investments		**$**	**5,558,266**

c. Custodial Credit Risk

The State has a deposit policy for custodial credit risk that requires deposits held by financial institutions to be insured by federal depository insurance or secured by collateral. As of June 30, 2018, one guaranteed investment contract of the Electric Power Fund in the amount of $100 million was uninsured and uncollateralized.

d. Concentration of Credit Risk

The investment policy of the State Treasurer's Office contains no limitations on the amount that can be invested in any one issuer beyond those limitations stipulated in the California Government Code. As of June 30, 2018, the State had investments in the Federal Home Loan Mortgage Corporation totaling 7.0% and the Federal Home Loan Bank totaling 8.2% of the total pooled investments and other primary government investments.

B. Fiduciary Funds

The fiduciary funds include pension and other employee benefit trust funds of the following fiduciary funds and component units: California Public Employees' Retirement System (CalPERS), California State Teachers' Retirement System (CalSTRS), the fund for the California Scholarshare program, and various other funds. CalPERS and CalSTRS account for 96.5% of these separately invested funds. CalPERS and CalSTRS exercise their authority under the State Constitution and invest in stocks, bonds, mortgages, real estate, and other investments, including derivative instruments.

Additional disclosures for CalPERS' investments and derivative instruments are included in CalPERS' separately issued financial statements, which may be found on its website at www.CalPERS.ca.gov. Additional disclosures for CalSTRS' investments and derivative instruments are included in CalSTRS' separately issued financial statements, which may be found on its website at www.CalSTRS.com.

C. Discretely Presented Component Units

The discretely presented component units consist of the University of California and its foundation, the California Housing Finance Agency (CalHFA), and various nonmajor component units. The University and CalHFA constitute 93.2% of the total investments of discretely presented component units. State law, bond resolutions, and investment policy resolutions allow component units to invest in U.S. government securities, state and municipal securities, commercial paper, corporate bonds, investment agreements, real estate, and other investments. Additionally, a portion of the cash and pooled investments of CalHFA, and other nonmajor component units are invested in the State Treasurer's pooled investment program.

Additional disclosures for the University of California's investments and derivative instruments are included in the University's separately issued financial statements, which may be found on its website at www.ucop.edu. Additional disclosures for CalHFA's investments and derivative instruments are included in CalHFA's separately issued financial statements, which may be found on its website at www.CalHFA.ca.gov.

NOTE 4: ACCOUNTS RECEIVABLE

Table 5 presents the disaggregation of accounts receivable attributable to taxes; licenses, permits, and fees; Lottery retailer collections; unemployment program receipts; and the California State University. Other receivables are for interest, gifts, grants, penalties, and other charges.

Table 5

Schedule of Accounts Receivable
June 30, 2018
(amounts in thousands)

	Taxes	Licenses, Permits, and Fees	Lottery Retailers
Current governmental activities			
General Fund	$ 16,082,177	$ —	$ —
Federal Fund	—	—	—
Transportation Fund	743,785	594,484	—
Environmental and Natural Resources Fund	14,744	413,444	—
Nonmajor governmental funds	233,187	3,397,295	—
Internal service funds	—	—	—
Adjustment:			
Unavailable revenue[1]	(1,473,427)	(42,089)	—
Total current governmental activities	**$ 15,600,466**	**$ 4,363,134**	**$ —**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ 1,473,427**	**$ 42,089**	**$ —**
Current business-type activities			
Water Resources Fund	$ —	$ —	$ —
State Lottery Fund	—	—	550,014
Unemployment Programs Fund	—	—	—
California State University	—	—	—
Nonmajor enterprise funds	—	—	—
Total current business-type activities	**$ —**	**$ —**	**$ 550,014**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ —**	**$ —**	**$ —**

[1] The unavailable revenue reported in the governmental fund financial statements represents revenues that are earned and measurable, but not available within 12 months of the end of the reporting period.

[2] Amount includes noncurrent receivables for service concession arrangements of $65 million that were not included in the governmental fund financial statements.

Unemployment Programs	California State University	Other	Total
$ —	$ —	$ 848,726	$ 16,930,903
—	—	81,870	81,870
—	—	96,193	1,434,462
—	—	35,643	463,831
—	—	1,385,550	5,016,032
—	—	89,648	89,648
—	—	(465,433)	(1,980,949)
$ —	**$ —**	**$ 2,072,197**	**$ 22,035,797**
$ —	**$ —**	**$ 530,862** [2]	**$ 2,046,378**
$ —	$ —	$ 97,140	$ 97,140
—	—	—	550,014
1,191,096	—	—	1,191,096
—	192,753	—	192,753
—	—	41,184	41,184
$ 1,191,096	**$ 192,753**	**$ 138,324**	**$ 2,072,187**
$ 79,766	**$ 368,374**	**$ —**	**$ 448,140**

NOTE 5: RESTRICTED ASSETS

Table 6 presents a summary of the legal restrictions placed on assets of the primary government and the discretely presented component units.

Table 6

Schedule of Restricted Assets
June 30, 2018
(amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Governments	Loans Receivable	Total
Primary government					
Debt service	$ 2,025,717	$ 352,066	$ 155,541	$ 2,054,876	$ 4,588,200
Construction	565,792	—	—	—	565,792
Operations	50,000	—	—	—	50,000
Other	943	—	—	—	943
Total primary government	**2,642,452**	**352,066**	**155,541**	**2,054,876**	**5,204,935**
Discretely presented component units					
Debt service	332,709	116,786	—	—	449,495
Other	54,482	—	—	—	54,482
Total discretely presented component units	**387,191**	**116,786**	**—**	**—**	**503,977**
Total restricted assets	**$ 3,029,643**	**$ 468,852**	**$ 155,541**	**$ 2,054,876**	**$ 5,708,912**

NOTE 6: NET INVESTMENT IN DIRECT FINANCING LEASES

The State Public Works Board (SPWB) accounts for its activities in the Public Buildings Construction Fund, an internal service fund, and has entered into lease-purchase agreements with various other primary government agencies and certain local agencies. Payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the SPWB. The lease-purchase activity between the SPWB and the primary government agencies shown in the schedule below represents only that activity with agencies reported as enterprise funds. The lease receivable of $8.2 billion from governmental funds and the corresponding lease obligation were eliminated within the governmental activities column of the government-wide Statement of Net Position.

The CSU system accounts for its lease activities in the California State University Fund, a major enterprise fund, and has entered into capital lease agreements with various auxiliary organizations. These agreements lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from certain revenue bonds and bond anticipation notes issued by the CSU were used to finance the construction of these facilities.

Table 7 summarizes the minimum lease payments to be received by the primary government.

Table 7

Schedule of Minimum Lease Payments to be Received by the Primary Government
(amounts in thousands)

	State Public Works Board			
Year Ending June 30	**Primary Government Agencies**	**Local Agencies**	**Total**	**California State University**
2019	$ 15,986	$ 26,183	$ 42,169	$ 23,689
2020	15,978	13,369	29,347	19,859
2021	15,960	12,754	28,714	19,809
2022	15,966	12,739	28,705	20,053
2023	15,954	12,720	28,674	22,228
2024-2028	79,455	63,379	142,834	101,409
2029-2033	78,801	39,021	117,822	85,775
2034-2038	31,340	—	31,340	34,083
2039-2043	—	—	—	638
Total minimum lease payments	**269,440**	**180,165**	**449,605**	**327,543**
Less: unearned income	116,172	43,907	160,079	97,930
Net investment in direct financing leases	**153,268**	**136,258**	**289,526**	**229,613**
Less: current portion	3,607	19,982	23,589	11,384
Noncurrent net investment in direct financing leases	**$ 149,661**	**$ 116,276**	**$ 265,937**	**$ 218,229**

NOTE 7: CAPITAL ASSETS

Table 8 summarizes the capital activity for the primary government.

Table 8

Schedule of Changes in Capital Assets – Primary Government
June 30, 2018
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets not being depreciated/amortized				
Land	$ 19,747,642 *	$ 524,276	$ 63,277	$ 20,208,641
State highway infrastructure	75,071,022	2,041,662	45,010	77,067,674
Collections	22,627	—	—	22,627
Construction/development in progress	15,672,898 *	3,376,143	2,759,954	16,289,087
Intangible assets	416,546 *	1,207	84	417,669
Total capital assets not being depreciated/amortized	**110,930,735**	**5,943,288**	**2,868,325**	**114,005,698**
Capital assets being depreciated/amortized				
Buildings and improvements	25,204,997 *	438,927	46,072	25,597,852
Infrastructure	741,322 *	3,336	19	744,639
Equipment and other depreciable assets	5,194,107 *	343,817	180,152	5,357,772
Intangible assets	2,096,002 *	161,411	34,524	2,222,889
Total capital assets being depreciated/amortized	**33,236,428**	**947,491**	**260,767**	**33,923,152**
Less accumulated depreciation/amortization for:				
Buildings and improvements	8,868,855 *	635,693	34,497	9,470,051
Infrastructure	394,457 *	16,226	—	410,683
Equipment and other depreciable assets	4,109,162 *	385,532	172,506	4,322,188
Intangible assets	848,190 *	196,391	26,792	1,017,789
Total accumulated depreciation/amortization	**14,220,664**	**1,233,842**	**233,795**	**15,220,711**
Total capital assets being depreciated/amortized, net	**19,015,764**	**(286,351)**	**26,972**	**18,702,441**
Governmental activities, capital assets, net	**$ 129,946,499**	**$ 5,656,937**	**$ 2,895,297**	**$ 132,708,139**
Business-type activities				
Capital assets not being depreciated/amortized				
Land	$ 258,295	$ 12,945	$ —	$ 271,240
Collections	22,086	2,518	—	24,604
Construction/development in progress	1,750,443	1,543,183	818,865	2,474,761
Intangible assets	117,068	1,603	259	118,412
Total capital assets not being depreciated/amortized	**2,147,892**	**1,560,249**	**819,124**	**2,889,017**
Capital assets being depreciated/amortized				
Buildings and improvements	12,434,126 *	849,242	652	13,282,716
Infrastructure	429,533	30,565	107	459,991
Equipment and other assets	898,378	92,969	37,740	953,607
Intangible assets	420,480	11,536	914	431,102
Total capital assets being depreciated/amortized	**14,182,517**	**984,312**	**39,413**	**15,127,416**
Less accumulated depreciation/amortization for:				
Buildings and improvements	4,820,767 *	339,016	599	5,159,184
Infrastructure	119,356	23,642	93	142,905
Equipment and other assets	549,233	84,072	35,418	597,887
Intangible assets	172,070 *	17,902	634	189,338
Total accumulated depreciation/amortization	**5,661,426**	**464,632**	**36,744**	**6,089,314**
Total capital assets being depreciated/amortized, net	**8,521,091**	**519,680**	**2,669**	**9,038,102**
Business-type activities, capital assets, net	**$ 10,668,983**	**$ 2,079,929**	**$ 821,793**	**$ 11,927,119**

* Restated

Table 9 summarizes the depreciation expense charged to the activities of the primary government.

Table 9

Schedule of Depreciation Expense – Primary Government
June 30, 2018
(amounts in thousands)

	Amount
Governmental activities	
General government	$ 291,664
Education	156,320
Health and human services	135,047
Natural resources and environmental protection	72,217
Business, consumer services, and housing	15,002
Transportation	204,186
Corrections and rehabilitation	307,016
Internal service funds (charged to the activities that utilize the fund)	52,390
Total governmental activities	**1,233,842**
Business-type activities	464,632
Total primary government	$ **1,698,474**

Table 10 summarizes the capital activity for discretely presented component units.

Table 10

Schedule of Changes in Capital Assets – Discretely Presented Component Units
June 30, 2018
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets not being depreciated/amortized				
Land	$ 1,318,690	$ 48,127	$ 19,109	$ 1,347,708
Collections	468,308	75,850	107	544,051
Construction/development in progress	2,560,457	471,532	27,005	3,004,984
Intangible assets	5,411	—	—	5,411
Total capital assets not being depreciated/amortized	**4,352,866**	**595,509**	**46,221**	**4,902,154**
Capital assets being depreciated/amortized				
Buildings and improvements	39,566,054	1,880,181	77,030	41,369,205
Infrastructure	781,305	51,310	6,687	825,928
Equipment and other depreciable assets	11,196,105	724,206	264,856	11,655,455
Intangible assets	1,029,465	616,387	38,715	1,607,137
Total capital assets being depreciated/amortized	**52,572,929**	**3,272,084**	**387,288**	**55,457,725**
Less accumulated depreciation/amortization for:				
Buildings and improvements	16,065,130	1,253,919	35,152	17,283,897
Infrastructure	397,925	26,538	4,431	420,032
Equipment and other depreciable assets	8,045,469	629,247	271,883	8,402,833
Intangible assets	534,351	193,529	23,286	704,594
Total accumulated depreciation/amortization	**25,042,875**	**2,103,233**	**334,752**	**26,811,356**
Total capital assets being depreciated/amortized, net	**27,530,054**	**1,168,851**	**52,536**	**28,646,369**
Capital assets, net	**$ 31,882,920**	**$ 1,764,360**	**$ 98,757**	**$ 33,548,523**

NOTE 8: ACCOUNTS PAYABLE

Accounts payable are amounts, related to different programs, that are due taxpayers, vendors, customers, beneficiaries, and employees. Table 11 presents details related to accounts payable.

The adjustment for the fiduciary funds represents amounts due fiduciary funds that were reclassified as external payables on the government-wide Statement of Net Position.

Table 11

Schedule of Accounts Payable
June 30, 2018
(amounts in thousands)

	General Government	Education	Health and Human Services
Governmental activities			
General Fund	$ 232,218	$ 178,622	$ 800,844
Federal Fund	77,909	71,797	284,320
Transportation Fund	7,064	9,875	—
Environmental and Natural Resources Fund	1,285	3,515	18
Nonmajor governmental funds	357,858	12,672	153,878
Internal service funds	283,138	—	225,951
Adjustment:			
Fiduciary funds	921,763	1,488,736	19,210,432
Total governmental activities	**$ 1,881,235**	**$ 1,765,217**	**$ 20,675,443**
Business-type activities			
Electric Power Fund	$ —	$ —	$ —
Water Resources Fund	—	—	—
State Lottery Fund	66,116	—	—
California State University	—	271,560	—
Nonmajor enterprise funds	156	450	502
Adjustment:			
Fiduciary funds	—	—	—
Total business-type activities	**$ 66,272**	**$ 272,010**	**$ 502**

Natural Resources and Environmental Protection	Transportation	Other	Total
$ 499,686	$ 96	$ 400,556	$ 2,112,022
26,347	210,284	15,668	686,325
1,045	520,250	1,081	539,315
222,218	17,850	12	244,898
7,394	1,331	13,760	546,893
16,091	—	15,278	540,458
—	56,022	—	21,676,953
$ 772,781	**$ 805,833**	**$ 446,355**	**$ 26,346,864**
$ 2,000	$ —	$ —	$ 2,000
184,962	—	—	184,962
—	—	—	66,116
—	—	—	271,560
611	—	3,400	5,119
—	—	45	45
$ 187,573	**$ —**	**$ 3,445**	**$ 529,802**

NOTE 9: LONG-TERM OBLIGATIONS

As of June 30, 2018, the primary government had long-term obligations totaling $311.3 billion. Of that amount, $7.5 billion is due within one year. For governmental activities, the largest change is attributed to the implementation of GASB Statement No. 75, which caused a $47.9 billion restatement of the beginning net other postemployment benefits (OPEB) liability after incorporating the existing net OPEB obligation of $28.2 billion. During the fiscal year, the net OPEB liability decreased by $4.0 billion, resulting in an ending balance of $72.0 billion. Overall, governmental activities had a net increase in long-term obligations of $4.3 billion. Significant increases included $8.9 billion in net pension liability and $863 million in general obligation bonds payable. Other significant decreases included $749 million in mandated cost claims payable, $603 million in Proposition 98 funding guarantee, and $516 million in revenue bonds payable.

Not included in the mandated cost claims payable shown in Table 12 are certain state-mandated programs that are in the adjudication process. Until the Commission on State Mandates rules on a test claim and the claim's parameters and guidelines are established, expected costs cannot be reasonably determined; however, a positive finding for any of the claimants could individually or in aggregate pose a significant cost to the State.

As of June 30, 2018, the pollution remediation obligations increased by $173 million to $1.1 billion. Under federal Superfund law, responsibility for pollution remediation is placed on current and previous owners or operators of polluted sites. Currently, the State's most significant Superfund site is the Stringfellow Class 1 Hazardous Waste Disposal Facility (Stringfellow) located in Riverside County. As of June 30, 2018, the State estimates that remediation costs at Stringfellow will total $426 million. At BKK Landfill, an obligating event has occurred that will likely result in a liability to the State, but a reasonable estimate of the remediation cost cannot be determined at this time. BKK is a closed Class 1 landfill site at which the State is conducting post-closure care. In addition to Superfund sites, the State's other pollution remediation efforts include underground storage tank removal and cleanup, cleanup of polluted groundwater, and contaminated soil removal and cleanup as required by state law.

The other long-term obligations for governmental activities consist of $124 million to settle lawsuits, $9 million owed to the University of California, Technology Services Revolving Fund notes payable of $37 million, and Water Resources Revolving Fund notes payable of $10 million. The net pension liability, net OPEB liability, and compensated absences will be liquidated by the General Fund, special revenue funds, capital projects funds, and internal service funds. Workers' compensation and capital leases will be liquidated by the General Fund, special revenue funds, and internal service funds. The General Fund will liquidate the Proposition 98 funding guarantee, lawsuits, and reimbursement of costs incurred by local agencies and school districts for costs mandated by the State.

For business-type activities, the largest change in long-term obligations is attributed to the implementation of GASB Statement No. 75, which caused a $15.6 billion restatement of the beginning net OPEB liability. Overall, business-type activities had a net decrease in long-term obligations of $303 million. Significant decreases included $861 million in net OPEB liability, $636 million in revenue bonds payable, and $385 million in loans payable to the U.S. Department of Labor for prior-year shortfalls in the Unemployment Programs Fund. Other significant increases included $1.3 billion in net pension liability and $602 million in commercial paper payable.

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Table 12 summarizes the changes in long-term obligations during the fiscal year ended June 30, 2018.

Table 12

Schedule of Changes in Long-term Obligations
(amounts in thousands)

	Balance July 1, 2017	Additions
Governmental activities		
Compensated absences payable	$ 3,520,573	$ 1,554,342
Workers' compensation benefits payable	4,037,655	731,241
Commercial paper and other borrowings	1,158,080	1,310,985
Capital lease obligations	416,468	130,521
General obligation bonds outstanding	73,837,840	8,444,045
Premiums	4,962,277	942,938
Total general obligation bonds payable	78,800,117	9,386,983
Revenue bonds outstanding	15,402,175	2,326,975
Accreted interest	524,844	45,928
Premiums	956,826 *	167,016
Discounts	(3,945) *	—
Total revenue bonds payable	16,879,900	2,539,919
Mandated cost claims payable	2,963,072	139,045
Net other postemployment benefits liability	76,033,322 *	4,343,876
Net pension liability	77,278,086	39,745,372
Other long-term obligations:		
Proposition 98 funding guarantee	1,043,283	—
Pollution remediation obligations	969,860	296,545
Other	62,894	173,390
Total other long-term obligations	2,076,037	469,935
Total governmental activities	**$ 263,163,310**	**$ 60,352,219**
Business-type activities		
Loans payable	$ 385,137	$ —
Lottery prizes and annuities	1,613,494	4,508,548
Compensated absences payable	369,994	163,353
Workers' compensation benefits payable	3,639	508
Commercial paper and other borrowings	147,765	670,127
Capital lease obligations	353,453	3,125
General obligation bonds outstanding	701,740	106,805
Premiums	3,433	3,451
Discounts	(1,419)	—
Total general obligation bonds payable	703,754	110,256
Revenue bonds outstanding	13,653,173	940,720
Premiums	1,303,197	149,248
Discounts	(512)	—
Total revenue bonds payable	14,955,858	1,089,968
Net other postemployment benefits liability	16,539,217 *	1,095,425
Net pension liability	8,786,887	4,497,659
Other long-term obligations	263,727	177,585
Total business-type activities	**$ 44,122,925**	**$ 12,316,554**

* Restated

Deductions	Balance June 30, 2018	Due Within One Year	Noncurrent Liabilities
$ 1,469,980	$ 3,604,935	$ 11,838	$ 3,593,097
465,506	4,303,390	429,157	3,874,233
1,609,370	859,695	—	859,695
65,728	481,261	68,817	412,444
8,121,395	74,160,490	3,309,065	70,851,425
402,677	5,502,538	291,331	5,211,207
8,524,072	79,663,028	3,600,396	76,062,632
2,885,071	14,844,079	683,521	14,160,558
—	570,772	—	570,772
171,954	951,888	122,573	829,315
(1,461)	(2,484)	(480)	(2,004)
3,055,564	16,364,255	805,614	15,558,641
888,091	2,214,026	303,013	1,911,013
8,351,934	72,025,264	—	72,025,264
30,831,978	86,191,480	—	86,191,480
603,280	440,003	100,000	340,003
123,066	1,143,339	93,523	1,049,816
56,140	180,144	54,597	125,547
782,486	1,763,486	248,120	1,515,366
$ 56,044,709	**$ 267,470,820**	**$ 5,466,955**	**$ 262,003,865**
$ 385,137	$ —	$ —	$ —
4,749,514	1,372,528	660,292	712,236
192,680	340,667	149,667	191,000
—	4,147	—	4,147
68,015	749,877	7,129	742,748
46,650	309,928	19,783	290,145
119,895	688,650	25,975	662,675
113	6,771	—	6,771
(98)	(1,321)	—	(1,321)
119,910	694,100	25,975	668,125
1,564,085	13,029,808	1,078,455	11,951,353
162,397	1,290,048	76,721	1,213,327
(28)	(484)	—	(484)
1,726,454	14,319,372	1,155,176	13,164,196
1,956,133	15,678,509	—	15,678,509
3,217,555	10,066,991	—	10,066,991
157,907	283,405	33,575	249,830
$ 12,619,955	**$ 43,819,524**	**$ 2,051,597**	**$ 41,767,927**

NOTE 10: PENSION TRUSTS

The California Public Employees' Retirement System (CalPERS) provides retirement benefits to eligible employees of the State, public agencies, and public schools through single-employer, agent multiple-employer, and cost-sharing plans. The California State Teachers' Retirement System (CalSTRS) provides pension benefits to full-time and part-time employees of the State's public school system. Both are fiduciary component units of the State, and their financial activity is included in the pension and other employee benefit trust funds column of the fiduciary funds and similar component units' financial statements of this report.

CalPERS administers four defined benefit retirement plans: the Public Employees' Retirement Fund (PERF), the Judges' Retirement Fund (Judges'), the Judges' Retirement Fund II (Judges' II), and the Legislators' Retirement Fund (Legislators'). CalPERS also administers two defined contribution plans: the Public Employees' Deferred Compensation Fund and the Supplemental Contributions Program Fund.

The PERF accounts for the majority of assets and liabilities reported for CalPERS' plans. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. The report may be found on CalPERS' website at www.CalPERS.ca.gov.

Contributions to CalPERS' pension trust funds are recognized in the period in which the contributions are due, pursuant to legal requirements. Benefits and refunds in the defined benefit plans are recognized when due and payable in accordance with the terms of each plan.

CalSTRS administers four defined benefit retirement plans within the State Teachers' Retirement Plan: the Defined Benefit Program, the Defined Benefits Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefits Program. CalSTRS also administers two defined contribution plans: the Pension2 403(b) Plan and the Pension2 457(b) Plan. CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be found on its website at www.CalSTRS.com.

Member contributions to CalSTRS' pension plans are recognized in the period in which the contributions are required by statute. Employer and state contributions are recognized when required by statute and when the employer or the State has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable, in accordance with the retirement and benefits programs.

For the purpose of measuring net pension liability, deferred outflows and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of CalPERS' and CalSTRS' plans and changes to the plans' fiduciary net positions has been determined on the same basis as reported by the plans.

The University of California, a discretely presented component unit, administers the University of California Retirement System (UCRS), which consists of two defined benefit plans funded with University and employee contributions, and four defined contribution plans with options to participate in internally or externally managed investment portfolios generally funded with employee non-elective and elective contributions. The State does not directly contribute to the UCRS. Additional information on the UCRS can be found in the University's separately issued financial statements on its website at www.ucop.edu.

A. California Public Employees' Retirement System

1. Public Employees' Retirement Fund (PERF)

***Plan Description*:** The PERF is comprised of and reported as three separate entities for financial reporting purposes, of which the State reports only PERF A. PERF A is comprised of agent multiple-employer plans, which include the State of California and most public agencies' rate plans with more than 100 active members. PERF B is a cost-sharing multiple-employer plan comprised of school employers and consisting of non-teaching and non-certified employee members. PERF C is a cost-sharing multiple-employer plan comprised of public agencies' plans that generally have fewer than 100 active members. Employers participating in the PERF as of June 30, 2017, included the primary government and certain discretely presented component units; 1,366 school employers, including charter schools; and 1,624 public agencies. As the State is not an employer in PERF B or PERF C, the term PERF is used hereafter to refer exclusively to the agent multiple-employer plans that include employees of the primary government and certain discretely presented component units.

CalPERS acts as the common investment and administrative agent for participating employers. State employees served by the PERF include first- and second-tier miscellaneous and industrial employees, California Highway Patrol (CHP) employees, peace officers and firefighters, and other safety members.

***Benefits Provided*:** All employees in a covered class of employment who work half-time or more are eligible to participate in the PERF. The PERF provides retirement, death, disability, and survivor benefits. Vesting occurs after five years, or after ten years for second-tier employees. The benefit provisions are established by the Public Employees' Retirement Law (PERL) and the Public Employees' Pension Reform Act of 2013 (PEPRA), and are summarized in Appendix B of the State's June 30, 2016 Actuarial Valuation Report, which may be found at www.CalPERS.ca.gov/docs/forms-publications/2016-state-valuation.pdf. In general, retirement benefits for the PERF plans are based on a formula using a member's years of service credit, age at retirement, and final compensation (average salary for a defined period of employment). Retirement formulas vary based on:

- Classification (e.g., miscellaneous, safety, industrial, CHP, or peace officers and firefighters);
- Membership category (pre-PEPRA and post-PEPRA); and
- Specific provisions in employees' contracts.

The four basic types of retirement are:

- Service Retirement – The "normal" retirement is a lifetime benefit. In most cases, employees become eligible for service retirement as early as age 50 with five years of service credit. If the employee became a member on or after January 1, 2013, he or she must be at least 52 years old with at least five years of service to retire. Second-tier employees (miscellaneous and industrial) become eligible at age 55 with at least 10 years of service credit.
- Vested Deferred Retirement – Vested members who leave employment but keep their contribution balances on deposit with CalPERS are eligible for this benefit.
- Disability Retirement – Vested members who can no longer perform the usual duties of their current position due to illness or injury may receive this benefit.
- Industrial Disability Retirement – This benefit is available for eligible safety members, industrial employees, CHP employees, and peace officers and firefighters who are unable to perform the usual duties of their current position due to job-related illness or injury.

***Employees Covered by Benefit Terms*:** The State's June 30, 2017 Actuarial Valuation Report provides information about the number of employees by type covered within the various PERF plans. Table 13 shows the number of employees covered by the benefit terms of each of the PERF plans as of the most recent valuation.

Table 13

Number of Employees by Type Covered by Benefit Terms – PERF Plans
June 30, 2017

	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol	Total PERF Plans
Inactive employees or beneficiaries currently receiving benefits	190,693	14,126	24,742	38,250	8,971	**276,782**
Inactive employees entitled to but not yet receiving benefits	58,106	3,457	6,730	7,016	428	**75,737**
Active employees	209,206	20,433	33,302	47,262	7,619	**317,822**
Total	**458,005**	**38,016**	**64,774**	**92,528**	**17,018**	**670,341**

***Contributions*:** Section 20814(c) of PERL requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by pension plan terms as plan member contribution requirements are classified as plan member contributions.

Table 14 shows the average active employee and the employer contribution rates for each of the PERF plans as a percentage of annual pay for the measurement period ended June 30, 2017.

Table 14

Contribution Rates – PERF Plans
June 30, 2017

	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol
Average active employee rate	6.737 %	7.858 %	10.441 %	11.331 %	10.454 %
Employer rate of annual payroll	26.734	19.246	19.884	41.876	50.020
Total	**33.471 %**	**27.104 %**	**30.325 %**	**53.207 %**	**60.474 %**

***Actuarial Methods and Assumptions*:** The total pension liability for PERF plans was measured as of June 30, 2017 (measurement date), by rolling forward the total pension liability determined by the June 30, 2016 actuarial valuation (valuation date), based on the actuarial methods and assumptions shown in Table 15.

Table 15

Actuarial Methods and Assumptions – PERF Plans

Valuation date:	June 30, 2016
Actuarial cost method:	Entry age normal in accordance with the requirements of GASB 68
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.15% net of pension plan investment expense but without reduction for administrative expenses; includes inflation
Mortality	Mortality rates are based on the 2014 CalPERS Experience Study adopted by the CalPERS Board and include 20 years of mortality improvements using Scale BB published by the Society of Actuaries.
Post-retirement benefit adjustments (COLAs)	Contract COLA up to 2.75% until the Purchasing Power Protection Allowance floor on purchasing power applies, 2.75% thereafter

***Discount Rate*:** The discount rate used to measure the total pension liability was 7.15% for the PERF. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress-tested plans that would most likely result in a discount rate that would differ from the actuarially assumed discount rate. Results of the testing showed that none of the tested plans would exhaust assets. Therefore, the current 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% was applied to all plans in the PERF. The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in the GASB Crossover Testing Report, which may be found on CalPERS' website at www.CalPERS.ca.gov/docs/gasb-crossover-testing-2017.pdf.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short and long-term market return expectations as well as the expected pension fund cash flows. Taking into account historical returns of all the Public Employees Retirement Fund's asset classes (which include the agent plan and two cost-sharing plans also referred to as PERF A, B, C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11 to 60 years) using a building-block approach. Using the expected nominal returns for both short and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using

both short and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Table 16 shows the long-term expected geometric real rate of return by asset class for all plans in the PERF.

Table 16

Long-term Expected Real Rate of Return by Asset Class – PERF Plans

Asset Class	Policy Target Allocation	Real Return Years 1 – 10 [1]	Real Return Years 11-60 [2]
Global equity	47.0 %	4.90 %	5.38 %
Global fixed income	19.0	0.80	2.27
Inflation sensitive	6.0	0.60	1.39
Private equity	12.0	6.60	6.63
Real estate	11.0	2.80	5.21
Infrastructure and forestland	3.0	3.90	5.36
Liquidity	2.0	(0.40)	(0.90)
Total	**100.0 %**		

[1] An expected inflation rate of 2.5% used for this period.
[2] An expected inflation rate of 3.0% used for this period.

In fiscal year 2016-17, the discount rate used in the actuarial assumptions was lowered from 7.65% to 7.15% (gross of 0.15% administrative expenses).

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***Changes in Net Pension Liability*:** Table 17 shows changes in net pension liability recognized over the measurement period for the PERF plans.

Table 17

Changes in Net Pension Liability – PERF Plans
(amounts in thousands)

	State Miscellaneous			State Industrial		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2016 (Valuation Date)	$ 99,773,521	$ 66,659,683	$ 33,113,838	$ 3,816,213	$ 2,900,351	$ 915,862
Changes recognized for the measurement period:						
Service cost	1,927,531	—	1,927,531	124,792	—	124,792
Interest on total pension liability	7,381,049	—	7,381,049	290,058	—	290,058
Changes of assumptions	5,667,561	—	5,667,561	245,450	—	245,450
Difference between expected and actual experience	(387,041)	—	(387,041)	21,516	—	21,516
Plan to plan resource movement	—	(2,737)	2,737	—	(141)	141
Employer contributions	—	3,094,941	(3,094,941)	—	123,163	(123,163)
Employee contributions	—	843,772	(843,772)	—	54,114	(54,114)
Net investment income	—	7,329,859	(7,329,859)	—	322,150	(322,150)
Benefit payments, including refunds of employee contributions	(5,572,707)	(5,572,707)	—	(177,654)	(177,654)	—
Administrative expense	—	(98,419)	98,419	—	(4,282)	4,282
Net changes	**9,016,393**	**5,594,709**	**3,421,684**	**504,162**	**317,350**	**186,812**
Balance at June 30, 2017 (Measurement Date)	**$ 108,789,914**	**$ 72,254,392**	**$ 36,535,522**	**$ 4,320,375**	**$ 3,217,701**	**$ 1,102,674**

State Safety			State Peace Officers and Firefighters		
Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability**	**Total Pension Liability**	**Plan Fiduciary Net Position**	**Net Pension Liability**
$ 11,029,720	$ 8,306,636	$ 2,723,084	$ 40,368,725	$ 26,682,426	$ 13,686,299
497,129	—	497,129	980,897	—	980,897
827,412	—	827,412	3,018,186	—	3,018,186
673,183	—	673,183	2,608,751	—	2,608,751
(109,901)	—	(109,901)	(286,527)	—	(286,527)
—	295	(295)	—	1,628	(1,628)
—	433,232	(433,232)	—	1,427,240	(1,427,240)
—	231,364	(231,364)	—	399,945	(399,945)
—	926,106	(926,106)	—	2,954,170	(2,954,170)
(538,735)	(538,735)	—	(1,938,026)	(1,938,026)	—
—	(12,264)	12,264	—	(39,395)	39,395
1,349,088	**1,039,998**	**309,090**	**4,383,281**	**2,805,562**	**1,577,719**
$ 12,378,808	**$ 9,346,634**	**$ 3,032,174**	**$ 44,752,006**	**$ 29,487,988**	**$ 15,264,018**

(continued)

Table 17 (continued)

Changes in Net Pension Liability – PERF Plans (continued)
(amounts in thousands)

	California Highway Patrol			Total PERF Plans		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2016 (Valuation Date)	$ 11,240,831	$ 6,720,757	$ 4,520,074	**$ 166,229,010**	**$ 111,269,853**	**$ 54,959,157**
Changes recognized for the measurement period:						
Service cost	237,064	—	237,064	**3,767,413**	—	**3,767,413**
Interest on total pension liability	833,062	—	833,062	**12,349,767**	—	**12,349,767**
Changes of assumptions	721,972	—	721,972	**9,916,917**	—	**9,916,917**
Difference between expected and actual experience	(158,393)	—	(158,393)	**(920,346)**	—	**(920,346)**
Plan to plan resource movement	—	1,050	(1,050)	—	**95**	**(95)**
Employer contributions	—	426,603	(426,603)	—	**5,505,179**	**(5,505,179)**
Employee contributions	—	91,116	(91,116)	—	**1,620,311**	**(1,620,311)**
Net investment income	—	747,272	(747,272)	—	**12,279,557**	**(12,279,557)**
Benefit payments, including refunds of employee contributions	(543,456)	(543,456)	—	**(8,770,578)**	**(8,770,578)**	—
Administrative expense	—	(9,923)	9,923	—	**(164,283)**	**164,283**
Net changes	**1,090,249**	**712,662**	**377,587**	**16,343,173**	**10,470,281**	**5,872,892**
Balance at June 30, 2017 (Measurement Date)	**$ 12,331,080**	**$ 7,433,419**	**$ 4,897,661**	**$ 182,572,183**	**$ 121,740,134**	**$ 60,832,049**

Reported in governmental activities	$ 48,565,402
Reported in business-type activities	10,066,991
Reported by discretely presented component units	170,395
Not reported in government-wide Statement of Net Position [1]	2,029,261
Total net pension liability – PERF plans	**$ 60,832,049**

(concluded)

[1] Includes amounts allocated to related organizations and fiduciary funds. Also includes the difference in net pension liability for a discretely presented component unit with a reporting period ended December 31, 2017; and minor differences related to amounts reported in separately issued financial statements of proprietary funds and discretely presented component units.

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*:** Table 18 shows the net pension liability of the State, with regard to the PERF plans, calculated using the discount rate of 7.15%, as well as what the State's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate.

Table 18

Net Pension Liability Sensitivity – PERF Plans
June 30, 2018
(amounts in thousands)

	Current Rate -1%	Current Rate 7.15%	Current Rate +1%
State Miscellaneous	$ 49,984,377	$ 36,535,522	$ 25,280,052
State Industrial	1,705,459	1,102,674	606,342
State Safety	4,695,113	3,032,174	1,658,075
State Peace Officers and Firefighters	21,640,760	15,264,018	10,049,129
California Highway Patrol	6,658,065	4,897,661	3,459,598
Total PERF plans	**$ 84,683,774**	**$ 60,832,049**	**$ 41,053,196**

***Pension Plans Fiduciary Net Position*:** Detailed information about the PERF plans' fiduciary net position is available in the separately issued CalPERS financial report.

***Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions*:** For the PERF plans, for the fiscal year ended June 30, 2018, the State recognized pension expense of $9.1 billion. At June 30, 2018, the State reported deferred outflows of resources from contributions made by the State to the PERF plans subsequent to the measurement date of June 30, 2017, but prior to the fiscal year ended June 30, 2018. Differences between expected and actual experience are recognized as deferred outflows and inflows of resources. The changes of assumptions are recognized as deferred outflows of resources. The aggregate difference (positive and negative) between projected and actual earnings on pension plan investments arising in different measurement periods are reported as net deferred outflows of resources. Deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent year.

Table 19 shows pension expense and sources of deferred outflows and deferred inflows of resources related to each PERF plan.

Table 19

Pension Expense and Sources of Deferred Outflows and Deferred Inflows of Resources Related to Pensions – PERF Plans
June 30, 2018
(amounts in thousands)

	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol	Total PERF Plans
Pension Expense	$ 5,333,804	$ 246,189	$ 641,824	$ 2,252,747	$ 656,925	**$ 9,131,489**
Deferred Outflows of Resources:						
Employer contributions	3,482,291	141,832	481,479	1,573,299	478,354	**6,157,255**
Supplemental employer contributions	3,600,000	100,000	300,000	1,500,000	500,000	**6,000,000**
Changes of assumptions	4,250,671	175,321	516,629	2,107,068	580,409	**7,630,098**
Difference between expected and actual experience	160,070	21,546	—	130,077	111,809	**423,502**
Net difference between projected and actual earnings on pension plan investments	1,036,369	43,892	125,983	407,177	101,818	**1,715,239**
Deferred Inflows of Resources:						
Difference between expected and actual experience	(340,972)	—	(86,859)	(231,426)	(127,335)	**(786,592)**

Table 20 shows amounts reported as deferred outflows and inflows of resources related to pensions that will be recognized as pension expense in future years for the PERF plans. Increases to pension expense are shown as positive amounts and decreases to pension expense are shown as negative amounts.

Table 20

Recognition of Deferred Outflows and Deferred Inflows of Resources – PERF Plans
(amounts in thousands)

Year Ending June 30	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol	Total PERF Plans
2019	$ 1,435,257	$ 82,053	$ 134,389	$ 507,779	$ 148,030	**$ 2,307,508**
2020	2,450,623	125,776	266,338	957,185	261,989	**4,061,911**
2021	1,748,517	56,078	181,654	622,854	181,791	**2,790,894**
2022	(528,259)	(23,148)	(26,628)	235,762	63,841	**(278,432)**
2023	—	—	—	89,316	11,051	**100,367**

***Payable to the Pension Plans*:** At June 30, 2018, the State reported a payable of $785 million for the outstanding amount of contributions to the PERF pension plans required for the fiscal year ended June 30, 2018.

2. Single-employer Plans

***Plan Description*:** CalPERS administers three single-employer defined benefit retirement plans.

Judges' – Judges' membership includes judges working in the California Supreme Court, the courts of appeal, and the superior courts who were appointed or elected prior to November 9, 1994. Judges' is funded on a "pay-as-you-go" basis, where short-term investments, contributions received during the year, and a General Fund augmentation are used to provide funding for benefit payments.

Judges' II – Judges' II membership includes judges working in the California Supreme Court, the courts of appeal, and the superior courts, who were appointed or elected on or after November 9, 1994. There are two types of service retirement available for plan members: the Defined Benefit Plan and the Monetary Credit Plan, in which members can choose a single lump sum payment or annuity at retirement.

Legislators' – Legislators' was established in 1947; its members consist of state legislators, constitutional officers, and legislative statutory officers. The PEPRA closed Legislators' to new participants effective January 1, 2013.

***Benefits Provided*:** All employees in a covered class of employment who work on a half-time basis or more are eligible to participate. The benefits for the defined benefit plans are based on a member's years of service, age, final compensation, and a benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service. Benefits are established in accordance with the provisions of the Judges' Retirement Law, Judges' Retirement System II Law, and Legislators' Retirement Law. Additional information is available in the Actuarial Valuation Report for each plan, which may be found on CalPERS' website at www.CalPERS.ca.gov.

Judges' – The four basic types of retirement are:

- Service Retirement – Members must be at least age 60 with 20 years of service or age 70 with at least 10 years of service.
- Deferred Retirement – Vested members are eligible for deferred retirement at any age with at least five years of service.
- Disability Retirement (non-work related) – There is no age requirement, but there may be a service requirement depending on when the member became a judge. The retirement allowance is 65% of a judge's final salary, or 75% of his or her final salary if the judge has 20 or more years of service.
- Disability Retirement (work-related) – There is no age or service requirement if the disability is a result of work-related injury or disease. The retirement allowance is the same as non-work related disability retirement.
- Death Benefits – Beneficiaries may receive 25% of a current active judge's salary for life if the judge was not eligible for retirement. Beneficiaries receive one-half of what the retirement allowance would have been if the judge was retired on the date of death.

Judges' II – The four basic types of retirement are:

- Service Retirement – Judges must be at least age 65 with 20 years of service or age 70 with a minimum of five years of service to receive the defined benefit plan. Judges must have at least five years of service to receive the monetary credit plan.
- Disability Retirement (non-work related) – Judges who have five years of service and become permanently disabled because of a mental or physical disability may apply to the Commission on Judicial Performance for disability retirement.
- Disability Retirement (work related) – Judges receive 65% of their average monthly salary earned during the 12 months preceding their retirement date, regardless of age or length of service.
- Death Benefits – Beneficiaries receive the judge's monetary credits or three times the annual salary at the time of death, whichever is greater, if the judge was not eligible for retirement. Beneficiaries receive one-half of the retirement pension for life if the judge was retired on the date of death.

Legislators' – The three basic types of retirement are:

- Service Retirement – Members must be age 60, with four or more years of service credit, or any age with 20 or more years. The retirement age for legislative statutory officers is 55, or any age with 20 years or more of service credit.
- Disability Retirement – Disability retirement uses the same formula as service retirement. There is no reduction for members of the Legislature if retirement is before age 60.
- Death Benefits – Beneficiaries have multiple options depending on whether the member was eligible for retirement or was retired at the time of death.

***Employees Covered by Benefit Terms*:** The June 30, 2017 actuarial valuation reports for each single-employer plan provide information about the number of employees by type covered within the plans. Table 21 shows the number of employees covered by the benefit terms of each of the single-employer plans as of the most recent valuation.

Table 21

Number of Employees by Type Covered by Benefit Terms – Single-employer Plans
June 30, 2017

	Judges'	Judges' II	Legislators'	Total
Inactive employees or beneficiaries currently receiving benefits	1,861	161	232	**2,254**
Inactive employees entitled to but not yet receiving benefits	8	1	7	**16**
Active employees	192	1,511	8	**1,711**
Total	**2,061**	**1,673**	**247**	**3,981**

***Contributions*:** As Judges' is funded on a "pay-as-you-go" basis, the contributions made will be less than the actuarially determined contribution requirement of normal cost plus a 10-year amortization of the unfunded accrued liability. The actual contribution is the estimated amount of benefit payouts during the year. Currently, Judges' member contributions are 8.0% of pay. In certain situations, employers make member contributions.

Judges' II contribution rates are determined through CalPERS' annual actuarial valuation process as required by section 75600.5(c) of the PERL. Classic members contribute 8.0% of their annual compensation to the plan. The base total normal cost rate for PEPRA new members was re-determined in the June 30, 2017 actuarial valuation as 33.562%. The percentage only changes in any given year once the change to the total normal cost is greater than 1.0% from the base total normal cost. The new member rate should be 50% of the new normal cost rounded to the nearest quarter percentage.

For Legislators', contribution rates are determined through CalPERS' annual actuarial valuation process as required by section 9358 of the PERL. The minimum employer contribution rate under PEPRA is the greater of the actuarially determined employer rate or the employer normal cost.

Table 22 shows the average active employee and the employer contribution rates for each of the single-employer plans as a percentage of annual pay for the measurement period ended June 30, 2017.

Table 22

Contribution Rates – Single-employer Plans
June 30, 2017

	Judges'	Judges' II	Legislators'
Average active employee rate	"Pay-	8.000 %	7.370 %
Employer rate of annual payroll	as-you-	24.660	38.145
Total	go"	**32.660 %**	**45.515 %**

***Actuarial Methods and Assumptions*:** The total pension liability for single-employer plans was measured as of June 30, 2017 (measurement date), by rolling forward the total pension liability determined by the June 30, 2016 actuarial valuations (valuation date), based on the actuarial methods and assumptions shown in Table 23.

Table 23

Actuarial Methods and Assumptions – Single-employer Plans

Valuation date:	June 30, 2016
Actuarial cost method:	Entry age normal in accordance with the requirements of GASB 68
Actuarial assumptions:	
Discount rate	Judges' 3.56%, Judges' II 6.65%, Legislators' 5.25%
Inflation	All single-employer plans – 2.75%
Salary increases	All single-employer plans – 3.00%
Investment rate of return	Judges' 3.56%, Judges' II 6.65%, Legislators' 5.25%, net of pension plan investment without reduction of administrative expense
Mortality	Mortality rates are based on the 2014 CalPERS Experience Study adopted by the CalPERS Board and include 20 years of mortality improvements using Scale BB published by the Society of Actuaries.
Post-retirement benefit adjustments (COLAs)	Judges' – 3.00% Judges' II – 2.75% Legislators' – 2.75%

***Discount Rate*:** To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress-tested plans that would most likely result in a discount rate that would differ from the actuarially assumed discount rate. For the single-employer plans, the following rates were used:

Judges' – 3.56%, reflecting the short-term nature of the assets. As the plan is insufficiently funded, CalPERS uses a discount rate of 2.85%, which falls within a reasonable range of yields on 20-year tax-exempt general obligation municipal bonds with an average rating of AA.

Judges' II – 6.65%

Legislators' – 5.25%

With the exception of Judges', which uses a lower rate of return, the information regarding the discount rate and the long-term expected real rate of return described previously for the PERF plans is also applicable to the single-employer plans. GAAP requires that the long-term discount rate should be determined without reduction for pension plan administrative expense.

Table 24 shows long-term expected real rates of return by asset class for Judges' II and Legislators'.

Table 24

Long-term Expected Real Rate of Return by Asset Class – Judges' II and Legislators' Plans

Asset Class	Judges' II Current Target Allocation	Legislators' Current Target Allocation	Real Return Years 1 – 10 [1]	Real Return Years 11+ [2]
Global equity	50.0 %	24.0 %	3.95 %	5.71 %
Global fixed income	34.0	39.0	0.70	2.24
Inflation sensitive	5.0	26.0	(0.10)	2.04
Commodities	3.0	3.0	1.10	4.95
Real estate	8.0	8.0	2.60	7.88
Total	**100.0 %**	**100.0 %**		

[1] An expected inflation rate of 2.5% used for this period.
[2] An expected inflation rate of 3.0% used for this period.

***Changes in Net Pension Liability*:** Table 25 shows the changes in net pension liability recognized over the measurement period for the single-employer plans.

Table 25

Changes in Net Pension Liability – Single-employer Plans
(amounts in thousands)

	Judges'			Judges' II		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2016 (Valuation Date)	$ 3,794,944	$ 39,794	$ 3,755,150	$ 1,207,549	$ 1,172,952	$ 34,597
Changes recognized for the measurement period:						
Service cost	22,733	—	22,733	97,679	—	97,679
Interest on total pension liability	115,067	—	115,067	85,654	—	85,654
Difference between expected and actual experience	(366,200)	—	(366,200)	(26,382)	—	(26,382)
Changes of assumptions	(107,670)	—	(107,670)	69,233	—	69,233
Employer contributions	—	204,475	(204,475)	—	67,102	(67,102)
Employee contributions	—	3,398	(3,398)	—	25,076	(25,076)
Net investment income	—	424	(424)	—	115,058	(115,058)
Benefit payments, including refunds of employee contributions	(200,440)	(200,440)	—	(22,406)	(22,406)	—
Administrative expense	—	(1,771)	1,771	—	(1,682)	1,682
Other miscellaneous income	—	2,395	(2,395)	—	—	—
Net changes	**(536,510)**	**8,481**	**(544,991)**	**203,778**	**183,148**	**20,630**
Balance at June 30, 2017 (Measurement Date)	**$ 3,258,434**	**$ 48,275**	**$ 3,210,159**	**$ 1,411,327**	**$ 1,356,100**	**$ 55,227**

Legislators'			Total Single-employer Plans		
Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability/(Asset)**	**Total Pension Liability**	**Plan Fiduciary Net Position**	**Net Pension Liability/(Asset)**
$ 102,220	$ 119,050	$ (16,830)	**$ 5,104,713**	**$ 1,331,796**	**$ 3,772,917**
639	—	639	**121,051**	**—**	**121,051**
5,291	—	5,291	**206,012**	**—**	**206,012**
(5,998)	—	(5,998)	**(398,580)**	**—**	**(398,580)**
7,857	—	7,857	**(30,580)**	**—**	**(30,580)**
—	517	(517)	**—**	**272,094**	**(272,094)**
—	94	(94)	**—**	**28,568**	**(28,568)**
—	5,047	(5,047)	**—**	**120,529**	**(120,529)**
(7,249)	(7,249)	—	**(230,095)**	**(230,095)**	**—**
—	(575)	575	**—**	**(4,028)**	**4,028**
—	—	—	**—**	**2,395**	**(2,395)**
540	**(2,166)**	**2,706**	**(332,192)**	**189,463**	**(521,655)**
$ 102,760	**$ 116,884**	**$ (14,124)**	**$ 4,772,521**	**$ 1,521,259**	**$ 3,251,262**
			Reported in governmental activities		**$ 3,251,262**

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*:** Judges' net pension liability was calculated using a discount rate of 3.56%; Judges' II used 6.65%; and Legislators' used 5.25%. Table 26 shows the net pension liability for each single-employer plan, calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

Table 26

Net Pension Liability/Asset Sensitivity – Single-employer Plans
June 30, 2018
(amounts in thousands)

	Current Rate -1%	Current Rate	Current Rate +1%
Judges' (3.56%)	$ 3,571,705	$ 3,210,159	$ 2,903,755
Judges' II (6.65%)	238,981	55,227	(91,774)
Legislators' (5.25%)	(1,712)	(14,124)	(24,226)
Total Single-employer Plans	**$ 3,808,974**	**$ 3,251,262**	**$ 2,787,755**

***Pension Plans Fiduciary Net Position*:** Detailed information about the single-employer plans' fiduciary net position is available in the separately issued CalPERS financial report.

***Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions*:** For the single-employer plans, for the fiscal year ended June 30, 2017, the State recognized a credit balance for pension expense of $268 million. At June 30, 2018, the State reported deferred outflows of resources from contributions made by the State to the single-employer plans subsequent to the measurement date of June 30, 2017, but prior to the fiscal year ended June 30, 2018, which will be recognized as a reduction of the net pension liability in the subsequent year.

Table 27 shows pension expense and sources of deferred outflows and deferred inflows of resources related to each single-employer plan.

Table 27

Pension Expense and Sources of Deferred Outflows and Deferred Inflows of Resources Related to Pensions – Single-employer Plans
June 30, 2018
(amounts in thousands)

	Judges'	Judges' II	Legislators'	Total
Pension Expense	$ (342,289)	$ 71,515	$ 2,812	**$ (267,962)**
Deferred Outflows of Resources:				
Employer contributions subsequent to the measurement date	197,017	73,916	467	**271,400**
Changes of assumptions	—	60,579	—	**60,579**
Net difference between projected and actual earnings on pension plan investments	2,892	20,380	3,755	**27,027**
Deferred Inflows of Resources:				
Difference between expected and actual experience	—	(37,813)	—	**(37,813)**
Changes of assumptions	—	(10,821)	—	**(10,821)**

Table 28 shows amounts reported as deferred outflows and deferred inflows of resources related to pensions that will be recognized in pension expense in future years for the single-employer plans. Increases to pension expense are shown as positive amounts and decreases to pension expense are shown as negative amounts.

Table 28

Recognition of Deferred Outflows and Deferred Inflows of Resources – Single-employer Plans
(amounts in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources		
Year Ending June 30	**Judges'**	**Judges' II**	**Legislators'**	**Total**
2019	$ 1,470	$ 2,972	$ 603	**$ 5,045**
2020	777	21,226	2,240	**24,243**
2021	419	5,728	710	**6,857**
2022	227	(6,097)	203	**(5,667)**
2023	—	862	—	**862**
Thereafter	—	7,633	—	**7,633**

B. California State Teachers' Retirement System

The State reports a net pension liability, deferred outflows and deferred inflows of resources, and expenses as a result of its statutory requirement to contribute to the State Teachers' Retirement Fund as a non-employer contributing entity.

***Plan Description*:** CalSTRS administers the State Teachers' Retirement Fund, which is an employee benefit trust fund created to finance the State Teachers' Retirement Plan (STRP). The STRP is a cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and survivor benefits to teachers and certain other employees of the California public school system. Four programs comprise the STRP: the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program, the Cash Balance Benefit (CBB) Program, and the Replacement Benefit (RB) Program. CalSTRS issues a publicly available financial report, which may be found on CalSTRS' website at www.CalSTRS.com.

***Benefits Provided*:** Membership in the DB Program is mandatory for all employees meeting certain statutory requirements. The DB Program provides retirement benefits based on a member's age, final compensation, and years of service credit. In addition, the retirement program provides benefits to members upon disability and to their survivors or beneficiaries upon the death of eligible members. The Teachers' Retirement Law establishes the benefits for the DB Program. The DB Program had 1,740 contributing employers, 449,555 active and 198,186 inactive program members, and 301,629 benefit recipients as of June 30, 2018. The payroll for employees covered by the DB Program for the fiscal year ended June 30, 2017, was approximately $34.1 billion.

Membership in the DBS Program is automatic for all members of the DB Program. The DBS Program provides benefits based on the amount of funds contributed. Vesting in the DBS Program occurs automatically with vesting in the DB Program. The Teachers' Retirement Law establishes the benefits for the DBS Program. The primary government does not contribute to the DBS Program.

***Contributions*:** The DB Program contribution rates are based on the provisions of AB 1469 and Education Code section 22955.1(b). The Legislature may amend these provisions at any time and submit the amendment to the Governor for approval. The contribution rates for members and employers for the reporting period were 9.21% and 12.58% of creditable compensation, respectively. The General Fund contributed an additional 4.311% of total creditable compensation of the fiscal year ending in the prior calendar year. Contributions will increase to 4.811% in the next year and continue to increase until fiscal year 2045-46. The State contributed a total of $2.8 billion for fiscal year 2017-18. CalSTRS' June 30, 2016 Defined Benefit Actuarial Valuation Report, may be found on CalSTRS' website at www.CalSTRS.com/sites/main/files/file-attachments/2016_db_valuation_report.pdf.

The CBB Program is designed for employees of California public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position. Employer participation in the CBB Program is optional. However, if the employer elects to offer the CBB Program, then each eligible employee will automatically be covered by the CBB Program, unless the member elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire or the election period determined by the employer. At June 30, 2017, the CBB Program had 30 contributing school districts and 39,053 contributing participants.

The RB Program is a qualified excess benefits arrangement for DB Program members that is administered through a separate pension trust apart from the other three STRP programs; it was established in accordance with Internal Revenue Code section 415(m). Internal Revenue Code section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The program is funded as needed. Monthly contributions that would otherwise be credited to the DB program are instead credited to the RB Program to fund monthly program costs. Monthly employer contributions are received and paid to members in amounts equal to the benefits not paid as a result of Internal Revenue Code section 415(b), subject to withholding for any applicable income or employment taxes. At June 30, 2017, 347 individuals were receiving benefits from the RB program.

***Actuarial Methods and Assumptions*:** The total pension liability in the June 30, 2016 actuarial valuation (valuation date) was determined using the actuarial methods and assumptions shown in Table 29, applied to the measurement period ended June 30, 2017.

Table 29

Actuarial Methods and Assumptions – CalSTRS

Valuation date	June 30, 2016
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%
Post-retirement benefit increases (COLAs)	2.00% simple

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rate at each age, resulting in increases in future life expectancies. CalSTRS uses base mortality tables customized to best fit the patterns of mortality among its members. The projection scale was set to equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale table, issued by the Society of Actuaries.

***Discount Rate*:** The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases created by AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10%) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS' general investment consultant as an input to the process. The actuarial investment rate of return assumption was adopted by the board in 2017

in conjunction with the most recent experience study. For each future valuation, CalSTRS' consulting actuary reviews the return assumption for reasonableness based on the current capital market assumptions.

Table 30 shows the assumed allocation and best estimates of the 20-year geometric real rate of return for each major asset class.

Table 30

Long-term Expected Real Rate of Return by Asset Class – CalSTRS

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47.0 %	6.30 %
Private equity	13.0	9.30
Real estate	13.0	5.20
Absolute return/risk mitigating strategies	9.0	2.90
Inflation sensitive	4.0	3.80
Fixed income	12.0	0.30
Cash/liquidity	2.0	(1.00)
Total	**100.0 %**	

***Pension Liabilities, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions*:** CalSTRS' net pension liability was measured as of June 30, 2017 (measurement date), by applying update procedures and rolling forward the total pension liability determined by the actuarial valuation as of June 30, 2016 (valuation date). The State's proportion of the net pension liability was based on CalSTRS' calculated non-employer contributions to the pension plan relative to the total contributions of the State and all participating school districts. Per CalSTRS' revenue recognition policy, CalSTRS recognizes state contributions for the entire fiscal year at the beginning of each fiscal year. Contributions excluded from the proportionate share per CalSTRS' policy include employer contributions for retirement incentives, additional service credit, and unused sick leave. As of June 30, 2017, the State's proportionate share of the CalSTRS' net pension liability was 37.17%, or $34.4 billion; this amount is reported in the governmental activities column of the government-wide Statement of Net Position as of June 30, 2018.

As a result of its requirement to contribute to CalSTRS, the State recognized expense of $3.4 billion for the fiscal year ended June 30, 2018, and reported deferred outflows and deferred inflows of resources as shown in Table 31.

Table 31

Sources of Deferred Outflows and Deferred Inflows of Resources Related to Pensions – CalSTRS
June 30, 2018
(amounts in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 6,368,337	$ —
Net difference between projected and actual earnings on pension plan investments	—	915,497
Difference between expected and actual experiences	127,121	599,552
Proportionate share change	1,473,947	1,272,183
State contributions subsequent to the measurement date	2,790,444	—
Total	**$ 10,759,849**	**$ 2,787,232**

The $2.8 billion reported as deferred outflows of resources resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Table 32 shows amounts reported as deferred outflows and deferred inflows of resources related to pensions that will be recognized in pension expense in future years as a result of the State's requirement to contribute to CalSTRS. Increases to pension expense are shown as positive amounts and decreases to pension expense are shown as negative amounts.

Table 32

Recognition of Deferred Outflows and Deferred Inflows of Resources – CalSTRS
(amounts in thousands)

Year Ending June 30	Amount
2019	$ 145,018
2020	1,482,023
2021	988,777
2022	92,609
2023	1,293,814
Thereafter	1,179,930

***Sensitivity of the State's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*:** Table 33 shows the State's proportionate share of the net pension liability calculated using the discount rate of 7.10%, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.10%) or one percentage point higher (8.10%) than the current rate.

Table 33

Net Pension Liability Sensitivity – CalSTRS
June 30, 2018
(amounts in thousands)

	Current Rate –1%	Current Rate 7.10%	Current Rate +1%
State's proportionate share of net pension liability	$ 50,473,143	$ 34,374,816	$ 21,309,933

***Pension Plan Fiduciary Net Position*:** Detailed information about CalSTRS' pension plans' fiduciary net position is available in the separately issued CalSTRS financial report.

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS

***Plan Description*:** The primary government provides medical and prescription drug benefits to annuitants of retirement systems under the Public Employees' Medical and Hospital Care Act, and dental benefits under the State Employees' Dental Care Act, through a substantive defined benefit other postemployment benefit (OPEB) plan to which the primary government contributes as an employer (state substantive plan). The primary government also offers life insurance, long-term care, and vision benefits to retirees; however, because these benefits are completely paid for by the retirees, the primary government has no liability. The design of health and dental benefit plans can be amended by the California Public Employees' Retirement System (CalPERS) Board of Administration and the California Department of Human Resources (CalHR), respectively.

Employer and retiree contributions are governed by the primary government and can be amended by the primary government through the Legislature. Through collective bargaining, the State, and certain bargaining units and judicial employees (valuation groups) have agreed to prefund retiree healthcare and dental benefits. Assets are held in separate accounts by valuation group within the California Employers' Retiree Benefit Trust Fund (CERBTF), an agent multiple-employer defined benefit OPEB trust administered by CalPERS for the prefunding of health, dental, and other non-pension benefits. In accordance with California Government Code section 22940, assets accumulated in the CERBTF will be invested and are not available to pay benefits until 2046, or until the date the funded ratio of the account of a particular valuation group reaches at least 100% of the actuarially determined liability for the valuation group, and then only for the purposes of paying benefits of annuitants and dependents associated with that valuation group. All contributions to the CERBTF are assets of the employer, and State employees have no claims or rights to the CERBTF assets. CalPERS reports on the CERBTF as part of its separately issued annual financial statements, which can be obtained from CalPERS on its website at www.CalPERS.ca.gov.

***Benefits Provided*:** Benefit terms are governed by the primary government and can be amended by the primary government through the Legislature. To be eligible for OPEB benefits, primary government first-tier plan annuitants must retire on or after age 50 with at least five years of service, and second-tier plan annuitants must retire on or after age 55 with at least 10 years of service. Annuitants must retire within 120 days of separation from employment to be eligible for benefits. As of June 30, 2017, approximately 182,866 annuitants were enrolled to receive health benefits and approximately 184,391 annuitants were enrolled to receive dental benefits.

Annuitants who qualify for premium-free Medicare Part A either on their own or through a spouse must enroll for Medicare Part B coverage as soon as they qualify for Medicare Part A. The annuitant must then enroll in a Medicare supplemental insurance plan sponsored by CalPERS, which covers the costs not paid by Medicare by coordinating benefits.

Survivors of eligible annuitants may also enroll within 60 days of the annuitant's death or during any future open enrollment period. Dependents of annuitants that are enrolled or eligible to enroll at the time of the annuitant's death qualify for benefits.

Employees Covered by Benefit Terms: The June 30, 2017 OPEB actuarial valuation report provides information about the number of employees by valuation group covered within the OPEB plan.

Table 34 shows the number of employees covered by the benefit terms.

Table 34

Number of Employees by Type Covered by Benefit Terms – OPEB Plan
June 30, 2017

Inactive employees or beneficiaries currently receiving benefits	$	182,866
Inactive employees entitled to but not yet receiving benefits		—
Active employees		272,574
Total	**$**	**455,440**

***Contributions*:** The contribution requirements of plan members and the State are established and may be amended by the Legislature, and are subject to collective bargaining. In accordance with the California Government Code, the State generally pays 100% of the health insurance premium cost for annuitants, plus 90% of the additional premium required for the enrollment of annuitants' family members. The State generally pays all or a portion of the dental insurance premium cost for annuitants, depending on the completed years of credited state service at retirement and the dental coverage selected by the annuitant, as specified in the California Government Code. The State funds the cost of providing health and dental insurance to annuitants primarily on a "pay-as-you-go" basis, with a modest amount of prefunding for members of Bargaining Units 2, 5, 6, 7, 9, 10, 12, 16, and state employees of the Judicial Branch (excluding justices/judges). The maximum 2017 monthly State contribution was $707 for one-party coverage, $1,349 for two-party coverage, and $1,727 for family coverage.

For the fiscal year ended June 30, 2017, the State contributed $2.4 billion toward annuitants' health and dental benefits. Of this amount, certain discretely presented component units represent $2 million.

***Net OPEB Liability Actuarial Methods and Assumptions*:** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective.

The State's net OPEB liability was measured as of June 30, 2017 (measurement date), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The June 30, 2016 beginning total OPEB liability was determined by rolling back the June 30, 2017 total OPEB liability.

The June 30, 2017 total OPEB liability was based on the actuarial methods and assumptions shown in Table 35.

Table 35

Actuarial Methods and Assumptions – OPEB Plan

Valuation date:	June 30, 2017
Actuarial cost method:	Entry age normal in accordance with the requirements of GASB 75
Actuarial assumptions:	
Discount rate	Blended rate for each valuation group, consisting of 7.28% when assets are available to pay benefits, otherwise 20-year Municipal G.O. Bond AA Index rate of 3.56%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.28%, net of OPEB plan investment expenses
Healthcare cost trend rates	Pre-Medicare coverage: Actual rates for 2018, increasing to 8.00% in 2019, decreasing 0.50% per year to an ultimate rate of 4.50% for 2026 and later years
	Post-Medicare coverage: Actual rates for 2018, increasing to 8.50% in 2019, decreasing 0.50% per year to an ultimate rate of 4.50% for 2027 and later years
	Dental coverage: 0.00% in 2018 and 4.50% thereafter
Mortality	Mortality rates are based on the 2014 CalPERS Experience Study adopted by the CalPERS Board and include 20 years of mortality improvements using Scale BB published by the Society of Actuaries

Other demographic assumptions used in the June 30, 2017 valuation were based on the results of the *2014 CalPERS Experience Study and Review of Actuarial Assumptions* report for the period from 1997 to 2011, including updates to termination, disability, mortality assumptions, and retirement rates. The CalPERS experience study can be obtained from CalPERS' website at www.CalPERS.ca.gov.

Healthcare-related assumptions such as plan participation, aging factors, adjustments for disabled members, and adjustments for children of current retirees and survivors are based on the 2015 experience study performed by Gabriel, Roeder, Smith and Company (GRS) for the period from 2007 to 2014. Other healthcare assumptions such as member healthcare plan selection, coverage and continuance, select and ultimate healthcare cost trend rates, and per capita claim costs and expenses, are based on the most current

information available. To obtain a copy of the GRS experience study email the State Controller's Office, State Accounting and Reporting Division, at StateGovReports@sco.ca.gov.

***Investment Rate of Return*:** The long-term expected rate of return on OPEB plan investments was determined by CalPERS using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. Expected compound (geometric) returns were calculated over a closed period. Based on separate expected nominal returns for the short-term (first 10 years) and the long-term (11-60 years), a single expected return rate of 7.28% was calculated for years 1-60. If applied to expected cash flows during that period, the resulting present value of benefits is expected to be consistent with the present value of benefits that would be determined by applying the short and long-term expected rates to the same cash flows.

Table 36 shows the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation used to measure the total OPEB liability.

Table 36

Long-term Expected Real Rate of Return by Asset Class

Asset Class	Policy Target Allocation	Real Return Years 1 – 10 [1]	Real Return Years 11 – 60 [2]
Global Equity	57.0 %	5.25 %	5.71 %
Global Fixed Income	27.0	1.79	2.40
Inflation Sensitive	5.0	1.00	2.25
Real Estate	8.0	3.25	7.88
Commodities	3.0	0.34	4.95
Total	**100.0 %**		

[1] An expected inflation rate of 2.5% used for this period.
[2] An expected inflation rate of 3.0% used for this period.

***Discount Rate*:** The discount rate used to measure the total OPEB liability was based on a blended rate for each valuation group. The blended rate used to measure the June 30, 2016 total OPEB liability consists of the 20-Bond G.O. Index rate of 2.85% as of June 30, 2016, as reported by Bond Buyer Index (general obligation, 20 years to maturity, mixed quality), when prefunding assets are not available to pay benefits, and 7.28% when prefunding assets are available to pay benefits. The blended rate used to measure the June 30, 2017 total OPEB liability consists of the 20-year Municipal G.O. Bond AA Index rate of 3.56% as of June 30, 2017, as reported by Fidelity Index, when prefunding assets are not available to pay benefits, and 7.28% when prefunding assets are available to pay benefits. The cash flow projections used to calculate the blended discount rate were developed assuming that prefunding agreements in which actuarially determined normal costs are shared between employees and the State will continue and that the required contributions will be made on time and as scheduled in future years. The prefunding agreements are subject to collective bargaining and legislative approval. Detailed information on the blended discount rates by valuation group is available in the *State of California Retiree Health Benefits Program GASB Nos. 74 and 75 Actuarial Valuation Report as of June 30, 2017*, on the State Controller's Office website, at www.SCO.ca.gov.

The blended rate for the June 30, 2018 valuation will be determined using the the Fidelity Index 20-year Municipal G.O. Bond AA Index rate of 3.62% when prefunding assets are not available to pay benefits.

In February 2019, the State Controller's Office and its contracted actuary determined that the full funding discount rate used in the *State of California Retiree Health Benefits Program GASB Nos. 74 and 75 Actuarial Valuation Report as of June 30, 2018*, will be lowered from 7.28% to 7.00%, net of investment expenses, effective July 1, 2017. Excluding other changes in assumptions impacting the State's net OPEB liability, a reduction to the discount rate would increase the net OPEB liability. The net effect of all assumption changes will be amortized over the average expected remaining service lives of the plan members in the actuarial valuation.

***Changes in Net OPEB Liability*:** Table 37 shows the changes in net OPEB liability recognized over the measurement period.

Table 37

Changes in Net OPEB Liability
(amounts in thousands)

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2016	$ 96,197,447	$ 147,722	$ 96,049,725
Changes recognized for the measurement period:			
Service cost	4,009,501	—	4,009,501
Interest on total OPEB liability	3,249,843	—	3,249,843
Changes of assumptions	(9,830,478)	—	(9,830,478)
Employer contributions	—	2,389,809	(2,389,809)
Employee contributions	—	39,362	(39,362)
Net investment income	—	42,292	(42,292)
Benefit payments	(2,118,695)	(2,118,695)	—
Administrative expense	—	(165)	165
Other miscellaneous income	—	(290)	290
Net changes	(4,689,829)	352,313	(5,042,142)
Balance at June 30, 2017 (Measurement Date)	**$ 91,507,618**	**$ 500,035**	**$ 91,007,583**

Reported in governmental activities	$ 72,025,264
Reported in business-type activities	15,678,509
Reported by discretely presented component units	138,611
Not reported in government-wide Statement of Net Position [1]	3,165,199
Total net OPEB liability	**$ 91,007,583**

[1] Includes amounts allocated to related organizations and fiduciary funds. Also includes the difference in net OPEB liability for a discretely presented component unit with a reporting period ended December 31, 2017; and minor differences related to amounts reported in separately issued financial statements of proprietary funds and discretely presented component units.

***Sensitivity of the Net OPEB Liability to Changes in Blended Discount Rates*:** Table 38 shows the net OPEB liability of the State as of the measurement date, calculated using the blended discount rate for each valuation group ranging from 3.560% to 4.219%, as well as what the net OPEB liability would be if it were calculated using rates that are one percentage-point lower or one percentage-point higher than the blended discount rates.

Table 38

Net OPEB Liability Sensitivity to Changes in Blended Discount Rates
June 30, 2018
(amounts in thousands)

	Blended Discount Rates -1%	Blended Discount Rates	Blended Discount Rates +1%
Net OPEB Liability	$ 107,697,362	$ 91,007,583	$ 77,780,968

***Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates*:** Table 39 shows the net OPEB liability as of the measurement date, calculated using the select and ultimate healthcare cost trend rates presented in Table 35, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the healthcare cost trend rates presented in Table 35.

Table 39

Net OPEB Liability Sensitivity to Changes in the Healthcare Cost Trend Rates
June 30, 2018
(amounts in thousands)

	Healthcare Cost Trend Rates -1%	Healthcare Cost Trend Rates	Healthcare Cost Trend Rates +1%
Net OPEB Liability	$ 76,879,311	$ 91,007,583	$ 109,161,074

***OPEB Plan Fiduciary Net Position*:** Detailed information about the OPEB plan's fiduciary net position is available in the separate report issued by CalPERS, at www.CalPERS.ca.gov.

OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB: The State recognized OPEB expense of $5.7 billion for the fiscal year ended June 30, 2018. Deferred inflows of resources are recognized for changes of assumptions and for the difference between expected and actual experience. Net deferred inflows of resources are recognized for the aggregate difference (positive and negative) between projected and actual earnings on OPEB plan investments. As of June 30, 2018, the State reported OPEB expense and deferred outflows and deferred inflows of resources as shown in Table 40.

Table 40

OPEB Expense and Sources of Deferred Outflows and Deferred Inflows of Resources Related to OPEB
June 30, 2018
(amounts in thousands)

Description		Total
OPEB Expense	$	5,658,249
Deferred Outflows of Resources:		
Employer contributions subsequent to the measurement date		1,941,823
Deferred Inflows of Resources:		
Changes of assumptions		8,296,641
Net difference between projected and actual earnings on OPEB plan investments		13,939

The $1.9 billion reported as deferred outflows of resources resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2019.

Table 41 shows amounts reported as deferred outflows and deferred inflows of resources related to OPEB that will be recognized as OPEB expense in future years. Increases to OPEB expense are shown as positive amounts and decreases to OPEB expense are shown as negative amounts.

Table 41

Recognition of Deferred Outflows and Deferred Inflows of Resources Related to OPEB
(amounts in thousands)

Year Ending June 30		Amount
2019	$	(1,537,325)
2020		(1,500,674)
2021		(1,441,384)
2022		(1,400,823)
2023		(1,358,436)
Thereafter		(1,071,938)

NOTE 12: COMMERCIAL PAPER AND OTHER LONG-TERM BORROWINGS

The primary government has two commercial paper borrowing programs: a general obligation commercial paper program and an enterprise fund commercial paper program for the Department of Water Resources. Commercial paper (new issuance or rollover notes that replace maturing new issuances) may be issued at the prevailing market rate, not to exceed 11% for the general obligation and 12% for the Department of Water Resources enterprise fund program, for periods not to exceed 270 days from the date of issuance. The proceeds from the initial issuance of commercial paper are used for voter-approved projects of the general obligation bond program and certain state water projects. For both commercial paper borrowing programs, the commercial paper is retired by the issuance of long-term debt, so commercial paper is considered a noncurrent liability.

To provide liquidity for the programs, the State has entered into revolving credit agreements with credit providers such as commercial banks. The current "Letter of Credit" agreements for the general obligation commercial paper program authorize the issuance of notes in an aggregate principal amount not to exceed $2.2 billion. As of June 30, 2018, the general obligation commercial paper program had $860 million in outstanding commercial paper notes for governmental activities. The current agreements for the enterprise fund commercial paper program authorize the issuance of notes in an aggregate principal amount not to exceed $1.1 billion. As of June 30, 2018, the enterprise fund commercial paper program had $581 million in outstanding notes.

The primary government has a bond anticipation note program that consists of borrowing for capital improvements on certain California State University campuses. As of June 30, 2018, $169 million in outstanding bond anticipation notes existed in anticipation of the primary government issuing revenue bonds to the public.

The University of California, a discretely presented component unit, has a commercial paper program and other uncollateralized borrowings. Additional disclosures for the University's commercial paper and other long-term borrowings are included in the University's separately issued financial statements, which can be obtained from the University on its website at www.ucop.edu.

NOTE 13: LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30, 2018, was approximately $1.9 billion. Primary government leases that are classified as operating leases, in accordance with the applicable standards, contain clauses providing for termination. Operating lease expenditures are recognized as being incurred over the lease term. Operating lease expenditures for the fiscal year ended June 30, 2018, amounted to approximately $267 million for governmental activities and $28 million for business-type activities. It is expected that, in the normal course of business, most of these operating leases will be replaced by similar leases.

The total present value of net minimum capital lease payments for the primary government is $791 million. Note 9, Long-term Obligations, reports current additions and deductions for these capital lease obligations. The California State University, an enterprise fund, and the State Public Works Board (SPWB), an internal service fund, entered into lease-purchase agreements amounting to a present value of net minimum lease payments of $155 million, which are included in the capital lease commitments. This amount represents 19.6% of the total present value of minimum capital lease payments of the primary government. Also included in the capital lease commitments are lease-purchase agreements to acquire equipment. Total assets

related to capital leases have a net carrying value of $254 million for governmental activities and $199 million for business-type activities.

The capital lease commitments do not include $8.2 billion in lease-purchase agreements with the SPWB and $111 million in lease purchase agreements with building authorities that are blended component units. The SPWB and the building authorities acquire or develop office buildings and then lease the facilities to state agencies. Upon expiration of the lease, title passes to the primary government. The costs of the buildings and the related outstanding revenue bonds are reported as governmental activities in the government-wide financial statements. Accordingly, the lease receivables and capital lease obligations associated with these buildings are not included in the government-wide financial statements.

The University of California, a discretely presented component unit, leases land, buildings, and equipment under agreements recorded as operating leases. Additional disclosure for the University's lease obligations is included in its separately issued financial statements that may be found on its website at www.ucop.edu.

Table 42 summarizes future minimum lease commitments of the primary government.

Table 42

Schedule of Future Minimum Lease Commitments – Primary Government
(amounts in thousands)

	Governmental Activities		Business-type Activities		
Year Ending June 30	**Operating Leases**	**Capital Leases**	**Operating Leases**	**Capital Leases**	**Total**
2019	$ 241,986	$ 87,806	$ 28,448	$ 36,491	$ 394,731
2020	180,743	70,849	20,620	34,978	307,190
2021	113,210	60,188	19,349	33,583	226,330
2022	60,679	42,524	15,262	32,317	150,782
2023	24,962	32,830	9,724	31,429	98,945
2024-2028	48,620	89,917	38,954	136,694	314,185
2029-2033	12,087	80,767	13,497	126,199	232,550
2034-2038	1,095	63,977	3,205	47,089	115,366
2039-2043	771	10,803	1,538	7,518	20,630
2044-2048	107	—	992	—	1,099
2049-2053	107	—	—	—	107
2054-2058	84	—	—	—	84
2059-2063	18	—	—	—	18
Total minimum lease payments	**$ 684,469**	**539,661**	**$ 151,589**	**486,298**	**$ 1,862,017**
Less: amount representing interest		58,400		176,370	
Present value of net minimum lease payments		**481,261**		**309,928**	
Less: current portion		68,817		19,783	
Capital lease obligation, net of current portion		**$ 412,444**		**$ 290,145**	

NOTE 14: COMMITMENTS

As of June 30, 2018, the primary government had commitments of $7.6 billion for certain highway construction projects. These commitments are not included as a liability in the Federal Fund or the Transportation Fund because future expenditures related to these commitments will be reimbursed with $6.3 billion from proceeds of approved federal grants and $1.3 billion from local governments. The primary government also had other commitments for which the future expenditures will be reimbursed by the proceeds of approved federal grants of $578 million for terrorism prevention and disaster-preparedness response projects, $469 million for various education programs, $318 million for services under the workforce development program, $184 million for services provided under various public health programs, $124 million for services provided under the welfare program, and $117 million for community service programs.

The primary government had other commitments, totaling $12.4 billion, that are not included as a liability on the Balance Sheet or the Statement of Net Position. The $12.4 billion in commitments includes grant agreements totaling approximately $6.4 billion to reimburse other entities for construction projects for school building aid, parks, transportation-related infrastructure, housing, and other improvements; and to reimburse counties and cities for costs associated with various programs. Any assets that have been constructed will not belong to the primary government, whose payments are contingent upon the other entities entering into construction contracts. The $12.4 billion in commitments includes $2.7 billion for undisbursed loan commitments to qualified agencies for clean water projects and $587 million in undisbursed loan commitments for various programs aimed at providing housing and emergency shelter to persons in need.

The $12.4 billion in commitments also includes contracts of $871 million for the construction of water projects and the purchase and transmission of power that are not included as a liability on the Statement of Net Position of the Water Resources Fund. Included in this amount are certain power purchase, sale, and exchange contracts. The primary government had commitments of $592 million for CSU construction projects. In addition, CSU participates in forward-purchase contracts of electricity. As of June 30, 2018, CSU's obligation under these special purchase arrangements requires it to purchase at fixed prices an estimated total of $15 million in electricity through December 2019. The primary government also had commitments of $45 million to veterans for the purchase of properties under contracts of sale. The California State Lottery Commission had commitments of $1.2 billion for gaming and telecommunication systems and services. These are long-term projects, and all of the contracts' needs may not have been defined. The projects will be funded with existing and future program resources or with the proceeds of revenue and general obligation bonds.

As of June 30, 2018, the primary government encumbered expenditures of $1.2 billion for the General Fund, $2.5 billion for the Transportation Fund, $1.5 billion for the Environmental and Natural Resources Fund, and $1.0 billion for the nonmajor governmental funds. See Note 2A, Budgeting and Budgetary Control, for an explanation of the primary government's policy concerning encumbrances.

As of June 30, 2018, the discretely presented and fiduciary component units had other commitments that were not included as liabilities on the corresponding Statement of Net Position. Additional disclosure for the University of California's commitments is included in its separately issued financial statements, which may be found on its website at www.ucop.edu. Additional disclosure for the California Housing Finance Agency's (CalHFA) commitments is included in its separately issued financial statements, which may be found on its website at www.CalHFA.ca.gov. Additional disclosure for the California Public Employees'

Retirement System's (CalPERS) commitments is included in its separately issued financial statements, which may be found on its website at www.CalPERS.ca.gov. Additional disclosure for the California State Teachers' Retirement System's (CalSTRS) commitments is included in its separately issued financial statements, which may be found on its website at www.CalSTRS.com.

NOTE 15: GENERAL OBLIGATION BONDS

The State Constitution permits the primary government to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds vote of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used first to support the public school system and public institutions of higher education; the General Fund can then be used to service the debt on outstanding general obligation bonds. Enterprise funds and certain other funds reimburse the General Fund for any debt service that it provides on their behalf. General obligation bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included as a liability of such funds in the financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such enterprise funds.

As of June 30, 2018, the State had $74.2 billion in outstanding general obligation bonds related to governmental activities and $689 million related to business-type activities. In addition, $33.9 billion in long-term general obligation bonds had been authorized but not issued, of which $33.6 billion is related to governmental activities and $261 million is related to business-type activities. The total amount authorized but not issued includes $12.2 billion authorized by the applicable finance committees for issuance in the form of commercial paper notes. Of this amount, $860 million in general obligation indebtedness in the form of commercial paper notes was not yet retired by long-term bonds.

A. Variable-rate General Obligation Bonds

The State issues both fixed and variable-rate general obligation bonds. As of June 30, 2018, the State had $3.1 billion in variable-rate general obligation bonds outstanding, consisting of $925 million in daily-rate bonds with credit enhancement, $1.2 billion in weekly-rate bonds with credit enhancement, and $1.1 billion in weekly- or monthly- index floating rate bonds without credit enhancement. The interest rates associated with the credit-enhanced bonds are determined by the remarketing agents to be the lowest rate that would allow the bonds to sell on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest rates associated with the unenhanced index floating rate bonds are determined either by a rate based on the Securities Industry and Financial Markets Association (SIFMA) Index rate or a predetermined percentage of the London Interbank Offered Rate (LIBOR) then in effect plus a pre-determined spread. The interest on variable-rate bonds is generally paid on the first business day of each calendar month.

The credit-enhanced bonds are secured by letters of credit that secure payment of principal and interest on the bonds. The State has entered into different credit agreements with various banks (credit providers) for one or more series of credit-enhanced bonds. Under these credit agreements, the credit providers agree to pay all principal and interest payments to the bondholders up to a commitment amount identified in the applicable credit agreement; the State is then required to reimburse the credit providers for the amounts paid. In return, the credit providers are compensated with commitment fees that are calculated as a percentage of the applicable commitment amount. The bondholders have the right to tender the bonds daily

if the bonds are in a daily-rate mode and weekly if the bonds are in a weekly-rate mode. Upon a tender, the remarketing agent will attempt to remarket the tendered bond to a new investor. If the remarketing of the tendered bond is unsuccessful, the bond will be purchased by the applicable credit provider and become a bank bond and accrue interest at higher rates, which cannot exceed 11% as permitted by law until remarketed, redeemed, or paid at maturity. If a bond cannot be remarketed and remains a bank bond for a period ranging from 45 days to 90 days, the bond will be subject to amortization payments in equal installments under the terms stated in the applicable credit agreement. The amortization period may exceed the expiration date of the applicable credit agreement. A bank bond may be remarketed at any time during the amortization period. There were no bank bonds during fiscal year 2017-18.

The letters of credit for the Series 2003 variable-rate bonds have expiration dates of September 7, 2018; September 13, 2018; November 2, 2018; November 16, 2018; and April 26, 2019. The letters of credit for the Series 2004 variable-rate bonds have expiration dates of September 7, 2018; August 11, 2020; and October 1, 2021. The letters of credit for the Series 2005 variable-rate bonds have expiration dates of September 13, 2018; November 16, 2018; November 4, 2019; November 15, 2019; and March 26, 2021. The Series 2012A index floating rate bonds have a mandatory redemption date on May 1, 2021. The Series 2012B index floating rate bonds have fixed maturities on May 1, 2019 and May 1, 2020. The Series 2013B, 2013C, 2013D, and 2013E index floating rate bonds have scheduled mandatory purchase dates on December 3, 2018 (Series 2013E); December 1, 2020 (Series 2013C and Series 2013D); and December 1, 2022 (Series 2013B). The Series 2016B and 2017C index floating rate bonds have scheduled mandatory purchase dates on December 1, 2021 (Series 2016B) and April 1, 2022 (Series 2017C).

Sinking fund deposits for the variable-rate general obligation bonds are set aside in a sinking fund at the beginning of each fiscal year; such deposits are required and will continue for each fiscal year with scheduled sinking fund payments. The deposits set aside in any fiscal year may be applied, with approval of the State Treasurer and the appropriate bond finance committees, to the redemption or purchase and retirement of any other general obligation bonds (bonds other than the bonds to which the sinking fund deposits relate) then outstanding. If a sinking fund deposit is not applied by January 31 of that fiscal year to such other bonds, the State Treasurer will select the related variable-rate general obligation bonds that will be redeemed in whole or in part on an interest payment date in that fiscal year. The required sinking fund deposits were set aside for fiscal year 2017-18.

B. Mandatory Tender Bonds

As of June 30, 2018, the State had $1.7 billion in outstanding general obligation bonds with scheduled mandatory tender dates, including $750 million with a fixed interest rate and $925 million with an index floating rate (discussed in Section A). On their respective scheduled mandatory tender dates, these bonds are subject to mandatory tender for purchase at a price equal to 100% of the principal amount, plus accrued interest, without premium, unless the bonds have been called for redemption or remarketed on or prior to that day. These bonds have scheduled mandatory tender dates on December 3, 2018; December 2, 2019; April 1, 2020; December 1, 2020; December 1, 2021; April 1, 2022; and December 1, 2022. In the event bonds are not redeemed or there is an unsuccessful remarketing of all the outstanding bonds for a particular scheduled mandatory tender date, the bonds will enter into a delayed remarketing period and accrue interest at a higher effective interest rate, in most cases gradually increasing on a stepped basis until they are remarketed, redeemed, or paid at maturity. Bonds in this delayed remarketing period can be redeemed or remarketed on any business day, with limited prior notice. Current state laws limit interest rates to 11% per annum.

C. Build America Bonds

As of June 30, 2018, the State had $13.5 billion in taxable various-purpose general obligation bonds outstanding that were issued as "Build America Bonds" under the American Recovery and Reinvestment Act of 2009 (ARRA) signed into law on February 17, 2009. The bonds will mature between 2020 and 2040. Pursuant to ARRA, the State receives a cash subsidy payment from the U. S. Treasury equal to 35% of the interest payable by the State on the Build America Bonds on or near each interest payment date. Subsequent federal legislation reduced the Build America Bonds subsidy by 6.9% for the federal fiscal year ending September 30, 2017, and by 6.6% for the federal fiscal year ending September 30, 2018. The cash payment does not constitute a full faith and credit guarantee of the federal government, but is required to be paid by the U. S. Treasury under ARRA. The subsidy payments are deposited into the State's General Fund.

D. Debt Service Requirements

Table 43 shows the debt service requirements for all general obligation bonds as of June 30, 2018. The estimated debt service requirements for the $3.1 billion variable-rate general obligation bonds are calculated using the actual interest rates in effect on June 30, 2018. For mandatory tender bonds, the debt service requirements shown in Table 43 are based on the assumption that the interest rate will remain in effect until the applicable reset dates and that the bonds will be fully redeemed on their scheduled maturity dates. The amounts do not reflect any interest subsidy under the Build America Bonds program or any other offsets to general fund costs of debt service.

Table 43

Schedule of Debt Service Requirements for General Obligation Bonds
(amounts in thousands)

	Governmental Activities			Business-type Activities		
Year Ending June 30	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2019	$ 3,309,065	$ 3,776,912	$ 7,085,977	$ 25,975	$ 23,145	$ 49,120
2020	3,224,115	3,617,803	6,841,918	41,265	21,964	63,229
2021	3,378,990	3,478,956	6,857,946	31,445	20,762	52,207
2022	3,229,485	3,324,645	6,554,130	15,685	20,012	35,697
2023	2,858,780	3,173,117	6,031,897	12,015	19,637	31,652
2024 - 2028	14,254,315	13,956,922	28,211,237	47,010	95,230	142,240
2029 - 2033	14,947,870	10,587,351	25,535,221	182,695	75,666	258,361
2034 - 2038	15,538,285	6,587,505	22,125,790	150,800	45,148	195,948
2039 - 2043	10,317,585	2,156,570	12,474,155	100,535	23,344	123,879
2044 - 2048	3,102,000	343,991	3,445,991	81,225	6,393	87,618
Total	**$ 74,160,490**	**$ 51,003,772**	**$ 125,164,262**	**$ 688,650**	**$ 351,301**	**$ 1,039,951**

E. General Obligation Bond Defeasances

1. Current Year Activity

On September 12, 2017, the primary government issued $1.7 billion in general obligation bonds to current and advance refund $2.0 billion in outstanding general obligation bonds maturing in 2018 to 2038. As a

result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $478 million and resulted in an economic gain of $381 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 2.39% per year over the life of the new bonds.

On October 26, 2017, the primary government issued $872 million in general obligation bonds to advance refund $1.0 billion in outstanding general obligation bonds maturing in 2018 to 2038. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $267 million and resulted in an economic gain of $211 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 2.17% per year over the life of the new bonds.

On March 15, 2018, the primary government issued $664 million in general obligation bonds to current refund $744 million in outstanding general obligation bonds maturing in 2018 to 2030. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $137 million and resulted in an economic gain of $114 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 2.81% per year over the life of the new bonds.

On April 25, 2018, the primary government issued $1.2 billion in general obligation bonds to advance refund $1.2 billion in outstanding general obligation bonds maturing in 2019 to 2038. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $354 million and resulted in an economic gain of $258 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 3.91% per year over the life of the new bonds.

2. Outstanding Balance

In the current and prior years, the primary government placed the proceeds of the refunding bonds and other resources in a special irrevocable escrow trust account with the State Treasury to provide for all future debt service payments on defeased bonds. The assets of the trust accounts and the liability for defeased bonds are not included in the State's financial statements. As of June 30, 2018, the outstanding balance of defeased general obligation bonds was approximately $3.7 billion.

NOTE 16: REVENUE BONDS

A. Governmental Activities

The State Treasurer is authorized by state law to issue Federal Highway Grant Anticipation Revenue Vehicles (GARVEE bonds). The purpose of these bonds is to accelerate the funding and construction of critical transportation infrastructure projects to provide congestion relief benefits to the public significantly sooner than with traditional funding mechanisms. These bonds are secured and payable from the annual federal appropriation for the State's federal-aid transportation projects. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. Total principal and interest

remaining on the bonds is $23 million, payable through 2020. In addition, the California Alternative Energy and Advanced Transportation Financing Authority is authorized to issue Clean Renewable Energy Bonds to fund the acquisition and installation of certain transportation-related solar energy facilities located throughout the State. Both of these bonds finance activity in the Transportation Fund and are included in the governmental activities column of the government-wide Statement of Net Position.

The Golden State Tobacco Securitization Corporation (GSTSC), a blended component unit, as authorized by state law, has issued asset-backed bonds to purchase 100% of the State's rights to future revenues from the Master Settlement Agreement with participating tobacco companies. These bonds are secured by and payable solely from future Tobacco Settlement Revenue and interest earned on that revenue. The primary government has no legal liability for the payment of principal and interest on the bonds. The Legislature has annually granted a General Fund appropriation for payment of debt service in the event tobacco settlement revenues and other available amounts prove insufficient to make these payments during the next fiscal year. However, the use of the appropriated monies has never been required. Total principal and interest remaining on all asset-backed bonds is $14.6 billion, payable through 2047. All of the Tobacco Settlement Revenue and interest has been pledged in support of these asset-backed bonds. Principal and interest paid in the current year totaled $2.4 billion, while Tobacco Settlement Revenue and interest earned totaled $434 million. These bonds are included in the governmental activities column of the government-wide Statement of Net Position.

Under state law, the State Public Works Board (SPWB), an agency that accounts for its activity in the Public Buildings Construction Fund, an internal service fund, and certain building authorities may issue revenue bonds. These bonds are issued for the purpose of constructing state office buildings. Leases with state agencies pay the principal and interest on the revenue bonds issued by the Public Buildings Construction Fund and building authorities. The General Fund has no legal liability for the payment of principal and interest on these revenue bonds. Total principal and interest remaining on the bonds is $13.4 billion, payable through 2043. These revenue bonds are included in the governmental activities column of the government-wide Statement of Net Position.

For the specific debt service coverage ratios, refer to the Schedule of Pledged Revenue Coverage in the Statistical Section.

B. Business-type Activities

Revenue bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included in the accounts of such funds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of agencies that issued the bonds. The General Fund has no legal liability for payment of principal and interest on revenue bonds. For specific debt service coverage ratios, refer to the Schedule of Pledged Revenue Coverage in the Statistical Section.

Revenue bonds to acquire, construct, or renovate state facilities or to refund outstanding revenue bonds in advance of maturity are issued for water resources, financing of electric power purchases for resale to utility customers, state university campuses, and certain nonmajor enterprise funds.

C. Discretely Presented Component Units

The University of California issues revenue bonds to finance various auxiliary, administrative, academic, medical center, and research facilities. The revenue bonds are not collateralized by any encumbrance, mortgage, or other pledge of property except pledged revenues, and do not constitute general obligations of the University. For more information regarding revenue bonds, current year defeasances, and outstanding defeasances of the University, refer to its separately issued financial report for fiscal year 2017-18, which may be found on its website at www.ucop.edu.

Under state law, the California Housing Finance Agency (CalHFA) issues fixed-rate and variable-rate revenue bonds to fund loans to qualified borrowers for single-family houses and multifamily developments. Variable-rate debt is typically related to remarketed rates or common indices, such as the Securities Industry and Financial Markets Association (SIFMA) or the London Interbank Offered Rate (LIBOR) and is reset periodically. CalHFA issues both federally taxable and tax-exempt bonds. The bonds issued by CalHFA are payable solely from and collateralized by revenues and other pledged assets. For more information regarding revenue bonds, current year defeasances, and outstanding defeasances of the CalHFA, refer to its separately issued financial report for fiscal year 2017-18, which may be found on its website at www.CalHFA.ca.gov.

Table 44 shows outstanding revenue bonds of the primary government and the discretely presented component units.

Table 44

Schedule of Revenue Bonds Payable
June 30, 2018
(amounts in thousands)

Primary government		
Governmental activities		
Transportation Fund	$	23,942
Public Buildings Construction Fund		9,486,317
Nonmajor governmental funds:		
Golden State Tobacco Securitization Corporation Fund		6,708,723
Building authorities		145,273
Total governmental activities		**16,364,255**
Business-type activities		
Electric Power Fund		3,348,000
Water Resources Fund		2,869,007
California State University		6,268,647
Nonmajor enterprise funds		1,833,718
Total business-type activities		**14,319,372**
Total primary government		**30,683,627**
Discretely presented component units		
University of California		22,113,342
California Housing Finance Agency		1,433,779
Nonmajor component units		462,478
Total discretely presented component units		**24,009,599**
Total revenue bonds payable	**$**	**54,693,226**

Table 45 shows the debt service requirements for fixed-rate and variable-rate bonds. It excludes unamortized premiums and discounts that are included in Table 44.

Table 45

Schedule of Debt Service Requirements for Revenue Bonds
(amounts in thousands)

	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business-type Activities			
Year Ending June 30	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest ***
2019	$ 683,521	$ 712,150	$ 1,078,455	$ 588,710	$ 429,642	$ 1,016,567
2020	675,321	685,023	1,174,698	536,750	761,050	1,000,857
2021	639,711	652,559	1,203,535	481,244	742,615	978,219
2022	619,076	621,285	1,293,005	428,480	527,635	952,008
2023	498,986	592,310	447,005	373,516	575,755	928,181
2024-2028	3,062,526	2,693,659	2,219,920	1,549,404	3,718,270	4,184,065
2029-2033	3,265,685	1,834,396	2,113,945	1,027,179	3,756,560	3,347,438
2034-2038	2,725,905	1,103,098	1,665,510	578,884	3,838,838	2,452,492
2039-2043	1,580,980	655,641	947,165	296,363	3,541,821	1,523,172
2044-2048	1,663,140	3,022,103	716,515	105,090	2,685,350	779,789
2049-2053	—	—	170,055	12,101	407,380	408,257
2054-2115	—	—	—	—	1,473,215	3,960,866
Total	**$ 15,414,851**	**$ 12,572,224**	**$ 13,029,808**	**$ 5,977,721**	**$ 22,458,131**	**$ 21,531,911**

* Includes interest on variable-rate bonds based on rates in effect on June 30, 2018.

D. Revenue Bond Defeasances

1. Current Year – Governmental Activities

In March 2018, the GSTSC issued $111 million in Enhanced Tobacco Settlement Asset-Backed bonds. The bond proceeds were used to current refund $118 million in outstanding Enhanced Tobacco Settlement Asset-Backed bonds with maturities in June of 2022 and 2023. The refunding decreased debt service payments by $15 million and resulted in an economic gain of $8 million.

In June 2018, the GSTSC issued $1.7 billion in Tobacco Settlement Asset-Backed bonds. The bond proceeds were used to current refund $1.8 billion in outstanding Tobacco Settlement Asset-Backed bonds with maturities in June of 2033 and 2047. The refunding decreased debt service payments by $530 million and resulted in an economic gain of $250 million.

During fiscal year 2017-18, the SPWB issued $237 million in lease revenue refunding bonds. The bond proceeds were used to refund $266 million in outstanding lease revenue bonds. The net proceeds of the refunding bonds, along with additional resources, were deposited in an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased debt service payments by $59 million and resulted in an economic gain of $50 million. The lease revenue bonds are reported in the Public Buildings Construction Fund, an internal service fund.

2. Current Year – Business-type Activities

In December 2017, the Department of Water Resources issued $351 million in tax-exempt and $141 million in federally taxable water system revenue bonds to current and advance refund $531 million in outstanding water system revenue bonds. The net proceeds of the refunding bonds, along with additional resources, were deposited in an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased debt service payments by $35 million and resulted in an economic gain of $28 million.

3. Outstanding Balances

In current and prior fiscal years, the primary government placed the proceeds of the refunding bonds and other resources in irrevocable trust accounts to provide for all future debt service requirements. Accordingly, the assets and liabilities for these defeased bonds are not included in the financial statements. As of June 30, 2018, the outstanding balances of defeased revenue bonds were $3.0 billion for governmental activities and $1.4 billion for business-type activities.

NOTE 17: RISK MANAGEMENT

The primary government has elected, with a few exceptions, to be self-insured against loss or liability. The primary government generally does not maintain reserves. Losses are covered by appropriations from each fund responsible for payment in the year in which the payment occurs. The State is permissively self-insured and, barring any extraordinary catastrophic event, the potential amount of loss faced by the State is not considered material in relation to the primary government's financial position. Generally, the exceptions are when a bond resolution or a contract requires the primary government to purchase commercial insurance for coverage against property loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, no insurance settlement in the last three years has exceeded insurance coverage. All claim payments are on a "pay-as-you-go" basis, with workers' compensation benefits for self-insured agencies initially being paid by the State Compensation Insurance Fund.

The discounted liability for unpaid self-insurance claims of the primary government is estimated to be $4.3 billion as of June 30, 2018. This estimate is primarily based on actuarial reviews of the State's workers' compensation program and includes indemnity payments to claimants, as well as all other costs of providing workers' compensation benefits, such as medical care and rehabilitation. The estimate also includes the liability for unpaid services fees, industrial disability leave benefits, and incurred-but-not-reported amounts. The estimated total liability of approximately $6.0 billion is discounted to $4.3 billion using a 3.5% interest rate. Of the total discounted liability, $429 million is a current liability, of which $296 million is included in the General Fund, $130 million in the special revenue funds, and $3 million in the internal service funds. The remaining $3.9 billion is reported as other noncurrent liabilities in the government-wide Statement of Net Position.

The University of California, a discretely presented component unit, is self-insured or insured through a wholly-owned captive insurance company. Additional disclosures for the University's risk management and self-insurance claims liability is included in its separately issued financial statements, which can be obtained from the University on its website at www.ucop.edu.

Table 46 shows the changes in the self-insurance claims liability for the primary government.

Table 46

Schedule of Changes in Self-insurance Claims
Year Ended June 30
(amounts in thousands)

	2018	2017
Unpaid claims, beginning	$ 4,041,294	$ 3,939,720
Incurred claims	731,749	534,863
Claim payments	(465,506)	(433,289)
Unpaid claims, ending	**$ 4,307,537**	**$ 4,041,294**

NOTE 18: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Short-term interfund receivables and payables result from the time lag between the dates on which goods and services are delivered and the dates on which payments between entities are made. In addition, interfund borrowing, mainly from nonmajor governmental funds and fiduciary funds, is used to meet temporary imbalances of receipts and disbursements in the General Fund.

Table 47 shows the amounts due from and due to other funds.

Table 47

Schedule of Due From Other Funds and Due To Other Funds
June 30, 2018
(amounts in thousands)

	Due To				
Due From	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**	**Nonmajor Governmental Funds**	**Electric Power Fund**
Governmental funds					
General Fund	$ —	$ 253,677	$ —	$ 341,204	$ —
Federal Fund	677,936	1,431,205	39,117	27,985	—
Transportation Fund	—	—	4,137	306,639	—
Environmental and Natural Resources Fund	205,176	—	—	110	—
Nonmajor governmental funds	2,511,177	15,926	23,044	34,048	—
Total governmental funds	**3,394,289**	**1,700,808**	**66,298**	**709,986**	**—**
Enterprise funds					
Water Resources Fund	157	—	—	—	—
State Lottery Fund	153	—	—	385,803	—
Unemployment Programs Fund	217,269	—	—	—	—
California State University Fund	—	—	—	136	—
Nonmajor enterprise funds	1,742	—	8,260	2,023	—
Total enterprise funds	**219,321**	**—**	**8,260**	**387,962**	**—**
Internal service funds	10,479	42,748	43,279	52,513	8,000
Total due from other funds	**$ 3,624,089**	**$ 1,743,556**	**$ 117,837**	**$ 1,150,461**	**$ 8,000**

Due To							
Water Resources Fund	**State Lottery Fund**	**Unemployment Programs Fund**	**California State University Fund**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Fiduciary Funds**	**Total Due To Other Funds**
$ —	$ 1,272	$ —	$ 4,949	$ —	$ 535,862	$ 4,363,162	$ 5,500,126
—	—	9,631	—	8,740	61,044	13,047,880	15,303,538
—	—	—	—	—	8,572	62,321	381,669
—	—	—	—	60	12,157	—	217,503
—	—	—	1	—	90,471	4,191,741	6,866,408
—	**1,272**	**9,631**	**4,950**	**8,800**	**708,106**	**21,665,104**	**28,269,244**
—	—	—	—	—	53,059	—	53,216
—	—	—	—	—	—	—	385,956
—	—	—	—	—	—	—	217,269
—	—	—		—	—	—	136
—	—	—	—	—	185	45	12,255
—	—	—	—	—	**53,244**	**45**	**668,832**
4,229	2,762	15,419	—	6,066	80,559	11,849	**277,903**
$ 4,229	**$ 4,034**	**$ 25,050**	**$ 4,950**	**$ 14,866**	**$ 841,909**	**$ 21,676,998**	**$ 29,215,979**

Interfund receivables and payables are the result of interfund loans that are not expected to be repaid within one year. In addition to the temporary interfund cash-flow borrowing shown in Table 47, annual enacted budgets provide for long-term loans from many of the State's special funds—mainly the Transportation Fund, the Environmental and Natural Resources Fund, and nonmajor governmental funds—to the General Fund. The $1.7 billion in Transportation Fund loans payable from the General Fund also includes $471 million in deferred Proposition 42 transfers for traffic congestion relief.

During the year, a $6.0 billion supplemental employer contribution to the California Public Employees' Retirement System (CalPERS) was made to help reduce the State's net pension liability. The supplemental employer contribution was funded through a cash loan from borrowable deposits—mainly from the Environmental and Natural Resources Fund and nonmajor governmental funds—in the State's internal investment pool. The General Fund and other funds that normally contribute to CalPERS and benefit from the supplemental contribution will repay the loan and replenish the internal investment pool deposits.

Table 48 shows the primary government's interfund receivables and payables.

Table 48

Schedule of Interfund Receivables and Payables
June 30, 2018
(amounts in thousands)

	Interfund Payables		
Interfund Receivables	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**
Governmental funds			
General Fund	$ —	$ 1,744,220	$ 1,780,809
Transportation Fund	—	—	124,883
Environmental and Natural Resources Fund	106,570	10,000	—
Nonmajor governmental funds	133,707	1,448	338
Total governmental funds	**240,277**	**1,755,668**	**1,906,030**
Enterprise funds			
Electric Power Fund	—	—	263
Water Resources Fund	—	—	25,489
State Lottery Fund	—	—	5,774
California State University Fund	—	—	65,400
Nonmajor governmental funds	15,000	—	—
Total enterprise funds	15,000	—	96,926
Internal service funds	297,462	—	222,075
Total interfund receivables	**$ 552,739**	**$ 1,755,668**	**$ 2,225,031**

Interfund Payables

Nonmajor Governmental Funds	Water Resources Fund	Unemployment Programs Fund	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total Interfund Payables
$ 1,614,126	$ —	$ 856,590	$ 37,489	$ 9,863	$ 189,061	$ 6,232,158
120,197	—	53,776	3,238	1,156	16,330	319,580
7,406	—	—	—	2,689	—	126,665
271	—	146	9	—	44	135,963
1,742,000	**—**	**910,512**	**40,736**	**13,708**	**205,435**	**6,814,366**
211	—	113	7	—	34	628
20,451	—	10,976	661	—	3,333	60,910
4,633	—	2,486	150	—	755	13,798
52,472	—	28,163	1,696	—	8,552	156,283
—	—	—	—	—	—	15,000
77,767	—	41,738	2,514	—	12,674	246,619
178,207	95,129	95,629	5,758	18,868	29,040	942,168
$ 1,997,974	**$ 95,129**	**$ 1,047,879**	**$ 49,008**	**$ 32,576**	**$ 247,149**	**$ 8,003,153**

The amounts shown as due from primary government and due to component units represent short-term receivables and payables between the primary government and component units resulting from the time lag between the dates on which goods and services are provided and received and the dates on which payments between entities are made.

Table 49 shows the amounts due from the primary government and due to component units.

Table 49

Schedule of Due From Primary Government and Due To Component Units
June 30, 2018
(amounts in thousands)

Due From	Due To University of California
Governmental funds	
General Fund	$ 124,954
Transportation Fund	6,754
Nonmajor governmental funds	105,664
Total governmental funds	**237,372**
Total due from primary government	**$ 237,372**

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B. Interfund Transfers

Transfers move money collected by one fund to another fund, which then disburses it as required by law. The General Fund and certain other funds transfer money to support various programs accounted for in other funds. The largest transfer from the General Fund was $4.3 billion to the California State University, an enterprise fund. The General Fund also transferred $1.9 billion to nonmajor governmental funds, mainly for support of trial courts, local governments, and health care related programs. The Transportation Fund transferred $1.6 billion in weight fee revenues to the Transportation Debt Service Fund, a nonmajor governmental fund, for transportation-related debt service costs. The Federal Fund transferred $472 million to the General Fund for administration of the Unemployment Insurance Program.

Table 50 shows interfund transfers of the primary government.

Table 50

Schedule of Interfund Transfers
June 30, 2018
(amounts in thousands)

	Transferred To		
Transferred From	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**
Governmental funds			
General Fund	$ —	$ —	$ 853
Federal Fund	472,385	—	—
Transportation Fund	84,392	—	16,744
Environmental and Natural Resources Fund	37,664	2,424	—
Nonmajor governmental funds	46,112	5,977	28,190
Total governmental funds	**640,553**	**8,401**	**45,787**
Internal service funds	20,044	—	—
Total transfers from other funds	**$ 660,597**	**$ 8,401**	**$ 45,787**

Transferred To				
Nonmajor Governmental Funds	**California State University Fund**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Total Transfers To Other Funds**
$ 1,905,789	$ 4,338,333	$ —	$ —	$ 6,244,975
13,788	—	—	—	486,173
1,555,987	—	—	—	1,657,123
6,703	—	—	2,690	49,481
35,901	—	1,662	—	117,842
3,518,168	**4,338,333**	1,662	**2,690**	**8,555,594**
33,643	—	—	6,255	**59,942**
$ 3,551,811	**$ 4,338,333**	**$ 1,662**	**$ 8,945**	**$ 8,615,536**

NOTE 19: FUND BALANCES, NET POSITION DEFICITS, AND ENDOWMENTS

A. Fund Balances

Table 51 shows the composition of the governmental fund balances.

Table 51

Schedule of Fund Balances by Function
June 30, 2018
(amounts in thousands)

	General Fund	Federal Fund	Transportation Fund	Environmental and Natural Resources Fund	Nonmajor Governmental Funds
Nonspendable					
Long-term interfund receivables	$ 552,739	$ —	$ —	$ —	$ —
Long-term loans receivable	6,905	—	—	—	—
Other	—	—	—	—	69,868
Total nonspendable	**559,644**	—	—	—	**69,868**
Restricted					
General government	24,463	—	—	3,489	3,597,455
Education	181,578	429	1,399	—	455,215
Health and human services	162,074	257	—	89,006	3,073,786
Natural resources and environmental protection	4,333	7,015	—	4,990,911	185,484
Business, consumer services, and housing	2,153	220,953	209,026	28,751	3,545,162
Transportation	—	—	9,083,942	—	6,792
Corrections and rehabilitation	27,706	—	—	—	676
Budget stabilization	9,405,422	—	—	—	—
Total restricted	**9,807,729**	**228,654**	**9,294,367**	**5,112,157**	**10,864,570**
Committed					
General government	142,798	—	—	18,225	331,732
Education	3,617	—	—	—	63,759
Health and human services	4,669	—	696	—	314,673
Natural resources and environmental protection	3,645	—	3	6,185,006	604,695
Business, consumer services, and housing	—	—	—	59,518	124,550
Transportation	—	—	49,126	—	4,997
Corrections and rehabilitation	16,291	—	—	—	414
Total committed	**171,020**	—	**49,825**	**6,262,749**	**1,444,820**
Assigned – general government	—	—	—	—	26,346
Unassigned	1,457,278	—	—	—	—
Total fund balances	**$ 11,995,671**	**$ 228,654**	**$ 9,344,192**	**$ 11,374,906**	**$ 12,405,604**

B. Net Position Deficits

Table 52 shows the net position deficit balances.

Table 52

Schedule of Net Position Deficits
June 30, 2018
(amounts in thousands)

	Internal Service Funds	Enterprise Funds
Architecture Revolving Fund	$ 145,394	$ —
Service Revolving Fund	1,097,379	—
Prison Industries Fund	17,480	—
Technology Services Revolving Fund	470,901	—
Water Resources Revolving Fund	2,962	—
Other Internal Service Programs Fund	1,065,646	—
State Lottery Fund	—	189,413
California State University Fund	—	16,461,855
Total net position deficits	**$ 2,799,762**	**$ 16,651,268**

C. Discretely Presented Component Unit Endowments and Gifts

The University of California, a discretely presented component unit, administers certain restricted nonexpendable, restricted expendable, and unrestricted endowments that are included in the related net position categories of the government-wide and fund financial statements. As of June 30, 2018, the value of restricted endowments and gifts totaled $17.9 billion, and unrestricted endowments and gifts totaled $4.9 billion. The University's policy is to retain realized and unrealized appreciation on investments with the endowment after an annual income distribution. The net appreciation available to meet future spending needs upon approval by the Board of Regents amounted to $2.6 billion at June 30, 2018. The portion of investment returns earned on endowments and distributed each year to support current operations is based on a rate approved by the Board of Regents. In addition, the California State University Auxiliary Organizations and the University of California Hastings College of the Law, nonmajor component units, have restricted nonexpendable and restricted expendable endowments of $1.3 billion and $12 million, respectively.

NOTE 20: DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

In the fund financial statements, governmental funds reported deferred inflows of resources of $2.0 billion as this amount represents revenues that are earned and measurable, but not available within 12 months of the end of the reporting period.

Table 53 shows the detail of the deferred outflows of resources and deferred inflows of resources reported in the government-wide Statement of Net Position. For descriptions of the deferred outflows and deferred inflows of resources transactions, see Note 1.L.

Table 53

Schedule of Deferred Outflows and Deferred Inflows of Resources
June 30, 2018
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Deferred outflows of resources:				
Loss on refunding of debt	$ 962,457	$ 335,502	$ 1,297,959	$ 359,829
Decrease in fair value of hedging derivatives	—	—	—	58,385
Net pension liability	28,818,353	3,732,588	32,550,941	817,316
Net other postemployment benefits liability	1,827,284	403,595	2,230,879	3,527,590
Total deferred outflows of resources	**$ 31,608,094**	**$ 4,471,685**	**$ 36,079,779**	**$ 4,763,120**
Deferred inflows of resources:				
Gain on refunding of debt	$ 357,987	$ —	$ 357,987	$ 3,432
Service concession arrangements	65,429	—	65,429	176,447
Irrevocable split-interest ageements	—	—	—	341,451
Net pension liability	3,506,637	107,386	3,614,023	311,554
Net other postemployment benefits liability	6,532,799	1,581,389	8,114,188	5,660,725
Other deferred inflows	—	1,239,821	1,239,821	435,709
Total deferred inflows of resources	**$ 10,462,852**	**$ 2,928,596**	**$ 13,391,448**	**$ 6,929,318**

NOTE 21: NO COMMITMENT DEBT

The California Housing Finance Agency (CalHFA), a major component unit, issued conduit debt to provide financial assistance for the acquisition, construction, and development of multifamily rental housing. As of June 30, 2018, the CalHFA had $869 million of conduit debt obligations outstanding, which is not debt of the State.

Certain debt of the nonmajor component units is issued to finance activities such as the promotion of renewable energy sources and financing for economic development projects. This debt is secured by the credit of private and public entities and is administered by trustees independent of the State. As of June 30, 2018, these component units had approximately $4.3 billion of debt outstanding, which is not debt of the State.

NOTE 22: CONTINGENT LIABILITIES

A. Litigation

The primary government is a party to numerous legal proceedings, many of which are not unusual for governmental operations. To the extent they existed, the following legal proceedings were accrued as a liability in the government-wide financial statements: those decided against the primary government before June 30, 2018; those in progress as of June 30, 2018, and settled or decided against the primary government as of April **XX, 2019**; and those having a high probability of resulting in a decision against the primary government as of April **XX, 2019**, and for which amounts could be estimated. In the governmental fund financial statements, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability in the fund from which payment will be made. In the proprietary fund financial statements, the entire liability is recorded in the fund from which payment will be made.

In addition, the primary government is involved in certain other legal proceedings that, if decided against the primary government, may impair its revenue sources or require it to make significant expenditures. Because of the prospective nature of these proceedings, no provision for the potential liability has been made in the financial statements.

Following are descriptions of the more significant lawsuits pending against the primary government:

The primary government is a defendant in two cases, Bakersfield Mall, LLC v. Franchise Tax Board, and CA-Centerside II, LLC v. Franchise Tax Board, both regarding the constitutionality of a fee imposed on limited-liability companies (LLC). Plaintiffs assert class action and declaratory relief, and seek attorney fees based on alleged violations of the state and federal constitutions. They seek certification of two classes of allegedly similarly situated LLCs and unspecified refunds on behalf of the LLC classes, alleged to be in excess of 50,000 members. On January 30, 2013, Franchise Tax Board's Petition to Coordinate these cases was granted. The trial court denied class certification and the plaintiffs appealed. On December 17, 2014, the briefing of the appeal was completed. On August 27, 2018, the Court of Appeal reversed the trial court decision, directing the trial court to certify one or more classes. The State filed a petition for review in the California Supreme Court challenging the Court of Appeal's decision. On October 31, 2018, the California Supreme Court denied the State's petition for review. The plaintiffs' underlying challenge to the LLC fee will be tried. Actual and expected future claims for refunds from LLCs are estimated to be as high as $1.2 billion.

In a previously settled case, Northwest Energetic Services, LLC v. Franchise Tax Board, the Court of Appeal found the fee unconstitutional only as applied to the plaintiff. In another previously settled case, Ventas Finance I, LLC v. Franchise Tax Board, the Court of Appeal also ruled that the fee was unconstitutional as applied to the plaintiff, but it awarded only a partial refund because Ventas received income from both inside and outside of California. Bakersfield Mall, LLC v. Franchise Tax Board raises the same constitutional issues as Northwest and Ventas, but initially pertained to LLCs that conduct business solely within California. Bakersfield Mall, LLC later amended its complaint to reflect the fact that not all of its income is derived within the State, making it similar to the Ventas case. CA-Centerside II, LLC v. Franchise Tax Board raises the same constitutional issues as the Bakersfield case, and alleges that the LLC fee is unconstitutional regarding any activities, whether in-state or out-of-state.

The primary government is a defendant in another case, Abercrombie & Fitch and Subsidiaries v. Franchise Tax Board, regarding the constitutionality of Revenue and Taxation Code section 25101.15. If the plaintiff were to prevail and obtain the remedy it seeks, the estimated loss to the primary government is approximately $5.0 billion in refunds and $1.5 billion in lost annual revenues going forward. The case went to trial and on September 13, 2016, the court granted the State's motion for judgement, which was entered for the State on October 31, 2016. Abercrombie & Fitch appealed and filed its Opening Brief on August 11, 2017. The Franchise Tax Board's Respondent's Brief was filed on December 13, 2017. Abercrombie's Reply Brief was filed on May 4, 2018.

A writ petition, Bekkerman et al v. California Department of Tax and Fee Administration (formerly the California Board of Equalization), was filed against the primary government challenging the validity of a California Department of Tax and Fee Administration (CDTFA) sales tax regulation (California Code of Regulations, Title 18, section 1585) that requires the sales tax charged on a mobile telephone be based on the full "unbundled" price of the phone, rather than any discounted price that is contingent on a service plan commitment. A companion class action has been filed. The primary government filed a demurrer that was sustained on September 5, 2017, which resulted in the dismissal of the state defendants from the class action; the plaintiffs have appealed that order. In the writ action, the original briefing schedule and hearing on the merits were vacated and there are currently no deadlines. Plaintiffs amended the writ petition in the first action to add class action claims for refunds of sales tax. On September 14, 2018, the court granted the State's motion to strike the class action claims for refunds from the writ petition. If the sales tax regulation is invalidated, the companion class action could lead to an order requiring the CDTFA to refund up to $1.0 billion in sales tax collections.

The primary government is a defendant in a case, People of the State of California (Butte County D.A.) v. Department of Water Resources, regarding the claims that the debris deposited into the Feather River because of the failure of the Oroville Dam spillway in 2017 was harmful to fish and wildlife. The Butte County District Attorney seeks to impose up to $51.0 billion in civil penalties for alleged pollution that violates Fish and Game Code section 5650. The Department of Water Resources (DWR) demurred to the complaint but the demurrer was overturned. DWR petitioned the Court of Appeal for a writ of mandate, and the petition was summarily denied. DWR has petitioned to coordinate these cases.

B. Federal Audit Exceptions

The primary government receives substantial funding from the federal government in the form of grants and other federal assistance. The primary government, the University of California, California Housing Finance Agency (CalHFA), and certain nonmajor discretely presented component units are entitled to these resources only if they comply with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; they may spend these resources only for eligible purposes. If audits disclose exceptions, the primary government, the University, CalHFA, and certain nonmajor discretely presented component units may incur a liability to the federal government.

NOTE 23: SUBSEQUENT EVENTS

The following information describes significant events that occurred subsequent to June 30, 2018, but prior to the date of the auditor's report.

A. Debt Issuances

In July 2018, the California State University (CSU) issued $664 million in revenue bonds to finance and refinance projects; to acquire, construct, improve, and renovate certain CSU facilities; and to refund certain outstanding systemwide revenue bonds.

In August 2018, the Golden State Tobacco Securitization Corporation, a blended component unit, issued $711 million in asset-backed bonds to refund a portion of its outstanding Tobacco Settlement Asset-backed bonds.

In September 2018, the primary government issued $92 million in veterans general obligation bonds to finance the purchase of homes and farms for California military veterans.

In September and October 2018, and March 2019, the primary government issued a total of $4.2 billion in general obligation bonds to fund various capital projects and other voter-approved costs related to K-12 schools and higher education facilities, transportation improvements and high-speed rail, water quality and environmental protection, and other public purposes; to pay certain commercial paper notes as they mature; to current refund certain outstanding bonds; and to pay related issuance costs. In October 2018, the primary government remarketed $100 million of variable-rate general obligation mandatory tender bonds.

In October 2018, the State Public Works Board issued $101 million in lease revenue bonds to finance and refinance design and construction costs of various correctional facility projects, to reimburse interim loans, and to pay related issuance costs.

In October 2018, the Department of Water Resources issued $215 million in revenue bonds to repay commercial paper, to refund certain outstanding water system revenue bonds, and to pay related issuance costs.

In October and December 2018, CSU issued a total of $57 million in bond anticipation notes to finance various capital outlay projects. In January 2019, CSU issued $52 million in bond anticipation notes for facilities renewal and improvements.

In November 2018, the California Housing Finance Agency, a major component unit, issued $23 million in revenue bonds to fund a multi-family housing development for seniors.

B. Other

In September 2018, the Department of Water Resources updated its estimated costs for the Oroville Dam Spillway Recovery and Restoration Project to $1.1 billion. Estimated costs were based on actual and projected work and may be adjusted further as work continues through completion of the project in 2019.

In the November 6, 2018 general election:

- Voters passed Proposition 1, authorizing the State to sell $4.0 billion in general obligation bonds to fund veterans and affordable housing—$3.0 billion for various state housing programs and $1.0 billion for home loan assistance to veterans. The bonds will increase the General Fund's debt service expenditures by approximately $170 million annually for 35 years.

- Voters passed Proposition 2, authorizing the State to sell $2.0 billion in revenue bonds to fund housing for persons with mental illness who are homeless. The bonds will be repaid using up to $140 million of county mental health funds annually for 30 years.

- Voters passed Proposition 4, authorizing the State to sell $1.5 billion in general obligation bonds for capital improvement projects at various children's hospitals and other eligible public or private nonprofit hospitals. This measure provides $1.1 billion to nonprofit children's hospitals, $270 million to the University of California children's hospitals, and $150 million to other eligible public or private nonprofit hospitals that provide services to children. These bonds will increase the General Fund's debt service expenditures by approximately $80 million annually for 35 years.

In November 2018, the State of California experienced a number of catastrophic wildfires. The State has since spent billions of dollars in recovery efforts and debris removal. The fiscal year 2019-20 Governor's Budget assumes that the federal government will reimburse 75% of eligible costs, with the State's share estimated at $923 million. The Governor's Budget assumes the State will waive the local share of debris removal costs and backfill wildfire-related property tax revenue losses for several counties, cities, and special districts impacted by wildfires in the past four years.

In February 2019, the Federal Railroad Administration (FRA) notified the California High-Speed Rail Authority (CHSRA) of its intent to terminate the cooperative agreement between FRA and CHSRA effective March 5, 2019, due to CHSRA's failure to comply with the terms of the agreement. FRA intends to de-obligate $929 million of federal funds previously obligated under the cooperative agreement.

Exhibit 2

APPENDIX A

THE STATE OF CALIFORNIA

March 26, 2019

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INTRODUCTION TO APPENDIX A

APPENDIX A is the part of this Official Statement that provides investors with information concerning the State of California. The following section of APPENDIX A titled "OVERVIEW" is intended to give readers a very brief overview of some of the main topics covered in APPENDIX A. Investors are advised to read the entire Official Statement, including APPENDIX A and its Exhibits, to obtain information essential to making an informed investment decision. See "Certain Defined Terms" at the end of the "OVERVIEW" section for certain defined terms used in APPENDIX A.

APPENDIX A is divided into two Parts. PART I contains information about the current state budget, the 2019-20 Governor's Budget, including the latest multi-year budget forecast, and identification of certain Recent Developments that have occurred since the state's last official statement. As the state (including certain of its agencies) issues bonds from time to time, PART I of APPENDIX A (including EXHIBIT 2) will be updated as needed to provide the most current, material information. PART II of APPENDIX A (including EXHIBIT 1—"PENSION SYSTEMS") contains information on the basic structure of the state's finances, including details on revenues, expenditures and reserves, cash management, outstanding indebtedness and other information. The information in PART II will typically be updated twice per year: following release of the proposed Governor's Budget in January, and again following enactment of the annual budget. The latter update includes revenue and economic forecasts presented in the May Revision of the Governor's January budget proposal. In the event there are material changes to the information contained in PART II after each update, such information will be highlighted in the "Recent Developments" section of PART I in the next published version of APPENDIX A, and the updated material will be clearly identified within PART II, such as by use of italics.

The principal of and interest on the securities being offered in this Official Statement are payable either primarily or secondarily from moneys deposited in, or available for transfer to, the General Fund as more particularly described in the front part of this Official Statement and in APPENDIX A. Accordingly, information concerning the state's finances that does not materially impact the availability of moneys deposited in, or available for transfer to, the General Fund or the expenditure of such moneys, and, in each case, material risks related thereto, is generally not included in APPENDIX A or, if included, is not described in detail.

APPENDIX A is provided specifically for use in connection with the sale of securities being offered in this Official Statement. APPENDIX A may not be copied or used by any person for any other purpose or in connection with the sale of any other securities without the express written permission of the State Treasurer.

PART I

OVERVIEW

Population and Economy of the State

California is by far the most populous state in the nation, nearly 50 percent larger than the second-ranked state according to the 2010 United States Census. The estimate of California's population as of July 2018 was 39.8 million residents, which was 12 percent of the total U.S. population.

California's economy, the largest among the 50 states, the fifth largest in the world (in terms of gross domestic product), and one of the most diverse in the world, has major components in high technology, trade, entertainment, manufacturing, government, tourism, construction and services. The relative proportion of the various components of the California economy closely resembles the make-up of the national economy. The California economy continues to benefit from broad-based growth.

Demographic and economic statistical information and a discussion of economic assumptions are included in APPENDIX A under "GOVERNOR'S PROPOSED FISCAL YEAR 2019-20 BUDGET—Economic Assumptions Underlying the 2019-20 Governor's Budget" and "ECONOMY AND POPULATION."

Financial Condition of the State General Fund

The state's fiscal health continues to improve since the end of the severe recession in 2009 (the "Great Recession"), which caused large budget deficits. The state's General Fund budget has achieved structural balance for the last several fiscal years and a prudent fiscal approach has enabled the state to build historic levels of reserves. Based on projections included in the 2019-20 Governor's Budget, by the end of fiscal year 2019-20 the Budget Stabilization Account ("BSA"), also called the state's "rainy day fund," is projected to have a balance of $15.3 billion (including supplemental transfers to the BSA) and the Safety Net Reserve is projected to have a balance of $900 million. See "GOVERNOR'S PROPOSED FISCAL YEAR 2019-20 BUDGET" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves—Budget Stabilization Account."

Since the Great Recession ended, the state has paid off billions of dollars of budgetary borrowings, debts, and deferrals that were accumulated to balance budgets during the Great Recession and years prior. Under the Proposition 2 requirements, the 2019-20 Governor's Budget includes $1.8 billion dedicated to continue to pay down the state's unfunded retirement liabilities in fiscal year 2019-20. The Administration also proposes to make an additional $3.1 billion of discretionary payments in addition to required payments under Proposition 2, for debts that were previously included as debts and liabilities under Proposition 2, including loans from special funds and repaying transportation weight fee advances. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2."

Despite significant budgetary improvements during the last several years, there remain a number of budget risks that threaten the financial condition of the state's General Fund. These

risks include the threat of recession, potentially unfavorable changes to federal policies, the uncertain impact of changes in federal tax law and trade policy, and significant unfunded liabilities of the two main retirement systems managed by state entities, the California Public Employees' Retirement System ("CalPERS") and the California State Teachers' Retirement System ("CalSTRS"). See "ECONOMIC AND BUDGET RISKS."

The state continues to be committed to further reduce unfunded pension liabilities and retiree health care cost liabilities (also called other postemployment benefits or "OPEB"). The 2019-20 Governor's Budget proposes significant additional contributions to further reduce the amounts of these liabilities. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2" and EXHIBIT 1—"PENSION SYSTEMS—CalPERS—Member and State Contributions" and "CalSTRS—Funding for the SBMA," and "STATE FINANCES—OTHER ELEMENTS—Pension Systems" and "—Retiree Health Care Costs."

There can be no assurances that the state will not face fiscal stress and cash pressures again, or that other changes in the state or national economies or in state or federal policies will not materially adversely affect the financial condition of the state's General Fund.

General Fund Revenues, Expenditures and Cash Management

The moneys of the state are segregated into the General Fund and over 1,000 other funds, including special, bond, federal, and other funds. The General Fund consists of revenues received by the State Treasury that are not required by law to be credited to any other fund, as well as earnings from the investment of state moneys not allocable to another fund of the state. The General Fund is the principal operating fund for the majority of governmental activities of the state and is the depository of most of the major tax revenue sources of the state. For additional financial data relating to the General Fund, see the State Controller's unaudited report of General Fund cash receipts and disbursements attached to APPENDIX A as EXHIBIT 2 and the state's audited basic financial statements included as an appendix to this Official Statement. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES" and "FINANCIAL STATEMENTS."

The state receives revenues from taxes, fees and other sources, the most significant of which are the personal income tax, sales and use tax, and corporation tax (which collectively constitute over 90 percent of total General Fund revenues and transfers). The state expends money on a variety of programs and services. Significant elements of state expenditures include education (both kindergarten through twelfth grade ("K-12") and higher education), health and human services, and public safety programs. For a discussion of the sources and uses of the General Fund, see "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES."

For fiscal years 2018-19 and 2019-20, the 2019-20 Governor's Budget projects $148.8 billion and $147.4 billion in resources for the General Fund, respectively, and $144.1 billion and $144.2 billion in expenditures from the General Fund, respectively. The fiscal year 2018-19 resources are comprised of $136.9 billion of revenues and transfers, and a $11.9 billion fund balance carried over from fiscal year 2017-18. The fiscal year 2019-20 resources are comprised of $142.6 billion of revenues and transfers, and a $4.8 billion fund balance carried over from fiscal year 2018-19. The 2019-20 Governor's Budget projects $1.8 billion in the Special Fund

for Economic Uncertainties ("SFEU"), $900 million in the Safety Net Reserve Fund, and $15.3 billion in the BSA at the end of fiscal year 2019-20. See Table 1 below and "CURRENT STATE BUDGET" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

Over the years, a number of laws and constitutional amendments have been enacted, often through voter initiatives, which have made it more difficult for the state to raise taxes, restricted the use of the General Fund or special fund revenues, or otherwise limited the Legislature and the Governor's discretion in enacting budgets. In the future, additional laws and constitutional amendments may be enacted, including by voter initiative, placing additional limitations on the ability of the state to increase and/or collect taxes or otherwise restrict the use of the General Fund or special fund revenues, or otherwise limit the Legislature and the Governor's discretion in enacting budgets. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Restrictions on Raising or Using General Fund Revenues."

The state manages its cash flow requirements during the fiscal year primarily with internal borrowing by the General Fund from over 700 special funds, and, if necessary or otherwise advisable, the state may also utilize external borrowing. The state ended fiscal year 2017-18 with a cash balance of $5.5 billion. Similar to all the fiscal years since 2015-16, the 2019-20 Governor's Budget once again projects the state will not have any need to use external cash flow borrowing in fiscal year 2019-20. See "CASH MANAGEMENT—Traditional Cash Management Tools—External Borrowing" for a description of the priority of payment of the state's obligations, including the repayment of external and internal borrowing and see also "CASH MANAGEMENT—Inter-Fund Borrowings."

Because the principal of and interest on the securities being offered in this Official Statement are payable either primarily or secondarily from moneys deposited in, or available for transfer to, the General Fund, the financial information contained in APPENDIX A relates principally to revenues deposited in, or available for transfer to, the General Fund and expenditures of such moneys and, in each case, material risks related thereto.

State Indebtedness and Other Obligations

As of January 1, 2019, the state had approximately $82.0 billion of outstanding general obligation bonds and lease revenue bonds payable principally from the state's General Fund or from lease payments paid from the operating budget of the respective lessees, which operating budgets are primarily, but not exclusively, derived from the General Fund. As of January 1, 2019, there were approximately $37.1 billion of authorized and unissued long-term voter-approved general obligation bonds which, when issued, will be payable principally from the General Fund and approximately $6.4 billion of authorized and unissued lease-revenue bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Future Issuance Plans; General Fund Debt Ratio."

Certain state agencies and authorities issue revenue obligations for which the General Fund has no liability. These revenue obligations are either payable from state revenue-producing enterprises and projects, and not payable from the General Fund, or are conduit obligations

payable only from revenues paid by local governments or private users of facilities financed by the revenue obligations.

The state has always paid when due the principal of and interest on its general obligation bonds, general obligation commercial paper notes, lease-revenue obligations and short-term obligations, including revenue anticipation notes and revenue anticipation warrants.

Detailed information regarding the state's long-term debt appears in the sections "STATE INDEBTEDNESS AND OTHER OBLIGATIONS" and "STATE DEBT TABLES."

State Pension Systems and Retiree Health Care Costs

The two main state pension funds (CalPERS and CalSTRS) each face unfunded future liabilities in the tens of billions of dollars. For fiscal year 2018-19, the actuarially determined General Fund pension contributions to CalPERS and CalSTRS are approximately $3.6 billion and $3.1 billion, respectively. For fiscal year 2019-20, the actuarially determined General Fund pension contributions to CalPERS and CalSTRS are estimated in the 2019-20 Governor's Budget to be approximately $3.9 billion and $3.3 billion, respectively.

The 2019-20 Governor's Budget proposes multiple supplemental pension payments be made to CalPERS and CalSTRS.

The first proposal is a $3 billion General Fund supplemental pension payment to CalPERS utilizing higher-than-anticipated fiscal year 2018-19 General Fund balance identified in the 2019-20 Governor's Budget. See "CURRENT STATE BUDGET – Fiscal Year 2018-19 Revised General Fund Estimates in the 2019-20 Governor's Budget." Based on current CalPERS actuarial assumptions, this supplemental pension payment is estimated to result in total savings of approximately $7.2 billion over the next three decades.

The second proposal is $3 billion in General Fund supplemental pension payments to CalSTRS in fiscal year 2018-19 on behalf of CalSTRS employers. Of this amount, an estimated $2.3 billion will be allocated in fiscal year 2018-19 towards the CalSTRS employers' share of the unfunded liability for the CalSTRS Defined Benefit (DB) Program. The remaining $700 million will supplant the required contributions for CalSTRS employers, by $350 million in each of fiscal years 2019-20 and 2020-21. Based on current CalSTRS actuarial assumptions, this $3 billion payment is projected to save CalSTRS employers an estimated $6.9 billion over the next three decades.

The third proposal is a $1.1 billion supplemental pension payment in fiscal year 2019-20 towards the state's share of the unfunded liability for the CalSTRS DB Program. This amount is the first installment of an estimated $2.9 billion to be paid to CalSTRS for the DB Program through fiscal year 2022-23 using available Proposition 2 debt repayment funding. Based on current CalSTRS actuarial assumptions, the full $2.9 billion supplemental pension payment is estimated to save $7.4 billion over the next three decades. See "EXHIBIT 1—"PENSION SYSTEMS" for details.

The state also provides retiree health care and dental benefits to retired state employees and their spouses and dependents (when applicable) and almost exclusively utilizes a "pay-as-

you-go" funding policy. These benefits are referred to as "Other Postemployment Benefits" or "OPEB." The state has reported its liability for OPEB in its financial statements under the Governmental Accounting Standards Board (GASB) Statement No. 45 for the fiscal years 2007-08 through 2016-17. Statement No. 45 is being replaced with Statement No. 75, which first applies to the state's financial statements for the fiscal year ending June 30, 2018. The state's Actuarial Valuation Report for June 30, 2017, was prepared in compliance with the new GASB OPEB standards with the objective of determining the liabilities associated with OPEB provided to the state's employees and to develop the actuarial funding costs assuming the full-funding policy. Under these new standards, the Actuarial Accrued Liability ("AAL") relating to OPEB is estimated to be $91.51 billion as of June 30, 2017 (virtually all unfunded) as compared to an AAL of $76.68 billion estimated as of June 30, 2016. For details regarding the changes in this liability, see "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs."

In 2015, a comprehensive strategy was initiated through the collective bargaining process to eliminate the OPEB unfunded AAL over approximately 30 years with increased prefunding contributions shared equally between state employers and employees, as well as cost-saving changes to retiree health benefits for new employees. Current labor contracts reflect this prefunding strategy, as well as lower employer contributions towards OPEB costs for new employees, and nearly all state employees now contribute towards funding retiree health benefits. See "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs—Ongoing Efforts."

Financial Statements

The Audited Basic Financial Statements of the state for the year ended June 30, 2017, together with certain information required by governmental accounting and financial reporting standards to be included in the Financial Statements, including a "Management's Discussion and Analysis" that describes and analyzes the financial position of the state and provides an overview of the state's activities for the fiscal year ended June 30, 2017, are included as an appendix to this Official Statement, and are incorporated into APPENDIX A.

In addition, EXHIBIT 2 to APPENDIX A contains the State Controller's unaudited report of General Fund cash receipts and disbursements for the period from July 1, 2017 through June 30, 2018 and July 1, 2018 through February 28, 2019. Information which may appear in APPENDIX A from the Department of Finance concerning monthly receipts of "agency cash" may differ from the State Controller's report of cash receipts for the same period generally because of timing differences. Agency cash represents cash received by agencies. The Controller's report represents cash received by agencies as reported to and recorded by the Controller, which may be a day or so later than when cash is received by agencies.

Certain Defined Terms

The following terms and abbreviations are used in APPENDIX A:

"Administration" means the Governor's Office and those individuals, departments, and offices reporting to it (including the Department of Finance).

"BDSA" or "Budget Deficit Savings Account" means the holding account for the fiscal year 2018-19 supplemental deposit to the BSA as created by the Legislature in 2018. See "STATE FINANCES-REVENUES, EXPENDITURES, AND RESERVES-Budget Reserves."

"BSA" or "Budget Stabilization Account" means the Budget Stabilization Account (or "rainy day fund") created under Proposition 58 and amended by Proposition 2. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

"Exhibit 2" means the State Controller's Unaudited Statement of General Fund Cash Receipts and Disbursements for the period from July 1, 2017 through June 30, 2018 and July 1, 2018 through February 28, 2019 as attached to APPENDIX A as Exhibit 2.

"PMIA" means the state's Pooled Money Investment Account.

"Proposition 2" means a legislative constitutional amendment that amended the provisions governing the BSA, which was approved by the voters in the November 2014 statewide general election. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

"Proposition 30" means The Schools and Local Public Safety Protection Act of 2012, an initiative measure, which was approved by the voters in the November 2012 statewide general election. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue."

"Proposition 55" means The California Children's Education and Health Care Protection Act of 2016, an initiative measure, which was approved by the voters in the November 2016 statewide general election. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue."

"Proposition 56" means The California Healthcare, Research and Prevention Tax Act of 2016, an initiative measure, which was approved by the voters in the November 2016 statewide general election. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue."

"Safety Net Reserve Fund" means the account created by the Legislature in 2018 to protect against cuts to certain health and welfare programs during the next recession.

"SFEU" means the Special Fund for Economic Uncertainties, established pursuant to Government Code Section 16418 to protect the state from unforeseen revenue reductions and/or unanticipated expenditure increases.

"2018-19 Budget" means the 2018 Budget Act plus related legislation to implement the budget.

"2018 Budget Act" means the Budget Act for fiscal year 2018-19, enacted on June 27, 2018.

"2019-20 Governor's Budget" means the proposed Governor's Budget for fiscal year 2019-20, released on January 9, 2019.

Reference to the "state" as a noun or adjective means the State of California, following the practice of the Department of Finance.

RECENT DEVELOPMENTS

The following are certain significant recent developments concerning the state:

The 2019-20 Governor's Budget

On January 9, 2019, the Governor released his proposed budget for fiscal year 2019-20. The proposal makes significant investments to pay down debts and liabilities, increases the balance of the rainy day fund, invests in education, health care, housing and homelessness prevention and maintains a balanced budget through fiscal-year 2022-23. See "GOVERNOR'S PROPOSED FISCAL YEAR 2019-20 BUDGET."

Recent Cash Receipts

In February, the Department of Finance reported that, based on agency cash receipts, tax receipts for January were $2.791 billion (12.7 percent) below the 2019-20 Governor's Budget forecast of $21.911 billion. Fiscal year 2018-19 cash receipts, including revisions to prior months, are $2.346 billion (3.0 percent) below the 2019-20 Governor's Budget forecast of $79.36 billion.

In March, the Department of Finance reported that, based on agency cash receipts, tax receipts for February were $128 million (2.2 percent) above the 2019-20 Governor's Budget forecast of $5.791 billion. Fiscal year 2018-19 cash receipts, including revisions to prior months, are $2.218 billion (2.6 percent) below the 2019-20 Governor's Budget forecast of $85.15 billion.

PG&E Bankruptcy

PG&E declared bankruptcy on January 29, 2019, and the Administration is monitoring the situation closely. At this early stage, the impact of the bankruptcy on the state is uncertain, but at this time the state has not identified any material adverse impact on the state General Fund.

Recent Wildfires

In recent years, California has experienced a number of catastrophic wildfires, with some of the largest, deadliest, and most damaging fires in state history occurring in 2018. The state has expended, and expects to continue to expend, billions of dollars in recovery efforts and debris removal. The 2019-20 Governor's Budget assumes that the federal government will reimburse 75 percent of eligible costs of the November 2018 wildfires and estimates that after federal reimbursement, the state's share of those costs alone will be $923.1 million. The 2019-20 Governor's Budget also assumes the state will waive the local share of debris removal costs and backfill wildfire-related property tax revenue losses for several counties, cities and special

districts impacted by wildfires in the past four years, totaling in the low tens of millions of dollars.

State Controller's Letters to Legislative Budget Committees

On March 18, 2019, the State Controller sent a letter (the "March 18 SCO Letter") to the Members of the Joint Legislative Budget Committee and other budget committees of the state legislature expressing concerns about the implementation of the state's new accounting system, (referred to as the Financial Information System for California, or "FI$Cal"). The March 18 SCO Letter described certain difficulties in joining components of FI$Cal with the existing accounting systems utilized by the State Controller's Office.

The March 18 SCO Letter stated in part that, as a result of the difficulties described in the March 18 SCO Letter, the State Controller no longer had "confidence in the accuracy of the revenue figures that are submitted into the SCO legacy system, which in turn are used to create the Monthly Cash Report and serve as the state's official book of record." State law requires the State Controller to provide the Monthly Cash Report to certain legislative committees, the Department of Finance, and the State Treasurer within 10 days after the close of each month. The most recent SCO Monthly Cash Report is included in Exhibit 2 to Appendix A.

On March 22, 2019 the State Controller sent a second letter to the Members of the Joint Legislative Budget Committee and other budget committees of the state legislature (the "March 22 SCO Letter"), which clarified the March 18 SCO Letter. The March 22 SCO Letter stated in part that the March 18 SCO Letter was strictly intended to inform the committees "of FI$Cal timing problems related to receiving departmental data – timing that extends to the data used for my Monthly Cash Reports. I must reiterate the financial numbers in both my Monthly Cash Report and the monthly Department of Finance (DOF) Revenue Bulletin are accurate at their respective points in time. I have no concern about the state's cash position or overall fiscal health."

The March 18 SCO Letter also expressed concern about the ability of the state to prepare its Comprehensive Annual Financial Report ("CAFR") for Fiscal Year 2018-19 (the "FY 2018-19 CAFR") in a timely manner. (The FY 2018-19 CAFR is scheduled to be issued in March 2020.) The March 18 SCO Letter expressed concern that the FY 2018-19 CAFR, when issued, could receive a "modified opinion" from the state auditor, which would indicate that material accounting misstatements may have been used to construct the FY 2018-19 CAFR when issued. The March 18 SCO Letter requests that the State Legislature direct additional resources to the implementation of FI$Cal. The State Controller does not expect that the issues described in the March 18 SCO Letter will result in the delivery of a modified opinion from the state auditor with respect to the CAFR for Fiscal Year 2017-18.

GOVERNOR'S PROPOSED FISCAL YEAR 2019-20 BUDGET

The 2019-20 Governor's Budget, released on January 9, 2019, proposes a multi-year plan that is projected to be balanced throughout the entire forecast period (through fiscal year 2022-23), includes a healthy reserve, and continues to pay down debts and long-term liabilities.

General Fund revenues and transfers in fiscal year 2019-20 in the 2019-20 Governor's Budget are projected at $142.6 billion; an increase of $5.7 billion, or 4.1 percent, compared with a revised estimate of $136.9 billion for fiscal year 2018-19. These estimates include transfers to the BSA of $1.8 billion in fiscal year 2019-20 and $2.7 billion in fiscal year 2018-19. The transfers have the effect of lowering the total reported levels of General Fund revenues and transfers for the fiscal years by the amounts of the transfers. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue."

General Fund expenditures for fiscal year 2019-20 are projected at $144.2 billion, an increase of $0.1 billion compared with a revised estimate of $144.1 billion for fiscal year 2018-19. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures."

The 2019-20 Governor's Budget includes:

- Proposition 98 – proposes $80.7 billion guaranteed total funding, of which $55.3 billion is General Fund. See "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES - K-14 Funding Under Proposition 98."

- Higher Education – proposes total state funding of $18.0 billion for all major segments of Higher Education, including $17.2 billion from the General Fund (both Non-Proposition 98 and Proposition 98). The remaining funds include special and bond funds. "STATE FINANCES - REVENUES, EXPENDITURES AND RESERVES – Higher Education."

- Health and Human Services – proposes $64.8 billion, including $40.3 billion General Fund and $24.5 billion from special funds, for these programs. See "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES - Health and Human Services."

- Public Safety – proposes total state funding of $15.5 billion, including $12.5 billion General Fund and $3.0 billion from special funds, for Corrections and Rehabilitation. See "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES – Public Safety."

The following table summarizes the proposed General Fund budget in the 2019-20 Governor's Budget and compares to it the fiscal year 2018-19 General Fund budget as of the 2018 Budget Act:

TABLE 1
General Fund Budget Summary
(Dollars in Millions)

	As of 2018 Budget Act	As of 2019-20 Governor's Budget	
Fiscal Year	**2018-19**	**2018-19***	**2019-20**
Prior Year Balance	$ 8,483	$ 11,902	$ 4,765
Revenues and Transfers[(a)]	133,332	136,945	142,618
Total Resources Available	**$ 141,815**	**$ 148,847**	**$ 147,384**
Non-Proposition 98 Expenditures	83,818	90,054	88,896
Proposition 98 Expenditures	54,870	54,028	55,295
Total Expenditures	**$ 138,688**	**$ 144,082**	**$ 144,191**
Fund Balance	$ 3,127	$ 4,765	$ 3,193
Reserve for Liquidation of Encumbrances	1,165	1,385	1,385
Special Fund for Economic Uncertainties	1,962	3,380	1,808
Safety Net Reserve	200	900	900
Budget Stabilization Account/ "Rainy Day Fund"	$ 13,768	$ 13,535	$ 15,302

* The 2018-19 Prior Year Balance in this table includes correction of a $475 million overstatement included in the 2019-20 Governor's Budget. See "Fiscal Year 2018-19 Revised Estimates."

(a) Net of transfers to BSA and Safety Net Reserve Fund. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

Source: State of California, Department of Finance.

Note: Numbers may not add due to rounding.

Development of Revenue Estimates

Development of the forecast for the major General Fund revenues begins with a forecast of national economic activity prepared by an independent economic forecasting firm. The Department of Finance's Economic Research Unit, under the direction of the Chief Economist, adjusts the national forecast based on the Department of Finance's economic outlook. The national economic forecast is used to develop a forecast of similar indicators for California activity.

After finalizing the forecasts of major national and California economic indicators, revenue estimates are generated using revenue forecasting models developed and maintained by

the Department of Finance. With each forecast, adjustments are made for any legislative, judicial, or administrative changes, as well as for recent cash flow results.

The forecast is updated twice a year and released with the proposed Governor's Budget by January 10 and the May Revision by May 14. The 2019-20 Governor's Budget includes a preliminary analysis of the projected effects of the federal Tax Cuts and Jobs Act enacted in December 2017 on the state's General Fund. The state anticipates that the impact of this federal tax reform on the state economy and General Fund revenues resulting from any actions taken by businesses or wealthy individuals, including changes in behavior in response to this reform, will continue to emerge over time. Therefore, the projected effects of this federal tax reform legislation on the state's General Fund revenues may change significantly over time. The economic forecast for the 2019-20 Governor's Budget projects continued but slowing growth in both the national and state economies. Certain significant elements of the forecast are set forth in Table 2.

National Economy. After growth of 2.2 percent in 2017, real Gross Domestic Product ("GDP") growth averaged 3.6 percent in the first three quarters of 2018, reflecting positive contributions from strong consumption and federal spending. Contrary to expectations at the 2018-19 May Revision forecast (included in the 2018 Budget Act), corporate tax savings due to the federal tax changes have mainly been used for stock buybacks and accordingly have led to less increase in investment than projected. Growth is expected to continue in the short term with real GDP growth gradually slowing to 1.5 percent by 2022. In 2018, the labor force expanded by 1.8 million while nonfarm employment increased by 2.4 million, or 1.6 percent. The national unemployment rate fell to 3.7 percent in September 2018, the lowest rate since December 1969. With real GDP growth above 2 percent and higher labor force growth around 1 percent through 2020, the unemployment rate for the nation is expected to decrease to 3.4 percent in mid-2019 before slowly increasing in late 2020 to reach 3.9 percent by 2022. Job creation is expected to slow to less than 1 percent annually by 2021. U.S. overall inflation was 2.1 percent in 2017 and 2.4 percent in 2018. As of the issuance of the 2019-20 Governor's Budget, the Federal Reserve was assumed to continue gradually raising the benchmark interest rate to exceed 3 percent by 2020.

California Economy. California's real GDP increased by 3.0 percent in 2017, and totaled $2.7 trillion at current prices, making California the fifth largest economy in the world. The last time the state was the fifth largest economy was in 2002. California's unemployment rate fell to 4.1 percent in September 2018, reaching another record low. In the first two quarters of 2018, average wage growth in the state was around 3.3 percent compared to over 9 percent in December 2000, when California's unemployment rate fell to the then-lowest recorded unemployment rate of 4.7 percent. The revenue forecast in the 2019-20 Governor's Budget assumes that steady job growth along with an increase of the state's labor force participation rate will allow the unemployment rate to stay at around 4.3 percent through 2022. Starting in 2019, the forecast assumes a more traditional pattern of low unemployment leading to real wage increases across all income groups. This more balanced growth translates into strong personal income growth above 5 percent in 2018 and 2019, followed by a more modest growth of 4.3 percent on average through 2022.

Swings in oil prices, higher international tariffs, and increasing wages have contributed to faster than expected inflation in 2018. California inflation averaged 3.7 percent in 2018 and is expected to remain at 3.7 percent in 2019 before decelerating to 2.8 percent by 2022. In comparison, U.S. inflation rose 2.4 percent in 2018 and is expected to increase by 2.5 percent in 2019 and 2.0 percent in 2020. Inflation remained concentrated in housing most notably in California since 2014. Housing inflation climbed 3.3 percent in the U.S. and 4.5 percent in California in 2018. Starting with the 2019-20 Governor's Budget forecast, the California Consumer Price Index (CPI) is based on a new methodology reflecting redesigned geographic area samples introduced by the U.S. Bureau of Labor Statistics in 2018. The new California CPI includes four metropolitan statistical areas (MSAs) or groups of counties representing contiguous geographic areas (Los Angeles, San Francisco, Riverside, and San Diego) while the old California CPI, which was the basis of the 2018-19 May Revision forecast, only included the Los Angeles and San Francisco MSAs. The population weight for San Francisco MSA was also reduced down to a 5-county coverage versus 10 counties previously. Compared to the Los Angeles and San Francisco MSAs, recent growth in overall inflation in Riverside MSA was faster while consumer prices in San Diego MSA grew slower. The differential between the U.S CPI and the new California CPI is larger due to this new methodology.

Home building permit issuance is projected to continue growing over the forecast around 10 percent on average from the 2018 level of around 120,000. Around 200,000 permits are needed annually to accommodate population growth, demolitions from infill projects, and disaster recovery.

See "ECONOMIC AND BUDGET RISKS" for a discussion of certain economic risks which would affect future performance of the state economy.

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Economic Assumptions Underlying the 2019-20 Governor's Budget

The revenue and expenditure estimates and projections incorporated into the 2019-20 Governor's Budget are based upon certain assumptions concerning the performance of the California, national, and global economies in 2019 and 2020. These economic assumptions are set forth below. Additional information on the state's economy is set out in the section "ECONOMY AND POPULATION."

TABLE 2
Selected National and California Economic Data

	2018	2019	2020
United States of America			
Real gross domestic product (percent change)	2.9	2.7	2.1
Personal income (percent change)	4.5	4.5	4.9
Nonfarm wage and salary employment (millions)	149.0	151.3	153.0
(percent change)	1.6	1.5	1.1
Housing starts (thousands)	1,263	1,318	1,424
(percent change)	4.6	4.3	8.0
State of California			
Personal income ($ billions)	2,494.4	2,619.4	2,739.9
(percent change)	5.5	5.0	4.6
Nonfarm wage and salary employment (thousands)	17,155.2	17,386.1	17,549.6
(percent change)	1.9	1.3	0.9
Unemployment rate (percent)	4.3	4.3	4.3
Housing units authorized (thousands)	125.1	139.2	153.6
(percent change)	9.8	11.3	10.3
Total taxable sales ($ billions)	716.8	757.5	779.3
(percent change)	5.7	5.7	2.9

Note: Percentage changes calculated from unrounded data.
Source: State of California, Department of Finance, 2019-20 Governor's Budget.

Multi-Year Budget Projection

As required by Proposition 2, in connection with the 2019-20 Governor's Budget, the Department of Finance prepared a multi-year budget projection, as set forth below. The projection is based on current law as of January 2019 when the projection was finalized, and policies included in the 2019-20 Governor's Budget. The projection reflects a variety of assumptions, including assumptions concerning state revenues and expenditures and future economic conditions (but does not assume a recession will occur during the projection timeframe). While the multi-year budget projection takes into account current federal tax law, no major changes to the filing behavior of Californians are assumed.

Actual conditions may differ materially from the assumptions and there can be no assurances the projection will be achieved. For example, a moderate recession could lead to revenue reductions of around $25 billion per year for two years, with reductions over $10 billion per year for multiple additional years. Also, even in the absence of a recession, a significant and sustained stock market correction could lead to a several billion dollar reduction in revenue for multiple years.

The year-to-year changes in revenues and transfers, excluding transfers to the BSA, are driven, in general, by expected continued moderate economic growth. In addition, very strong capital gains growth in 2017 contributed to unusually strong growth in fiscal year 2017-18, followed by moderating rates of growth in subsequent fiscal years due to the stock market's decline in the second half of 2018 and the expectation that the stock market will grow at a very low rate in 2019 and subsequent years. General Fund revenue from the major tax sources is expected to grow by 10.3 percent from fiscal year 2016-17 to fiscal year 2017-18, 3.7 percent from fiscal year 2017-18 to fiscal year 2018-19, 3.5 percent from fiscal year 2018-19 to fiscal year 2019-20, 2.7 percent from fiscal year 2019-20 to fiscal year 2020-21, and 2.8 percent from fiscal year 2020-21 to fiscal year 2021-22.

Table 3 below includes the projected effect of Chapter 4, Statutes of 2016 (SB 3), which gradually increases the minimum wage in California to $15 per hour for all employees. By full implementation, the General Fund cost is projected to be approximately $3.5 billion annually, primarily for increased wages for home health care workers and developmental disability workers.

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TABLE 3
General Fund Multi-Year Budget Projection
(Dollars in Millions)

Fiscal Year:	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Prior Year Balance	$ 11,902	$ 4,765	$ 3,193	$ 5,029	$ 5,192
Revenues and Transfers[(a)]	139,682	144,385	150,548	154,759	159,375
Transfer to BSA[(b)]	(2,737)	(1,767)	(1,534)	(1,462)	(1,073)
Total Resources Available	$ 148,847	$ 147,384	$ 152,206	$ 158,326	$ 163,494
Proposition 98 Expenditures	54,028	55,295	56,882	58,485	60,248
Non-Proposition 98 Expenditures	90,054	88,896	90,295	94,649	97,577
Prop 2 infrastructure deferred maintenance[(c)]	-	-	-	-	474
Total Expenditures	$ 144,082	$ 144,191	$ 147,177	$ 153,134	$ 158,299
Fund Balance:	$ 4,765	$ 3,193	$ 5,029	$ 5,192	$ 5,195
Reserve for Encumbrances	$ 1,385	$ 1,385	$ 1,385	$ 1,385	$ 1,385
Reserves (SFEU + Safety Net)	$ 4,280	$ 2,708	$ 4,544	$ 4,707	$ 4,710
Budget Stabilization Account/ ("Rainy Day Fund")	$ 13,535	$ 15,302	$ 16,836	$ 18,298	$ 19,371
Operating Surplus/(Deficit) with BSA Transfer	$ (7,137)	$ (1,573)	$ 1,837	$ 163	$ 3

(a) The Proposition 30 and Proposition 55 revenue amounts projected in the 2019-20 Governor's Budget are shown below (in millions):

	2018-19	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Prop 30/55 – Income Tax	$8,694	$8,627	$8,711	$8,947	$9,255

(b) Transfers to the BSA are made pursuant to Proposition 2. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

(c) Consists of transfers pursuant to Proposition 2 after transfers of required amounts to the BSA. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2."

Source: State of California, Department of Finance.

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CURRENT STATE BUDGET

The 2018 Budget Act, enacted on June 27, 2018, continued to build reserves and pay down budgetary debt. The 2018-19 Budget included a supplemental deposit to the BSA to further increase state reserves to minimize the impact on the state of a future recession, the 2018-19 Budget added two additional reserves, the Budget Deficit Savings Account ("BDSA") and the Safety Net Reserve, to state law. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

At the time of enactment, General Fund revenues and transfers for fiscal year 2018-19 were projected at $133.3 billion, an increase of $3.5 billion, or 2.7 percent, compared with the revised estimate of $129.8 billion for fiscal year 2017-18. Those estimates included transfers to the BSA of $4.4 billion in fiscal year 2018-19, and $2.7 billion in fiscal year 2017-18 which had the effect of lowering General Fund revenues and transfers by the amounts of the transfers.

In the 2018 Budget Act, General Fund expenditures for fiscal year 2018-19 were projected at $138.7 billion, an increase of $11.6 billion, or 9.2 percent, compared with the revised estimate of $127.0 billion for fiscal year 2017-18. The main components of the $11.6 billion increase were:

- $3.8 billion increase for Health and Human Services;
- $2.4 billion increase in statewide expenditures;
- $1.9 billion increase for K-12 education;
- $1.1 billion increase in the Legislative, Judicial and Executive agencies; and
- $1.0 billion increase in Higher Education.

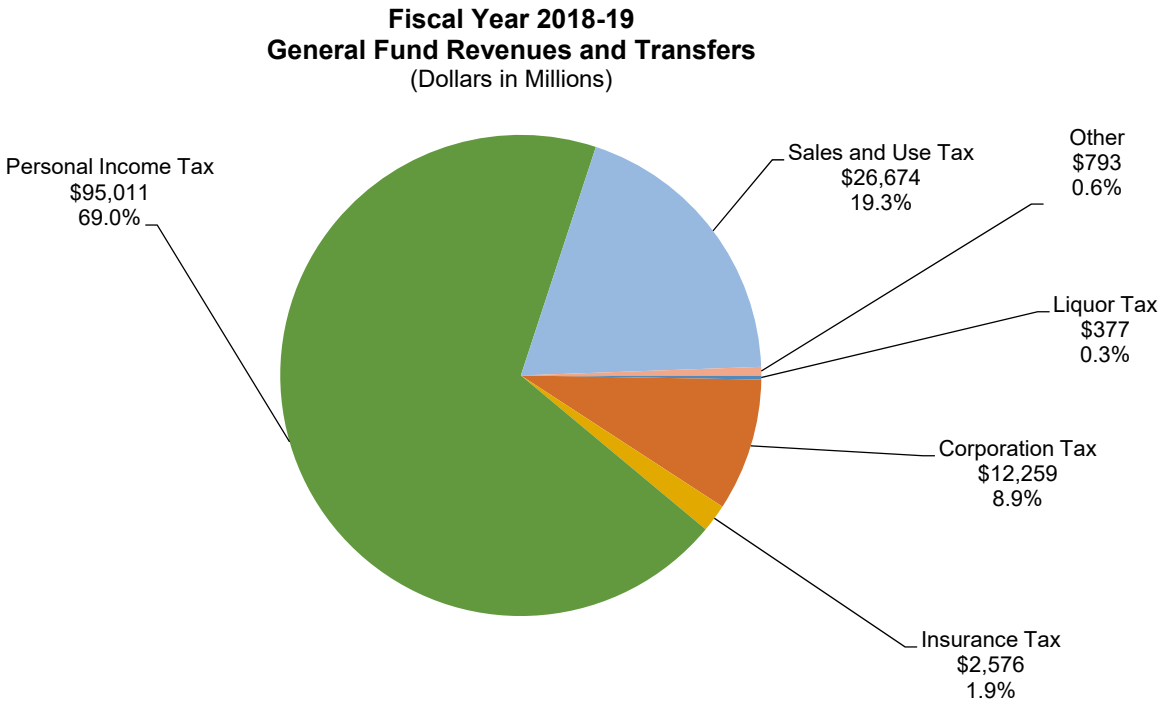
The 2018 Budget Act assumed continued expansion of the economy during fiscal year 2018-19 and included the following major components:

- Proposition 98 — $78.4 billion guaranteed total funding, of which $54.9 billion is General Fund.

- Higher Education — total state funding of $16.6 billion for all major segments of higher education, including $16.1 billion from the General Fund (both Non-Proposition 98 and Proposition 98). The remaining funds include special and bond funds.

- Health and Human Services — total state funding for these programs of $64.3 billion, of which $39.5 billion is General Fund and $24.8 billion is from special funds.

- Public Safety — total state funding of $15.0 billion, of which $12.1 billion is General Fund and $2.9 billion is from special funds, for Corrections and Rehabilitation.



Note: Total amount reflected in chart is $137.7 billion and does not net out $4,358 million of revenues transferred to the BSA.

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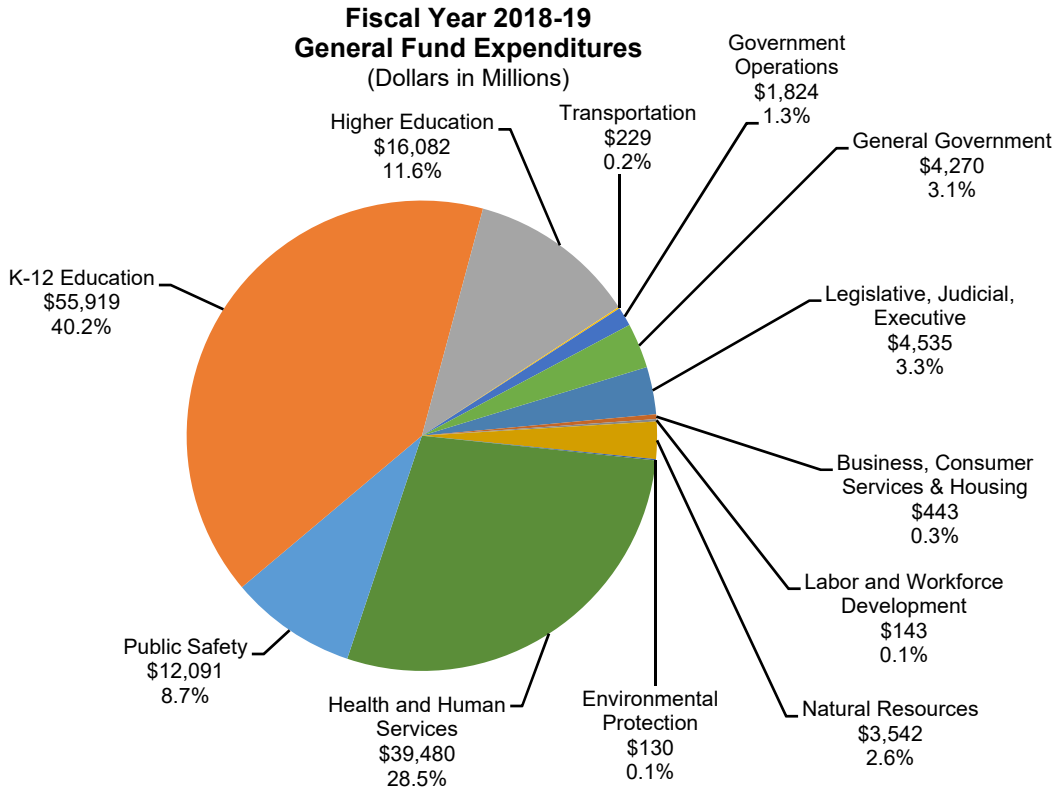

Note: Total amount reflected in chart is $138.7 billion and includes agency costs for pension and debt service expenditures.

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Fiscal Year 2018-19 Revised General Fund Estimates in the 2019-20 Governor's Budget

The 2019-20 Governor's Budget makes various revisions to General Fund estimates for fiscal year 2018-19 involving the beginning fund balance; revenues, transfers, and loans; expenditures; and the ending reserve balances. These revised estimates are still preliminary and subject to further adjustment after receipt of more information on final amounts for fiscal year 2018-19. The revised General Fund revenue and expenditure estimates are set forth in Table 5 below.

The beginning General Fund balance for fiscal year 2018-19 was overstated by $475.3 million in the 2019-20 Governor's Budget. An error in the Department of Finance's internal calculations failed to account for a Proposition 98 settle up payment of $475.3 million, which should have been allocated to fiscal year 2017-18, which reduces the beginning General Fund balance for fiscal year 2018-19, and the beginning General Fund balance for each subsequent fiscal year within the multi-year projection by that identical amount. The corrected 2019-20 Governor's Budget estimate is $3.4 billion higher than the 2018 Budget Act. This $3.4 billion increase in fund balance is mainly due to the following:

- $1.6 billion decrease in Non-Proposition 98 spending in fiscal year 2017-18.
- $1.7 billion increase in fiscal year 2017-18 revenues and transfers.

As shown in Table 5, the estimate of 2018-19 General Fund revenues and transfers increased by $3.6 billion since the 2018 Budget Act forecast, primarily due to higher than projected tax revenues with personal income tax revenue higher by $2.7 billion. The estimated transfer into the BSA changed by $1.6 billion primarily due to updated revenues in fiscal year 2017-18 and 2018-19. Another major revenue source, sales and use taxes, decreased by $0.4 billion.

Also shown in Table 5, estimated General Fund expenditures for fiscal year 2018-19 increased from the 2018 Budget Act estimate by $5.4 billion, and reflect the following one-time investments:

- $3.0 billion supplemental contribution to the CalPERS pension fund.
- $1.0 billion to reverse the June-to-July payroll deferral (see footnote (d) to Table 4).
- $0.8 billion related to wildfires in 2018.
- $3.0 billion payment to the CalSTRS pension fund (non-Proposition 98 spending).
- The one-time investments detailed above are offset by a decrease of $2.4 billion in Health and Human Services expenditures. See "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES - Health and Human Services."

The 2018 Budget Act projected an ending balance in the SFEU of $2.0 billion for fiscal year 2018-19. After taking account of the latest revised estimates related to fiscal-year 2018-19, the 2019-20 Governor's Budget projects an SFEU balance at June 30, 2019 of $3.4 billion.

Summary of General Fund Revenues, Expenditures, and Fund Balance

The table below presents actual revenues, expenditures and fund balance information for the General Fund for fiscal years 2015-16 through 2016-17 (provided by the State Controller's Office), estimated results for fiscal years 2017-18 and 2018-19 and projected results for fiscal year 2019-20 (based on the 2019-20 Governor's Budget). In addition to the SFEU, the 2019-20 Governor's Budget projects a cumulative balance of $15.3 billion in the BSA, at June 30, 2020. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves—Special Fund for Economic Uncertainties" and "— Budget Stabilization Account."

Consistent with historical practice, the estimated beginning fund balance of any given fiscal year may be updated from time to time to reflect changes attributable to revisions in preceding fiscal years' activity and estimates. Changes affecting the beginning of period fund balance may include changes in both revenue and expenditure final estimates for previous years' fiscal activity.

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TABLE 4
General Fund Revenues, Expenditures, and Fund Balance
(Budgetary Basis[a]-Dollars in Millions)

	Fiscal Year				
	2015-16	2016-17	Estimated 2017-18	Estimated 2018-19	Projected 2019-20
Fund Balance–Beginning of Period	$ 6,460	$ 6,281	$ 5,931	$ 11,902	$ 4,765
Restatements					
Prior Year Adjustment	(1,901)	391	(825)		–
Fund Balance–Beginning of Period, as Restated	**$ 4,559**	**$ 6,672**	**$ 5,106**	**$ 11,902**	**$ 4,765**
Revenues	$ 119,113	$ 123,135	$ 135,864	$ 140,988	$ 146,112
Other Financing Sources					
Transfers from Other Funds[b]	460	406	(4,369)	(4,043)	(3,494)
Other Additions	123	61	–	–	–
Total Revenues and Other Sources	**$ 119,696**	**$ 123,602**	**$ 131,495**	**$ 136,945**	**$ 142,618**
Expenditures					
State Operations[c]	$ 29,374	$ 30,899	$ 32,416	$ 44,735	$ 38,491
Local Assistance	84,840	88,710	92,406	98,175	105,481
Capital Outlay	146	264	97	1,171	219
Unclassified	–	–	(220)	–	–
Other Uses	–	–	–	–	–
Transfer to Other Funds[b]	3,614	4,470	–	–	–
Total Expenditures and Other Uses	**$ 117,974**	**$ 124,343**	**$ 124,699**	**$ 144,082**	**$ 144,191**
Revenues and Other Sources Over or (Under) Expenditures and Other Uses	$ 1,722	$ (741)	$ 6,796	$ (7,137)	$ (1,573)
Fund Balance					
Deferred Payroll[d]	1,082	1,147	–	–	–
Reserved for Encumbrances	1,016	1,180	1,385	1,385	1,385
Reserved for Unencumbered Balances of Continuing Appropriations[e]	1,112	1,670	–	–	–
Unreserved–Undesignated[f]	3,071	1,934	10,517	3,380	1,808
Fund Balance–End of Period	**$ 6,281**	**$ 5,931**	**$ 11,902**	**$ 4,765**	**$ 3,193**

General Note: Totals may not add due to rounding.

(a) These statements have been prepared on a budgetary basis in accordance with state law and some modifications would be necessary to comply with generally accepted accounting principles ("GAAP"). The Supplementary Information contained in the state's Audited Basic Financial Statements for the year ended June 30, 2017, attached as an appendix to this Official Statement, contains a description of the differences between the budgetary basis and the GAAP basis of accounting and a reconciliation of the June 30, 2017 fund balance between the two methods. See "FINANCIAL STATEMENTS."

(b) For the State Controller's Office accounting purposes, the actuals reflect transfers to the BSA as an expenditure transfer within Transfer to Other Funds. For budgeting purposes, the Transfers to Other Funds line is netted with Transfers from Other Funds for fiscal years 2018-19 and 2019-20. For those years, transfers to the BSA are reflected within the Transfers from Other Funds amounts as revenue transfers.

(Footnotes Continued on Following Page)

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(c) Includes debt service on general obligation bonds. The estimated amount of General Fund debt service cost is approximately $4.9 billion for fiscal year 2018-19 and projected to be $4.8 billion in fiscal year 2019-20. These estimated costs are net of various offsets, including a federal Build America Bonds subsidy, various reimbursements to the General Fund from other funds, and amounts included in UC and CSU support budgets for debt service on UC and CSU debt; with all offsets together totaling approximately $2.3 billion in fiscal year 2018-19 and $2.4 billion in fiscal year 2019-20 and which offset the General Fund debt service costs of certain General Obligation bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—Build America Bonds." Debt service amounts for earlier years are set forth in the table titled "Outstanding State Debt Fiscal Years 2013-14 through 2017-18" under "STATE DEBT TABLES."

(d) Deferred Payroll, which began with the June 2010 payroll, represents the amount of June payroll expenses deferred to July of the following fiscal year, for all state departments paid through the uniform payroll system. The Department of Finance, pursuant to Government Code Sections 12472.5 and 13302, implements the deferrals of June payroll expenditures for various governmental and nongovernmental cost funds. The 2019-20 Governor's Budget includes elimination of the payroll deferral in fiscal year 2018-19. Per statute, Deferred Payroll expenditures are not recognized until the following July, under the budgetary basis of accounting and budgeting.

(e) For purposes of determining whether the General Fund budget, in any given fiscal year, is in a surplus or deficit condition, see Government Code Section 13307. Under this law, the unencumbered balances of continuing appropriations, which exist when no commitment for expenditure of the unspent balance is made, should be an item of disclosure, but the amount shall not be deducted from the fund balance. In accordance with Government Code Section 12460, the State Controller's Budgetary/Legal Basis Annual Report reflects a specific reserve for the encumbered balance for continuing appropriations.

(f) Actual and estimated amounts include SFEU. The Department of Finance generally includes in its estimates of the SFEU and other reserves, if any, the items reported as actual amounts in the State Controller's Budgetary/Legal Basis Annual Report under "Unreserved-Undesignated."

Source: Actual amounts for fiscal years 2015-16 through 2016-17: State of California, Office of the State Controller. Estimated amounts for fiscal years 2017-18 and 2018-19 and projected amounts for fiscal year 2019-20: State of California, Department of Finance.

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General Fund Revenue and Expenditure Assumptions

The table below presents the Department of Finance's budget basis statements of General Fund revenue sources and expenditures by function for fiscal years 2018-19 and 2019-20, as set forth in the 2019-20 Governor's Budget.

TABLE 5
General Fund Revenues by Source and Expenditures by Function
(Dollars in Millions)

	Fiscal Year		
Revenue Source	**2018-19 Enacted June 2018**	**2018-19 Revised January 2019**	**2019-20 Proposed January 2019**
Personal Income Tax	$ 95,011	$ 97,720	$ 100,547
Sales and Use Tax	26,674	26,244	27,424
Corporation Tax	12,259	12,330	13,125
Insurance Tax	2,576	2,606	2,830
Alcoholic Beverage Taxes and Fees	377	382	389
Cigarette Tax	65	65	63
Motor Vehicle Fees	27	31	33
Other[(a)]	701	304	-26
Subtotal	**$ 137,690**	**$ 139,682**	**$ 144,385**
Transfer to the Budget Stabilization Account/"Rainy Day Fund"	-4,358	-2,737	-1,767
Total Revenues and Transfers	**$ 133,332**	**$ 136,945**	**$ 142,618**

Expenditures by Agency	**2018-19 Enacted June 2018**	**2018-19 Revised January 2019**	**2019-20 Proposed January 2019**
Legislative, Judicial and Executive	$ 4,535	$ 4,643	$ 4,559
Business, Consumer Services & Housing	443	449	1,693
Transportation	229	214	296
Natural Resources	3,542	3,909	3,509
Environmental Protection	130	358	123
Health and Human Services	39,480	37,098	40,302
Public Safety (includes Corrections and Rehabilitation)	12,091	12,495	12,482
K-12 Education	55,919	57,861	58,746
Higher Education	16,082	16,348	17,180
Labor and Workforce Development	143	159	125
Government Operations	1,824	4,876	1,253
General Government			
Non-Agency Departments	1,109	1,145	821
Tax Relief/Local Government	466	472	461
Statewide Expenditures[(b)]	2,695	4,055	2,641
Total Expenditures	**$ 138,688**	**$ 144,082**	**$ 144,191**

(a) Generally consists of transfers and loans, and various smaller amounts for miscellaneous fees, taxes, royalties, tribal gaming revenues, unclaimed property and other sources.

(b) Amounts generally include unallocated funds for statewide expenditures such as deferred maintenance, employee compensation increases, and employee benefits that will be distributed to departments.

Source: State of California, Department of Finance. Note: Numbers may not add due to rounding.

ECONOMIC AND BUDGET RISKS

The 2019-20 Governor's Budget is based on a variety of estimates and assumptions. If actual results differ from those assumptions, the state's financial condition could be adversely or positively affected. There can be no assurance that the financial condition of the state will not be materially and adversely affected by actual conditions or circumstances in fiscal year 2019-20 and beyond.

While the state projects a balanced budget through fiscal year 2022-23 (the end of the projection period), several economic and budget risks still exist. Risks with potentially significant General Fund impact include, but may not be limited to, the following:

- Threat of Recession — The risk of a U.S. recession remains, with the current expansion poised to become the longest in modern history in July 2019. Both the nation and California are at unemployment rates of around 4.0 percent, levels only seen near the end of an economic cycle. While the recovery was much slower than in previous expansions, it becomes more difficult to sustain growth once unemployment rates fall too far. For growth to continue, businesses need to continue to hire and invest and consumers must continue making real gains. Corporate tax savings from the federal tax bill enacted in December 2017 mostly were used for stock buybacks, allowing corporations to keep more profits, and led to little growth in investment and workers' average wage. This raises concerns of sustained inequality and low consumer purchasing power.

  Low interest rates also allowed many corporations to take on levels of debt that become less sustainable when interest rates increase.

  If international trade relations do not continue to operate as they have in the past due to federal policies or other factors, or inflation rises due to the interaction between low unemployment levels and increasing consumer demand, imbalances that trigger a recession could result.

  The stock market recently was at an all-time high, and has been highly volatile. A sudden fall would likely adversely affect investment and hiring decisions at California companies, even in the absence of a recession.

  Finally, given increased globalization and interconnectedness of financial world markets, disruptions in large markets due to economic slowdowns in other countries or regions (such as the slowdown in many European countries or economic crises in emerging markets) or due to geopolitical tensions and deteriorating international trade relations (such as a no-deal Brexit) could have significant negative impacts on the nation's economy, potentially triggering a U.S. slowdown, which will affect California.

- Federal Policy — The federal government has made major changes to the Affordable Care Act, trade and immigration policy, and taken other actions, which could have detrimental effects on the state's budget. Additional federal institutional policy shifts,

such as expenditure reductions and changes in interest rates, may cause businesses and individuals to pull back on investment or consumption.

- Federal Tax Law Changes — The Tax Cuts and Jobs Act (Public Law 115-97) ("TCJA") enacted in December 2017 made significant and, in many cases, complex changes to federal tax laws beginning in 2018 that are expected to induce changes in taxpayer behavior that are not yet fully understood. As a result, there is an additional layer of uncertainty with regard to the state's revenue estimates. The revenue forecast did not make any adjustments for potential behavioral changes due to the TCJA that could negatively impact General Fund revenues, such as high-income taxpayers moving out of the state. While California does not automatically conform to federal tax law changes, behavioral changes due to federal tax law changes can still have a significant impact on state tax revenues and the timing of cash flows in both a positive and negative direction. For example, the new $10,000 limitation on the state and local tax deduction significantly limited the incentive to pay estimated state tax payments by December 31 rather than by the actual due date of January 15, leading to an 86 percent year-over-year decline in December 2018 estimated tax payments. Other cash flow and revenue impacts are expected to emerge over time. It is possible that the $10,000 limit on the state and local tax deductions for the federal individual income tax could cause an increase in out-migration of high-income taxpayers. The forecast assumes that there is no significant increase in out-migration of high-income taxpayers. Tax return data for 2018, the first year the TCJA was in effect, will not be available until early 2020. Subsequent forecasts will incorporate changes induced by the federal law changes as revenue and tax data becomes available.

- Trade Policy — In 2018, the U.S. imposed tariffs on $250 billion worth of Chinese products, equivalent to half of the nation's imports from China, triggering Chinese retaliatory tariffs on over $50 billion worth of U.S. exports. Because California is a transport hub, and China is the state's third largest trading partner after Mexico and Canada, the ongoing trade war could have negative effects on the state's economy. In 2017, imports from China entering through California totaled $159 billion, or 36 percent of the state's total imports, while exports to China totaled $16.4 billion, accounting for 9.6 percent of the state's total exports.

  The U.S. has also engaged in trade disputes with the European Union, and the North American Free Trade Agreement (renamed United States-Mexico-Canada Agreement) is currently being renegotiated. More trade barriers would increase the costs of inputs purchased from abroad, leading to decreased firm revenue, potentially impacting wages and employment in the short run and triggering a change in the business model of companies that until now have made significant investment decisions based on a system of free global trade.

- Federal Census – An undercount in the 2020 Census could particularly disadvantage the state when federal funds and legislative seats are apportioned. California has a significant share of the population designated "hard-to-count" by the Census Bureau including the foreign-born, children under 5, the non-white population, and renters. While California accounts for 12 percent of the U.S. population, the state has nearly

22 percent of the hard-to-count national population. California plans a proactive campaign to mitigate the risk of a population undercount, which if realized could affect future planning and funding formulas.

- Federal Government Shutdown — Extended federal government shutdowns, even partial, have the potential to adversely affect the nation and state economies. In 2018, federal government employees accounted for around 2 percent and 1.5 percent of total nonfarm employment for the U.S. and California, respectively, and federal government purchases represented roughly 7 percent of U.S. real GDP. Negative impacts to the economy can be direct, in the form of salary cuts and disrupted services, or indirect, as federal shutdowns create uncertainty and can lead to generalized loss of consumer and business confidence.

- Health Care Costs — The state's Medicaid program ("Medi-Cal") is one of the state's largest expenditures. The state also provides health benefits to its own employees and retirees. General Fund spending on health care costs is thus heavily dependent upon the rate of health care cost inflation. If this inflation rises faster than expected, annual General Fund spending could quickly rise by hundreds of millions of dollars. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—Health and Human Services."

- Housing Constraints — California housing growth continues to lag population growth, raising housing costs and potentially limiting the number of jobs that companies can add. In 2018, around 120,000 permits were issued in California and the forecast assumes a faster rate of annual permit issuance reaching 177,000 by 2022. Around 200,000 permits are needed annually to accommodate population growth, demolitions from infill projects, and disaster recovery. While the forecast assumes that increasing numbers of permits will be issued by local authorities, if permits remain low, it will reduce the number of available workers in those areas. Furthermore, housing prices will continue to rise and there will be a limited supply of affordable housing.

- Capital Gains Volatility — Capital gains tax revenues are the state's most volatile revenue source, and even absent a recession, a stock market correction or extended decline could significantly reduce the state's revenues. The significant decline in the stock market in December 2018 occurred subsequent to the finalization of the 2019-20 Governor's Budget forecast and is not factored into the forecast. Proposition 2 mitigates some of capital gains volatility by requiring spikes in capital gains tax revenue be used to repay the state's debts and liabilities, and to be deposited in the BSA. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue—Personal Income Tax" and "—Budget Reserves."

- Debts and Liabilities — The state's past budget challenges were often addressed by use of unprecedented levels of debts, deferrals, and budgetary obligations accumulated during periods of economic recession in the prior two decades. Although the state has recently paid down a substantial amount of these debts and has

also put in place plans to pay off the unfunded portions of all major state retirement-related liabilities over the next three decades (See "DEBTS AND LIABILITIES UNDER PROPOSITION 2"), the state still faces hundreds of billions of dollars in long-term cost pressures. See "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs" and EXHIBIT 1—"PENSION SYSTEMS."

- Climate Change — The state has historically been susceptible to wildfires and hydrologic variability. However, as greenhouse gas emissions continue to accumulate, climate change will intensify and increase the frequency of extreme weather events, such as coastal storm surges, drought, wildfires, floods and heat waves, and raise sea levels along the coast. The future fiscal impact of climate change on the state is difficult to predict, but it could be significant.

- Cybersecurity Risks — The state, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations. As a recipient and provider of personal, private, or sensitive information, the state is subject to multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computer and other sensitive digital networks and systems. Entities or individuals may attempt to gain unauthorized access to the state's digital systems for the purposes of misappropriating assets or information or causing operational disruption and damage. In 2017, the state established a statewide security operations center to protect against malicious activity targeting critical technology infrastructure. No assurances can be given that the state's efforts to manage cyber threats and attacks will be successful or that any such attack will not materially impact the operations or finances of the state.

DEBTS AND LIABILITIES UNDER PROPOSITION 2

Voters approved Proposition 2 in November 2014, which revised the state's method of funding the BSA, the state's "rainy day fund." For fifteen years starting in fiscal year 2015-16, 1.5 percent of annual General Fund revenues, plus the excess of capital gains tax receipts above a certain level not necessary to fund Proposition 98, is applied equally to funding the BSA and paying down state debts and liabilities. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves." Debts and liabilities eligible under Proposition 2 include certain budgetary borrowing and specified payments over and above the base payments for state pensions and retiree health costs. The two main retirement systems managed by state entities, CalPERS and CalSTRS, each have substantial unfunded liabilities. See EXHIBIT 1—"PENSION SYSTEMS." The state also has a substantial unfunded liability relating to postemployment healthcare benefits for state employee retirees. See "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs." Table 6 displays the categories of debts and liabilities the Administration considers eligible for accelerated payments under Proposition 2. Although previously included as an eligible use of Proposition 2 funds, the state is not legally responsible for the pension and retiree health care costs of the University of California, an independent corporate entity under state law. As a result, these costs are no longer displayed on Table 6. In addition, all "budgetary borrowing" debts previously reflected in Table 6 are proposed for repayment in fiscal-year 2019-20 in the 2019-20 Governor's Budget using

excess General Fund reserves, and not pursuant to Proposition 2 allocations. As a result, those items have also been removed from Table 6.

The 2019-20 Governor's Budget proposes to prefund state retiree health care benefits ($260 million), make the third repayment towards the $6 billion loan applied to the fiscal year 2017-18 supplemental pension payment to CalPERS described below ($390 million), and pay down a portion of the unfunded liability for teachers' pensions ($1.117 billion). Additionally, the Administration proposes to make an additional $3.1 billion of discretionary payments outside of required payments under Proposition 2, for debts that were previously included in Table 6. This includes repaying loans from special funds ($1.047 billion), repaying transportation weight fee advances ($873 million), repaying pre-Proposition 42 (2002) transportation loans ($236 million), repaying prior years of Proposition 98 underfunding (referred to as "settle-up payments,") ($211 million), and repaying non-Proposition 98 mandates (pre-2004, $11 million). This also includes the elimination of the deferral of the fourth quarter payment to CalPERS ($707 million), reversing a one-time budget savings from over a decade ago.

The 2017 Budget Act included a $6 billion supplemental pension payment to CalPERS from proceeds of a loan from the Surplus Money Investment Fund (a state fund managed by the State Treasurer's Office as part of the Pooled Money Investment Account to invest surplus cash from funds held by state departments) that is expected to reduce unfunded liabilities and stabilize state contribution rates. As of the 2019-20 Governor's Budget, the Department of Finance projects the supplemental pension payment will save an estimated $4.8 billion (net of principal and interest on the loan) in state contributions to CalPERS from all state funded sources over the next two decades. The amount of estimated savings allocable to each such fund will generally be proportionate to its share of the payments on the loan. Approximately half of the total loan payments are expected to come from the General Fund. The state will realize savings if the supplemental pension payment being invested by CalPERS earns a higher return than the interest required to be paid on the loan. The projected savings are based on CalPERS achieving its assumed rate of return, which exceeds the projected interest rate on the loan. There is a risk that the difference between CalPERS returns and the interest rate on the loan (as described below) will be less, perhaps significantly, than projected in a given year. This occurrence, if not otherwise offset by a difference between CalPERS returns and the interest rate on the loan greater than estimated for the 20-year period, could result in a lower than anticipated benefit to the state as compared to the estimate. The loan will be repaid at a variable interest rate, equal to the quarter-to-date yield at the two-year constant maturity U.S. Treasury rate (the "Two-year Treasury Rate").

The loan is required to be repaid from the General Fund and other funds no later than June 30, 2030. The first General Fund repayment of this loan, $294 million (interest and principal), was made with a fiscal year 2017-18 appropriation. The second General Fund repayment of this loan, $710 million (interest and principal), will be made with a fiscal year 2018-19 appropriation. Changes made to these repayment amounts since what was reported as of the 2018 Budget Act are due to updates in estimated available Proposition 2 funding in each respective fiscal year. The General Fund's share of the repayment of the loan over the expected term (approximately $3.8 billion estimated as of the 2019-20 Governor's Budget) is eligible under Proposition 2's debt repayment requirements, as reflected in Table 6. The remaining

balance is to be repaid from other funds that contribute to CalPERS and are expected to benefit from the supplemental pension payment.

Moneys for the repayment of the loan principal and interest payments are continuously appropriated. A repayment schedule has been developed to allocate an appropriate amount to each fund after an evaluation of its share of costs and fund availability. The Department of Finance prepared a report distributed on September 28, 2017, describing the actuarial impact on contribution rates and the economic risks and benefits associated with the supplemental pension payment, including discussion of a mechanism to adjust the repayment schedule and cost-allocation methodology. This report is available by accessing the internet website of the Department of Finance (www.dof.ca.gov).

TABLE 6
Debts and Liabilities Under Proposition 2
2019-20 Governor's Budget
(Dollars in Millions)

	Fiscal Year					
	Outstanding Amount at July 1, 2019[a]	Proposed 2019-20 Pay Down	Proposed 2020-21 Pay Down	Proposed 2021-22 Pay Down	Proposed 2022-23 Pay Down	Remaining Amount Not Currently Scheduled[b]
State Retirement Liabilities (Unfunded Actuarial Estimate)						
State Retiree Health	91,008	260	305	315	325	N/A
State Employee Pensions [c][d]	58,765	390	427	532	877	N/A
Teachers' Pensions[e]	103,468	1,117	802	615	345	N/A
Judges' Pensions	3,277	0	0	0	0	N/A
Total	**$ 256,518**	**$ 1,767**	**$ 1,534**	**$ 1,462**	**$ 1,547**	**$ N/A**

(a) The amount reflects the unfunded actuarial liability as of June 30, 2017, per the state's GASB 75 valuation report. The year-over-year increase in liability is due to a change in accounting standards, which require the use of a 3.56 percent discount rate compared to 4.25 percent in prior years. See "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs."

(b) N/A—Remaining balance after the projection period is not known. The amount is dependent on future addition of liabilities and payments.

(c) The table does not reflect the reduction of the outstanding amount as a result of the $6 billion supplemental pension payment made to CalPERS in fiscal year 2017-18. The effect of the supplemental pension payment will be incorporated in the next actuarial report. Pay down payments shown are estimates and include both interest and principal on the $6 billion supplemental pension payment projected to be paid from the Proposition 2 debt repayment funds. Actual payments will be determined annually based on availability of Proposition 2 debt repayment funds. Payments from other funds are not shown in this table.

(d) This value includes the unfunded liability for the 1959 Survivor Benefit Program, which is an estimated $41 million as of June 30, 2017.

(e) The state portion of the unfunded liability for teachers' pensions is $35.341 billion. See EXHIBIT 1—"PENSION SYSTEMS—CalSTRS.

LITIGATION

Introduction

The state is a party to numerous litigation matters. See "LITIGATION" in the forepart of this Official Statement.

The following describes only those litigation matters that are pending with service of process on the state accomplished and that have been identified by the state as having a potentially significant fiscal impact upon revenues or expenditures of the state's General Fund or the amount of state funds available to be borrowed by the General Fund.

This description was developed by the state with the participation of the Office of the Attorney General and other state entities. The Office of the Attorney General does not represent the state, its subdivisions, departments, agencies and other units in all matters, and accordingly there may be litigation matters of which the Office of the Attorney General is not aware. The state does not conduct a docket search of federal or state court litigation filings to identify pending litigation matters, and no inquiry has been made into administrative claims and matters. There may be claims and matters with potentially significant fiscal impacts that have not been described below.

The state makes no representation regarding the likely resolution of any specific litigation matter described below.

Budget-Related Litigation

1. Action Challenging School Financing

Plaintiff in *California School Boards Association v. State of California* (Alameda County Superior Court, Case No. RG-11-554698), challenges the use of block grant funding to pay for education mandates in the 2012 Budget Act and associated trailer bills. The amended complaint also contends that changes to the statutes that control how education mandates are directed and funded violate the requirements of the state Constitution that the state pay local school districts for the costs of state-mandated programs. After bifurcating the case, the trial court issued a ruling in favor of the state that addressed certain of plaintiff's claims, and subsequently dismissed the remaining claims on procedural grounds. Plaintiff appealed. (Court of Appeal, First Appellate District, Case No. A148606.) The Court of Appeal affirmed the trial court's decision on the merits but reversed the dismissal of claims on procedural grounds. Accordingly, this decision will result in some claims returning to the trial court for further proceedings. Plaintiff filed a petition for review of the decision by the California Supreme Court, and the Court has accepted the case for review. (California Supreme Court, Case No. S247266.) If it is determined that the state failed to properly pay for mandated educational programs, the state would be limited in the manner in which it funds education going forward.

2. Actions Challenging Statutes That Reformed California Redevelopment Law

There are approximately 50 pending actions that challenge the statutory process for winding down the affairs of the redevelopment agencies ("RDAs"), asserting a variety of claims,

including constitutional claims. Some of the pending cases contend that various obligations incurred by the RDAs are entitled to payment from certain property tax revenues. For example, in *Affordable Housing Coalition v. Sandoval* (Sacramento County Superior Court, Case No. 34-2012-80001158), plaintiffs argue that all former RDAs had obligations to pay for affordable housing that should be funded going forward. The court denied a motion for class action status, and subsequently ruled against plaintiffs in this matter and ordered that judgment be entered for the state. Plaintiffs appealed. (Court of Appeal, Third Appellate District, Case No. C083811.)

Oroville Dam Litigation

The California Department of Water Resources (the "Department") administers the State Water Project, which encompasses a complex of dams, reservoirs, pumping facilities, power plants, aqueducts and pipelines owned and operated by the state, including a dam at Lake Oroville. The State Water Project provides water to twenty-nine public agencies, and the Department is compensated by those agencies, under contracts with the Department.

On February 7, 2017, erosion was discovered on the lower portion of the main spillway at Lake Oroville. With severe winter storms, releases down the damaged main spillway were unable to prevent the reservoir from overtopping. Water flowed down the emergency spillway, triggering the evacuation of more than 180,000 people downstream of Lake Oroville on February 11, 2017. Several lawsuits have been filed on behalf of individuals, businesses and public agencies, against the Department, asserting damages arising out of these events, including alleged damage to property, business losses, and relocation expenses. Additional lawsuits may be filed.

In addition, the Butte County District Attorney seeks to impose up to $51 billion in civil penalties upon the Department for allegedly violating Fish and Game Code Section 5650, which regulates the deposit of materials deleterious to fish and other plant and animals into state waters. (*People of the State of California v. California Department of Water Resources*, Butte County Superior Court, Case No. 18CV00415.)

At this time, it is unknown what future net financial impact this litigation may have on the state's General Fund.

Tax Cases

A pending case challenges the fee imposed by former Revenue and Taxation Code Section 17942 upon the plaintiff and a purported class of similarly situated limited liability companies ("LLCs") registered in California, alleging that the fee violates the federal and state constitutions, is an improper exercise of the state's police powers, and has been misapplied by the Franchise Tax Board. *Bakersfield Mall LLC v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-07-462728). The purported class action is on behalf of all LLCs operating both in and out of California during the years at issue. A second virtually identical lawsuit also seeks to proceed as a class action. *CA-Centerside II, LLC v. Franchise Tax Board* (Fresno County Superior Court, Case No. 10 CECG00434). In each case, the individual plaintiff seeks a refund of $56,000 for itself and alleges a purported class of over 50,000 members. The cases are coordinated for hearing in San Francisco as the *Franchise Tax Board LLC Tax Refund*

Cases, Judicial Council Proceeding No. 4742. The coordination trial judge denied plaintiffs' joint motion for class certification and plaintiffs appealed. (Court of Appeal, First Appellate District, Case No. A140518.) The Court of Appeal reversed the trial court, determining that the trial court abused its discretion in denying class certification, remanded the case to the trial court, and directed the trial court to certify one or more classes. The Court of Appeal also denied rehearing. A petition for review was filed in the California Supreme Court. The petition for review was denied. The case has been remanded back to the trial court. If plaintiffs ultimately prevail on the merits on behalf of the classes, the potential refunds could total $1.2 billion.

Two pending cases challenge the state's right to require interstate unitary businesses to report their income on a combined basis while allowing intrastate unitary businesses to report the income of each business entity on a separate basis. *Harley Davidson, Inc. and Subsidiaries v. California Franchise Tax Board* (San Diego County Superior Court, Case No. 37-2011-00100846-CU-MC-CTL) and *Abercrombie & Fitch Co. & Subsidiaries v. California Franchise Tax Board* (Fresno County Superior Court, Case No. 12 CE CG 03408) challenge the constitutionality of Revenue and Taxation Code Section 25101.15, allowing intrastate unitary businesses the option to report their income on a separate rather than combined basis. The trial court in *Harley Davidson* ruled on the parties' cross-motions for summary judgment, granting the Board's motion and denying plaintiff's motion. Plaintiff appealed, and the appellate court affirmed the trial court judgment. (Court of Appeal, Fourth Appellate District, Case No. D071669.) Plaintiff appealed, and the California Supreme Court denied plaintiff's petition for review. At the trial of the *Abercrombie* matter, the court granted the Board's motion for judgment in its favor at the close of plaintiff's presentation of its evidence. Plaintiff appealed. (Court of Appeal, Fifth Appellate District, Case No. F074873.) In each of these matters, plaintiff proposed an alternative method of calculating tax, which the Board estimated would have a possible one-time fiscal impact on corporate tax revenue of $5 billion and $1.5 billion annually thereafter. The Board argued the proposed method is unsupported by existing law. At this time, it is unknown what future fiscal impact a potential adverse final ruling on the merits would actually have on corporation taxes (including potential rebates of previously collected taxes and reduced future tax revenue) because of the uncertainty regarding the number of businesses that would pay the tax and how taxation on those companies would change as a result of an adverse ruling. However, the fiscal impact could be significant. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue—Corporation Tax" for a discussion of corporation taxes.

A pending case challenges the validity of California Code of Regulations, title 18, Section 1585, which requires the sales tax on mobile telephones to be based on the full "unbundled" price of the telephone rather than any discounted price that is contingent on a service plan commitment. In *Bekkerman et al. v. California Department of Tax and Fee Administration* (Sacramento County Superior Court, Case No. 34-2015-80002242), petitioners seek to invalidate the regulation insofar as it relates to sales in carrier-operated stores. Petitioners filed a second action, a class action lawsuit seeking refunds of any excess sales tax paid, *Bekkerman et al. v. California Department of Tax and Fee Administration, et al.* (Sacramento County Superior Court, Case No. 34-2016-80002287). The trial court dismissed the state defendants from the second action on the basis that the class action claim for sales tax refunds was premature. Plaintiffs appealed that ruling. Plaintiffs also amended the complaint in the first action to add a claim for sales tax refunds to be paid to the class, but the court granted a

motion to strike the sales tax refund relief from the first action. If plaintiffs are successful in reviving their refund claims in either action, that could result in an order requiring sales tax refunds potentially exceeding $1 billion. Even if plaintiffs are unsuccessful in reviving the refund claims in the current actions, they may be able to refile the class action claim against the state at a later date, if they are able to prove in the first action that excess sales tax was paid and other conditions are met.

Environmental Matters

In *Consolidated Suction Dredge Mining Cases* (coordinated for hearing in San Bernardino County Superior Court, Case No. JCPDS4720), environmental and mining interests challenge the state's regulation of suction dredge gold mining. The Legislature placed a moratorium on all suction dredging until certain conditions are met by the Department of Fish and Wildlife. Plaintiffs, who have pled a class action but have yet to seek certification, claim that as many as 11,000 claims, at a value of $500,000 per claim, have been taken. The trial court initially stayed the matters pending a California Supreme Court ruling in a separate pending matter, addressing whether federal law preempts state environmental regulation of suction dredge gold mining. The California Supreme Court issued its decision, holding that federal law does not preempt state regulation, and a petition for writ of certiorari in the United States Supreme Court seeking review of that decision was denied. The trial court dismissed the takings claims that had been pled as a class action, without leave to amend. While an appeal has been filed, named plaintiffs have agreed to a settlement under which the state would pay $475,000, and a claims bill to appropriate money to pay the settlement has passed the Legislature and has been signed by the Governor.

Action Regarding Special Education

Plaintiffs in *Morgan Hill Concerned Parents Assoc. v. California Department of Education* (U.S. District Court, Northern District of California, Case No. 3:18-cv-03367-VC), challenge the oversight and operation by the California Department of Education ("CDE") of the federal Individuals with Disabilities Education Act ("IDEA"). The complaint alleges that CDE, as the designated State Education Agency, has failed to monitor, investigate, and enforce the IDEA statewide. Under the IDEA, local school districts are the Local Educational Agencies responsible for delivering special education directly to eligible students. The complaint seeks injunctive and declaratory relief, and asks the court to retain jurisdiction to monitor the operation of the IDEA by the state. The court has issued a stay of this matter, and plaintiffs may not move to lift the stay before May 2019.

Prison Healthcare Reform and Reduction of Prison Population

The adult prison health care delivery system includes medical health care and mental health care. There are two significant cases pending in federal district courts challenging the constitutionality of prison health care. *Plata v. Brown* (U.S. District Court, Northern District, Case No. C 01-1351 TEH) is a class action regarding the adequacy of medical health care, and *Coleman v. Brown* (U.S. District Court, Eastern District, Case No. CIV S-90-0520 KJM KLN P) is a class action regarding mental health care. A third case, *Armstrong v. Brown* (U.S. District Court, Northern District, Case No. C 94-02307 CW), is a class action on behalf of inmates with

physical disabilities alleging violations of the Americans with Disabilities Act and Section 504 of the Rehabilitation Act. In *Plata* the district court appointed a Receiver, who took office in April 2006, to run and operate the medical health care portion of the health care delivery system. The *Plata* Receiver and the Special Master appointed by the *Coleman* court, joined by the court representative appointed by the *Armstrong* court, meet routinely to coordinate efforts in these cases. To date, ongoing costs of remedial activities have been incorporated into the state's budget process. However, at this time, it is unknown what future financial impact this litigation may have on the state's General Fund. In March 2015, the *Plata* court modified its order to update and clarify the process to transition responsibility for inmate medical care back to the state. This transition process is ongoing.

In *Plata* and *Coleman*, discussed above, a three-judge panel issued orders requiring the state to meet a final population-reduction benchmark by February 28, 2016, and to implement a number of measures designed to reduce the prison population. In January 2015, the state met this court-ordered population benchmark. The three-judge panel's order requires ongoing oversight until the state demonstrates compliance with the population benchmark is durable.

High-Speed Rail Litigation

In *Tos, et al. v. California High-Speed Rail Authority, et al*. (Sacramento County Superior Court, Case No. 34-2016-00204740), plaintiffs seek a declaration that a state law enacted in 2016 is an unconstitutional amendment of the high-speed rail bond act and to prevent the California High-Speed Rail Authority from expending bond proceeds in reliance on the challenged state law. The trial court denied plaintiffs' requests for a temporary restraining order and a preliminary injunction. Plaintiffs filed an amended complaint adding a claim challenging the approval of the Authority's plans for expenditure of bond proceeds by the Director of the Department of Finance. The trial court denied plaintiff's motion for judgment on the pleadings on the constitutional claim. The decision will not be appealable until final judgment has been entered in the litigation, which cannot be determined at this time.

The federal government authorized $3.5 billion in grants (of which $2.6 billion has been expended) for the Central Valley segment of the high-speed rail project. In the event the state does not meet the requirement of the grant agreements, such as because a final decision in this matter prevents the use of bond proceeds, and the state is unable to complete the Central Valley segment with other funds or provide other matching funds consistent with the grant agreements, the state may be required to repay the federal grant moneys. As of November 2018, approximately $500 million of state expenditures were pending review by the federal government. If those expenditures are approved in full, the amount of unmatched federal spending will be approximately $1.5 billion.

In a February 19, 2019 letter, the Federal Railroad Administration ("FRA") stated its preliminary intention to terminate the grant agreement providing $930 million in unexpended funds for the project, listing various purported failures to satisfy obligations under the agreement. In the letter, the FRA states it will consider any timely-provided information showing that those obligations were satisfied before the FRA actually terminates the agreement. The letter also states that the FRA reserves the rights it might have under the grant agreements, including any

right it might have to recovery of any federal funds expended. The Authority responded to the FRA's letter on March 4, 2019.

Action Regarding State Mandates

Petitioners in *Coast Community College District, et al. v. Commission on State Mandates* (Sacramento County Superior Court, Case No. 34-2014-80001842) assert that costs for complying with certain laws and regulations prescribing standards for the formation and basic operation of state community colleges are state-mandated costs that must be reimbursed by the state. The trial court denied the petition. Petitioners appealed. (Court of Appeal, Third Appellate District, Case No. C080349.) The potential amount of reimbursement for such costs cannot be determined at this time.

Action Regarding Medi-Cal Reimbursements

In *Perea, et al. v. Dooley, et al.* (Alameda County Superior Court, Case No. RG-17-867262), plaintiffs filed a petition for writ of mandate and complaint for declaratory and injunctive relief on behalf of several individual Medi-Cal participants, a proposed class of all Medi-Cal participants except for those with dual Medicare coverage, and three organizations. Petitioners contend that access to care under Medi-Cal is inadequate because reimbursement rates to doctors and clinicians under Medi-Cal are insufficient to attract enough providers, and that this has a disparate impact on and constitutes intentional discrimination against Latinos, in violation of California Government Code Section 11135 and the California Constitution. Petitioners seek an injunction or writ of mandate requiring defendants to raise Medi-Cal reimbursement rates and improve monitoring to ensure that Latino Medi-Cal enrollees receive the same access to medical care as Medicare beneficiaries and individuals covered by employer-sponsored insurance plans. A second case, *Deuschel v. California Health and Human Services Agency, et al.* (Los Angeles County Superior Court, Case No. BS171070), makes similar claims regarding the effect of Medi-Cal reimbursement rates on seniors and persons with disabilities, and seeks similar relief. At this time, it is unknown what future financial impact this litigation may have on the state's General Fund.

FINANCIAL STATEMENTS

The Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2017 (the "Financial Statements") are included as an appendix to this Official Statement and incorporated into APPENDIX A. The Financial Statements consist of an Independent Auditor's Report, a Management Discussion and Analysis, Basic Financial Statements of the state for the Year Ended June 30, 2017 ("Basic Financial Statements"), and Required Supplementary Information. Only the Basic Financial Statements have been audited, as described in the Independent Auditor's Report. A description of the accounting and financial reporting standards set by the Governmental Accounting Standards Board and used in the Basic Financial Statements is contained in Note 1 of the Basic Financial Statements.

The State Controller issues a monthly report on General Fund cash receipts and disbursements. These reports are available on the State Controller's website, and are normally released by the 10th day of every calendar month for the period ended on the last day of the prior

month. The State Controller's unaudited report of General Fund cash receipts and disbursements for the period from July 1, 2017 through June 30, 2018 and July 1, 2018 through February 28, 2019 are included as EXHIBIT 2 to APPENDIX A.

Periodic reports on revenues and/or expenditures during the fiscal year are issued by the Administration, the State Controller's Office and the Legislative Analyst's Office. These are available on the internet at websites maintained by the agencies and by contacting the agencies at their offices in Sacramento, California. Such reports are not part of or incorporated into APPENDIX A. The Department of Finance issues a monthly bulletin, available by accessing the internet website of the Department of Finance (www.dof.ca.gov), which reports the most recent revenue receipts as reported by state departments, comparing those receipts to budget projections. The Administration also formally updates its budget projections three times during each fiscal year, in January, May, and at the time of budget enactment. Investors are cautioned that interim financial information is not necessarily indicative of results for a fiscal year. Information which may appear in APPENDIX A from the Department of Finance concerning monthly receipts of "agency cash" may differ from the State Controller's reports of cash receipts for the same periods generally because of timing differences. Agency cash represents cash received by agencies. The Controller's report represents cash received by agencies as reported to and recorded by the Controller, which may be a day or so later than when cash is received by agencies.

PART II

STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES

The Budget Process

The state's fiscal year begins on July 1 and ends on June 30 of the following year. The state's General Fund budget operates on a legal basis, generally using a modified accrual basis of accounting for its General Fund, with revenues credited in the period in which they are measurable and available and expenditures debited in the period in which the corresponding liabilities are incurred.

The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under state law and the state Constitution, the annual Governor's Budget proposal cannot provide for projected expenditures in excess of projected resources for the ensuing fiscal year. Following the submission of the proposed Governor's Budget, the Legislature takes up the proposal. The voter-approved Balanced Budget Amendment (Proposition 58) requires the Legislature to pass a balanced budget bill, which means that for the ensuing fiscal year, projected General Fund expenditures must not exceed projected General Fund revenues plus the projected beginning General Fund balance. Proposition 58 further requires those projections must be set forth in the budget bill. Proposition 58 also provides for mid-year adjustments in the event the budget falls out of balance and the Governor calls a special legislative session to address the shortfall. Proposition 58 prohibits the use of general obligation bonds, revenue bonds, and certain other forms of borrowing to cover fiscal year end budget deficits. The restriction does not apply to certain other types of borrowing, such as: (i) short-term borrowing to cover cash shortfalls in the General Fund (including RANs or RAWs as described in "CASH MANAGEMENT—Traditional Cash Management Tools"), or (ii) inter-fund borrowings.

Under the state Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of annual expenditure appropriations is the annual budget act as approved by the Legislature and signed by the Governor (the "Budget Act"). Pursuant to Proposition 25, approved by the voters in November 2010, the Budget Act (and other appropriation bills/"trailer bills" which are related to the budget) must be approved by a majority vote of each House of the Legislature, and legislators must forfeit their pay during any period in which the Legislature fails to pass the budget bill on time. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or by the state Constitution. The Governor may reduce or eliminate specific line items in the Budget Act or other bills that amend the Budget Act without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds vote of each House of the Legislature.

Revenues may be appropriated in anticipation of their receipt, and funds necessary to meet an appropriation are not required to be in the State Treasury at the time an appropriation is enacted.

The General Fund

The state's money is segregated into the General Fund and over 1,000 other funds, including special, bond, federal, and other funds. The General Fund consists of all revenues received by the State Treasury that are not required by law to be credited to any other fund, as well as earnings from the investment of state moneys not allocable to another fund.

The General Fund is the principal operating fund for the majority of governmental activities and is the depository of most of the major tax revenue sources of the state. For additional financial information on the General Fund, see the State Controller's unaudited report of General Fund cash receipts and disbursements attached to APPENDIX A as EXHIBIT 2 and the state's audited basic financial statements included as an appendix to this Official Statement. See also the other information in "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES" and "FINANCIAL STATEMENTS."

The General Fund may be expended as a consequence of appropriation measures enacted by the Legislature and approved by the Governor (including the annual Budget Act and related legislation), as well as other appropriations made pursuant to various constitutional authorizations and initiative statutes. See "STATE FINANCES—OTHER ELEMENTS—State Appropriations Limit."

Because the principal of and interest on the securities being offered in this Official Statement are payable either primarily or secondarily from moneys deposited in, or available for transfer to, the General Fund, and not from special, bond, federal, and other funds of the state, the description of state finances in APPENDIX A primarily includes information relating to revenues deposited in, or available for transfer to, the General Fund and expenditures of such moneys.

Restrictions on Raising or Using General Fund Revenues

Over the years, a number of laws and constitutional amendments have been enacted that reduced the state's overall budgetary flexibility by making it more difficult for the state to raise taxes or restricting or earmarking the use of certain tax revenues for specific purposes. The following examples illustrate these restrictions.

Proposition 13, approved by the voters in 1978, makes it more difficult for the state to raise taxes by requiring that any change in state taxes enacted for the purpose of increasing revenues, whether by increased rates or changes in computation, be approved by a two-thirds vote in each house of the Legislature. A related measure, Proposition 4, approved by the voters in 1979, limits government spending by establishing an annual limit on the appropriation of proceeds of taxes.

Proposition 26, approved by the voters in 2010, requires a two-thirds vote of both houses of the Legislature for any increase in any tax on any taxpayer, eliminating the prior practice where a tax increase coupled with a tax reduction could be adopted by majority vote. It also provides that any increase in a fee beyond the amount needed to provide the specific service or benefit is deemed a tax, thereby requiring two-thirds vote of approval for passage.

Proposition 98, enacted in 1988, requires a minimum portion of General Fund tax revenues to support K-12 schools and community colleges. Proposition 49, approved by the voters in 2002, requires additional funding for before and after school programs in the state's public elementary, middle and junior high schools. These expenditures are part of the Proposition 98 minimum funding guarantee for K-14 education and cannot be reduced, except in certain low revenue years. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—K-14 Education under Proposition 98."

Proposition 10, approved by the voters in 1998, raised taxes on tobacco products and mandated how the additional revenues would be expended. Proposition 56, approved by the voters in 2016, further raised taxes on tobacco products and again specified how the additional revenues could be expended.

Proposition 63, approved by the voters in 2004, imposed a 1 percent tax surcharge on taxable income above $1 million for purposes of funding and expanding mental health services. Proposition 63 prohibits the Legislature or the Governor from redirecting these funds or from reducing General Fund support for mental health services below the levels provided in fiscal year 2003-04.

Proposition 30, approved by the voters in 2012, provides temporary increases in personal income tax rates for high-income taxpayers and provided a temporary increase in the state sales tax rate, and requires the additional revenues be expended to support K-12 public schools and community colleges as part of the Proposition 98 guarantee. Proposition 30 also placed into the state Constitution the current statutory provisions transferring 1.0625 percent of the state sales tax to local governments to fund the "realignment" program for many services including housing criminal offenders.

Proposition 55, approved by the voters in 2016, extended the personal income tax rates for high-income taxpayers included in Proposition 30, which were set to expire on December 31, 2018, through tax year 2030. The sales tax increase in Proposition 30 expired December 31, 2016. Under specified conditions, beginning in fiscal year 2018-19, Proposition 55 also authorizes the use of up to $2 billion in a fiscal year from these revenues for health care. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue."

Proposition 2, approved by the voters in 2014, directs the transfer of specified amounts of General Fund revenues to the Budget Stabilization Account (BSA) and to pay down specified debts and liabilities. It also requires spending on infrastructure including deferred maintenance once the BSA reaches the constitutional maximum balance for a fiscal year of 10 percent of General Fund tax revenues. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves—Budget Stabilization Account."

The 2018-19 Budget created two additional reserves, the BDSA and the Safety Net Reserve Fund. Upon completion of the updated calculation of the fiscal year 2018-19 supplemental BSA transfer in May 2019, any remaining amount left in the BDSA will be divided equally between the BDSA and the Safety Net Reserve Fund.

The Safety Net Reserve Fund included an initial deposit of $200 million in fiscal year 2018-19 from the 2018 Budget Act to maintain existing benefits and services for Medi-Cal and CalWORKs during economic downturns. The 2019-20 Governor's Budget includes an additional $700 million deposit in fiscal year 2018-19 to the Safety Net Reserve Fund. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves— Budget Deficit Savings Account and the Safety Net Reserve Fund."

Sources of Tax Revenue

The 2019-20 Governor's Budget proposes two major tax policy changes: (1) state conformity to certain federal tax law changes in the TCJA and (2) expansion of the Earned Income Tax Credit. State conformity is assumed to increase personal income tax revenues by $800 million and corporate tax revenues by $200 million per year beginning in fiscal year 2019-20. The conformity package that is ultimately included in the budget will depend on input from the Legislature and the various stakeholders. The proposed expansion of the Earned Income Tax Credit is expected to decrease personal income tax revenues by an additional $600 million per year beginning in fiscal year 2019-20, in addition to the decreases due to the current program of about $400 million per year.

The following is a summary of the state's major tax revenues and tax laws. In fiscal years 2018-19 and 2019-20, as in most years, the vast majority of the state's General Fund revenues and transfers are projected to be derived from three sources: personal income taxes, sales and use taxes, and corporation taxes. For a ten-year period, the bar chart and table below show total General Fund revenues and transfers by the three major revenue sources, and all other revenues and transfers, including transfers to the BSA beginning in fiscal year 2014-15, and a one-time transfer in fiscal year 2018-19 to the Safety Net Reserve Fund, that are represented as reductions in the total amount of other General Fund revenues and transfers.

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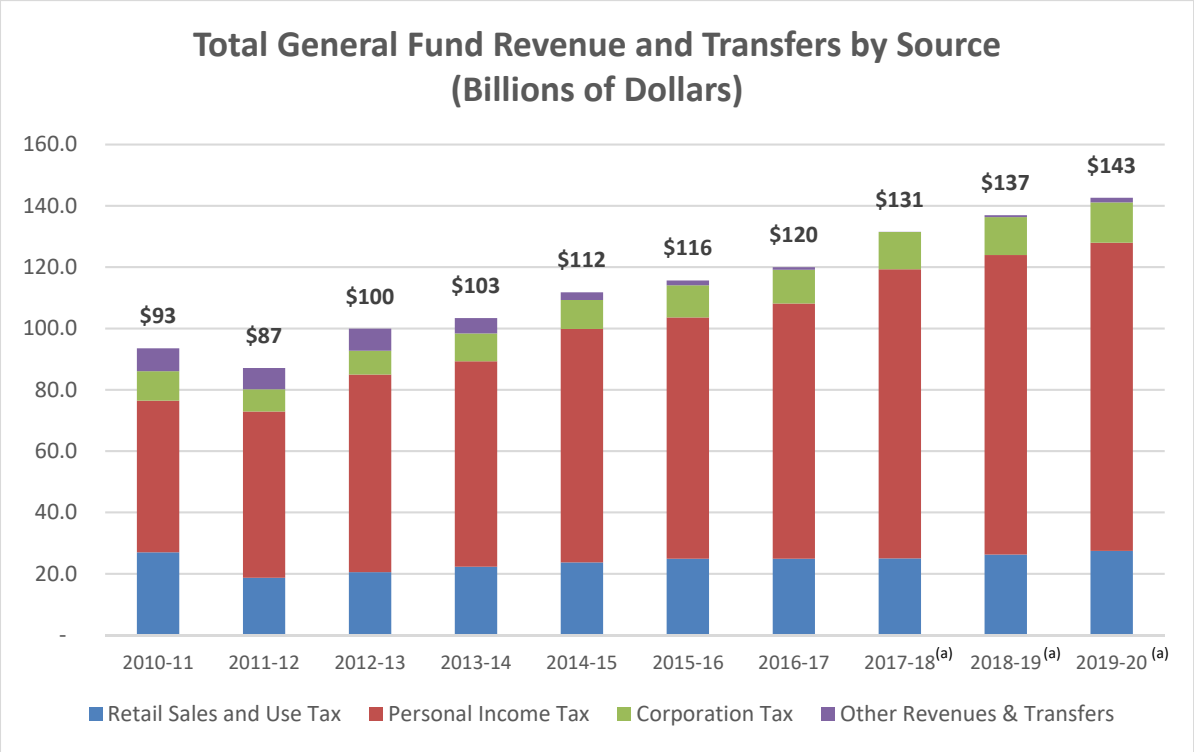

(a) Projected.

Note: Chart reflects yearly transfers from the General Fund to the BSA of $1.6 billion in fiscal year 2014-15, $2.1 billion in fiscal year 2015-16, $3.0 billion in fiscal year 2016-17, $4.1 billion in fiscal year 2017-18, $2.7 billion in fiscal year 2018-19, and $1.8 billion in 2019-20. The chart also reflects a one-time transfer of $900 million to the Safety Net Reserve Fund in fiscal year 2018-19. These transfers reduce General Fund revenues and transfers by the amounts of the transfers.

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TABLE 7
General Fund Revenues and Transfers
(Includes Percentage of Total General Fund Revenues and Transfers)
(Dollars in Millions)

Fiscal Year	Personal Income Tax		Sales & Use Tax		Corporate Income Tax		Other Revenues and Transfers		Total
2010-11	$49,445	53%	$26,983	29%	$9,614	10%	$7,447	8%	$93,489
2011-12	54,261[b][c]	62	18,658[d]	21	7,233	8	6,919[f]	8	87,071
2012-13	64,484[c]	65	20,482[c]	20	7,783[e]	8	7,166	7	99,915
2013-14	67,025[c]	65	22,263[c]	22	9,093[e]	9	4,994	5	103,375
2014-15	76,169[c]	68	23,682[c]	21	9,417[e]	8	2,521	2	111,789
2015-16	78,735[c]	68	24,871[c]	22	10,460[e]	9	1,595[g]	1	115,661
2016-17	83,264[c]	69	24,874[c]	21	11,020[e]	9	824[g]	1	119,982
2017-18[a]	94,272[c]	72	25,006[c]	19	12,156[e]	9	61[g]	0	131,495
2018-19[a]	97,720[c]	71	26,244[c]	19	12,330[e]	9	652[g]	0	136,945
2019-20[a]	100,547[c]	71	27,424[c]	19	13,125[e]	9	1,522[g]	1	142,618

(a) Projected.

(b) Reflects the expiration of a temporary 0.25 percent surcharge on all personal income tax brackets and the reduced dependent exemption credit for the 2009 and 2010 tax years. These two changes decreased General Fund revenues by an estimated $3.5 billion in fiscal year 2011-12.

(c) Reflects the passage of Proposition 30, which temporarily increased tax rates on the highest income Californians through December 31, 2018, and temporarily increased the sales and use tax rate by 0.25 percent through December 31, 2016. Proposition 55 extended the three personal income tax brackets added by Proposition 30 through tax year 2030. Since higher personal income tax rates applied to income received in 2012, a majority of the expected new revenue for that year is allocated to fiscal year 2011-12, although the cash receipts did not begin occurring until December 2012.

(d) Reflects a decrease in the sales and use tax rate from 6 percent to 5 percent (the rate was temporarily increased from 5 percent to 6 percent from April 1, 2009 through June 30, 2011) and realignment of revenues related to shifting 1.0625 percent of the sales and use tax rate to the Local Revenue Fund 2011. These two changes decrease General Fund revenues by over $10 billion annually.

(e) Reflects the passage of Proposition 39, approved by the voters in 2012, which requires single sales factor apportionment for most multi-state businesses. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue—Corporation Tax."

(f) Reflects the expiration of a temporary 0.5 percent increase in the vehicle license fee rate (the rate was increased from 0.65 percent to 1.15 percent, effective May 19, 2009 through June 30, 2011), decreasing General Fund revenues by an estimated $1.3 billion in fiscal year 2011-12.

(g) Beginning in fiscal year 2014-15, reflects transfers from the General Fund to the BSA for rainy day purposes and a one-time transfer of $900 million in fiscal year 2018-19 to the Safety Net Reserve Fund.

Note: Percentages may not add to 100 percent because of rounding.

Source: State of California, Department of Finance.

1. Personal Income Tax

California personal income tax ("PIT") is imposed on net taxable income; that is, gross income less exclusions and deductions, with rates ranging from 1 percent to 12.3 percent. In addition, the state imposes a 1 percent surcharge on taxable income above $1 million and dedicates the proceeds from this surcharge to the state's Mental Health Services Fund. The PIT brackets, along with other tax law parameters, are adjusted annually for inflation. Personal, dependent, and other credits are allowed against the gross tax liability. Taxpayers may be subject to the state's alternative minimum tax ("AMT"). California's PIT structure is highly progressive. For example, the state's Franchise Tax Board indicates that the top 1 percent of California state income taxpayers paid 45.8 percent of the state's total PIT in tax year 2016.

The 2019-20 Governor's Budget revenue projections include the revenue expected from Proposition 30 and Proposition 55. These measures, passed in 2012 and 2016, provided for a one-percent increase in the PIT rate for joint filing taxpayers with income above $500,000 and equal to or below $600,000; a 2-percent increase for incomes above $600,000 and equal to or below $1,000,000; and a 3-percent increase for incomes above $1,000,000 in calendar years 2012 to 2030. For single filers these tax rate increases start at incomes one-half those for joint filers. The brackets for these higher rates are indexed for inflation each year. The Administration projects the revenue from these additional tax brackets to be $8.4 billion in fiscal year 2017-18, $8.7 billion in fiscal year 2018-19, and $8.6 billion in fiscal year 2019-20.

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The next table shows actual and projected PIT revenues for ten fiscal years, including a breakout of capital gains income tax revenue:

TABLE 8
Personal Income Tax General Fund Revenues
(Includes Percentage of Total General Fund Revenues and Transfers)
(Dollars in Millions)

Fiscal Year	Capital Gains		All Other PIT		Total PIT	
2010-11[(a)]	$4,526	4.8%	$44,919	48.0%	$49,445	52.9%
2011-12[(b)]	6,020	6.9	48,241	55.4	54,261	62.3
2012-13[(b)]	9,552	9.6	54,932	55.0	64,484	64.5
2013-14[(b)]	8,711	8.4	58,314	56.4	67,025	64.8
2014-15[(b)]	11,469	10.3	64,700	57.9	76,169	68.1
2015-16[(b)(d)]	11,713	10.1	67,022	57.9	78,735	68.1
2016-17[(b)(c)(d)]	12,370	10.3	70,895	59.1	83,264	69.4
2017-18[(b)(c)(d)]	14,815	11.3	79,457	60.4	94,272	71.7
2018-19[(b)(c)(d)]	15,187	11.1	82,533	60.3	97,720	71.4
2019-20[(b)(c)(d)(e)]	13,845	9.7	86,702	60.8	100,547	70.5

(a) Includes revenue from the temporary 0.25 percent surcharge on all PIT brackets and a reduction in the dependent exemption credit in 2009 and 2010.

(b) Includes revenue from the higher rates imposed by Proposition 30 and Proposition 55 that are dedicated to the Education Protection Account. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—K-14 Education under Proposition 98."

(c) Estimated. For fiscal year 2016-17, only the portion of total PIT attributable to capital gains remains subject to possible further revision.

(d) Reflects a reduction of revenues due to the Earned Income Tax Credit of $200 million in fiscal year 2015-16, $205 million in fiscal year 2016-17, $350 million in fiscal year 2017-18, $410 million in fiscal year 2018-19, and $1 billion in fiscal year 2019-20.

(e) Reflects an increase in revenues of $800 million due to state conformity to certain federal tax law changes enacted as part of the TCJA in December 2017.

Note: Percentages may not add to 100 percent because of rounding.

Source: State of California, Franchise Tax Board provided calendar year estimates based on actual capital gains realizations through 2011. From 2012 onward, State of California, Department of Finance estimated calendar year capital gains revenues based on actual capital gains realizations for 2012 through 2016, and the forecasted realizations for 2017 and forward. Fiscal year totals for capital gains shown in this table are estimated by adding 70 percent of calendar year total in first half of fiscal year to 30 percent of calendar year total in second half of fiscal year. All other information provided by State of California, Department of Finance.

Income taxes on capital gains realizations, which are linked to stock market and real estate performance, can add significant volatility to PIT receipts. For example, capital gains tax receipts accounted for nearly 9 percent of General Fund revenues and transfers in fiscal year 2007-08, but dropped below 5 percent in fiscal year 2008-09, and below 4 percent in fiscal year

2009-10. The 2019-20 Governor's Budget projects that capital gains will account for over 11 percent of General Fund revenues and transfers in both fiscal years 2017-18 and 2018-19 before moderating to 9.7 percent of General Fund revenues and transfers in fiscal year 2019-20. The volatility in these percentages is primarily due to an underlying volatility in the level of capital gains tax revenues, rather than to volatility in other General Fund revenues and transfers. See "ECONOMIC AND BUDGET RISKS."

2. Sales and Use Tax

The sales tax is imposed upon retailers for the privilege of selling tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions have been provided for certain essentials such as food for home consumption, prescription drugs, gas delivered through mains, and electricity. Other exemptions provide relief for a variety of sales ranging from custom computer software to aircraft.

The California use tax is imposed at the same rates as the regular sales tax on consumers of tangible personal property that is used, consumed, or stored in this state. Use tax applies to purchases from out-of-state vendors that did not collect tax on their sales. Use tax also applies to most leases of tangible personal property.

As of January 1, 2019, the breakdown for the uniform statewide state and local sales and use tax (referred to herein as the "sales tax") rate of 7.25 percent was as follows (many local jurisdictions have additional sales taxes for local purposes):

- 3.9375 percent imposed as a state General Fund tax;
- 1.0625 percent dedicated to local governments for realignment purposes (Local Revenue Fund 2011);
- 0.5 percent dedicated to local governments for health and welfare program realignment (Local Revenue Fund);
- 0.5 percent dedicated to local governments for public safety services (Local Public Safety Fund); and
- 1.25 percent local tax imposed under the Uniform Local Sales and Use Tax Law, with 0.25 percent dedicated to county transportation purposes and 1.0 percent for city and county general-purpose use.

Proposition 30 constitutionally guaranteed that 1.0625 percent of the sales tax rate is dedicated to the cost of the realignment of certain defined public safety services programs from the state to the counties and explicitly states that this sales tax revenue does not constitute General Fund revenue for purposes of the Proposition 98 guarantee. The 1.0625 percent of the sales tax rate is expected to generate $7.3 billion in fiscal year 2018-19 and $7.7 billion in fiscal year 2019-2020.

Existing law provides that 0.25 percent of the base state and local sales tax rate will be suspended in any calendar year upon certification by the Director of Finance that specified

conditions exist. There are two sets of tests, each with two conditions. The first set of tests looks at whether the actual SFEU balance as of June 30 exceeds 4 percent of the current fiscal year's General Fund revenues, and whether the forecasted SFEU balance as of June 30 of the next year, excluding the impact from the 0.25 percent sales tax rate, exceeds 4 percent of the next fiscal year's projected General Fund revenues. The second set of tests looks at whether the forecasted SFEU balance as of June 30, excluding the impact from the 0.25 percent sales tax rate, exceeds 3 percent of current year General Fund revenues, and whether the actual revenues in May through September of the current year equal or exceed the May Revision forecast. If both conditions in either set of tests are met as certified by the Director of Finance, then the 0.25 percent rate will be suspended. The Department of Finance estimated that the reserve level would be insufficient to trigger a suspension of the 0.25 percent rate for calendar year 2019. See "GOVERNOR'S PROPOSED FISCAL YEAR 2018-19 BUDGET" for a projection of the SFEU balance for each of the fiscal years 2018-19 and 2019-20.

On June 21, 2018, the Supreme Court ruled 5-4 in favor of South Dakota in *South Dakota v. Wayfair, Inc.*, overruling previous decisions (*Quill* & *Bellas Hess*) which significantly limited states' legal authority to require that out-of-state retailers collect and remit use tax. *Quill* & *Bellas Hess* have resulted in large use tax gaps as e-commerce has grown to account for about 10 percent of overall U.S. retail sales. The California Department of Tax and Fee Administration has announced that it will require out-of-state retailers to collect and remit use tax beginning on April 1, 2019 if in the preceding or current calendar year their sales into California exceeded or exceed $100,000 or 200 or more separate transactions. The *Wayfair* decision is expected to lead to increased use tax compliance resulting in an additional $219 million in General Fund tax revenue in fiscal year 2018-19 and $554 million in fiscal year 2019-20.

3. Corporation Tax

Corporation tax revenues are derived from the following taxes:

- The franchise tax and the corporate income tax are levied at an 8.84 percent rate on profits. The former is imposed on corporations for the privilege of doing business in California, while the latter is imposed on corporations that derive income from California sources but are not sufficiently present to be classified as doing business in the state.

- Banks and other financial corporations are subject to the franchise tax plus an additional tax at the rate of 2 percent on their net income. This additional tax is in lieu of personal property taxes and business license taxes.

- In general, the AMT is based on a higher level of net income computed by adding back certain tax preferences. This tax is imposed at a rate of 6.65 percent.

- A minimum franchise tax of up to $800 is imposed on corporations and Sub-Chapter S corporations. Limited partnerships are also subject to the $800 minimum franchise tax. New corporations are exempted from the minimum franchise tax for the first year of incorporation.

- Sub-Chapter S corporations are taxed at 1.5 percent of profits.

- Fees and taxes paid by limited liability companies ("LLCs"), which accounted for 9 percent of corporation tax revenue in fiscal year 2017-18, are considered "corporation taxes."

Legislation enacted in the Budget Acts of 2008, 2009, and 2010 significantly reduced corporation tax revenues beginning in fiscal year 2011-12. However, the passage of Proposition 39 in 2012 reversed a portion of the reduction in revenue due to those tax changes. Proposition 39 amended a provision giving corporations an option on how to calculate the portion of worldwide income attributable to California. By requiring corporations to base their state tax liability on sales in California, it is estimated that state revenues are currently about $1 billion higher than they would be in the absence of Proposition 39.

The repatriation provisions of the federal TCJA require a one-time deemed repatriation of corporations' foreign earnings accumulated prior to 2018. While California does not conform to the Internal Revenue Code section modified by TCJA, the federal law change is expected to result in some California taxpayers and their unitary U.S. corporations increasing their repatriation dividends, which will have tax effects under California law. The Franchise Tax Board estimated a revenue increase of $54 million in fiscal year 2017-18, $162 million in fiscal year 2018-19, $119 million in fiscal year 2019-20, and $43 million in fiscal year 2020-21, which was included in the 2019-20 Governor's Budget forecast for corporation tax revenues.

4. Insurance Tax

The majority of insurance written in California is subject to a 2.35 percent gross premium tax. For insurers, this premium tax takes the place of all other state and local taxes except those on real property and motor vehicles. Exceptions to the 2.35 percent rate are certain pension and profit-sharing plans which are taxed at the lesser rate of 0.5 percent, surplus lines and non-admitted insurance at 3 percent and ocean marine insurers at 5 percent of underwriting profits.

Chapter 2, Statutes of 2016, authorized a tax on the enrollment of Medi-Cal managed care plans and commercial health plans and also reduced insurance and corporation taxes paid by the health plan industry for three fiscal years from July 1, 2016 to June 30, 2019. The 2019-20 Governor's Budget forecasts that this law will reduce insurance tax revenue by $158 million in 2018-19, while corporation tax revenue is forecast to decrease by $259 million in fiscal year 2018-19. See "State Expenditures—Health and Human Services—Health Care Reform."

5. Special Fund Revenues

The state Constitution and statutes specify the uses of certain revenues. Such receipts are accounted for in various special funds. While these funds are not directly available to repay state general obligation bonds, the General Fund may, when needed to meet cash flow needs, temporarily borrow from certain special funds. See "CASH MANAGEMENT—Inter-Fund Borrowings." In general, special fund revenues comprise three categories of income:

- Receipts from tax levies, which are allocated to specified functions, such as motor vehicle taxes and fees and certain taxes on tobacco products.

- Charges for certain services provided by the state government to individuals, businesses, or organizations, such as fees for the provision of business and professional licenses.

- Rental royalties and other receipts designated for particular purposes (e.g., oil and gas royalties).

Motor vehicle-related taxes and other fees are projected to account for approximately 32 percent of all special fund revenues in fiscal year 2019-20. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees, and vehicle license fees. In fiscal year 2019-20, $18.3 billion of special fund revenues are projected to come from the ownership or operation of motor vehicles, which includes an increase to existing taxes and new fees from the Road Repair and Accountability Act of 2017 Chapter 5, Statutes of 2017 (SB 1), which began collection in fiscal year 2017-18. For a discussion of Proposition 1A of 2004, which replaced a portion of vehicle license fees with increased property tax revenues, see "STATE FINANCES—OTHER ELEMENTS—Local Government Impacts on State Finances."

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The following table displays major special fund revenues (actual and estimated).

TABLE 9
Comparative Yield of State Taxes – Special Funds
(Modified Accrual Basis)
(Dollars in Thousands)

Fiscal Year	Sales and Use[b]	Personal Income[c]	Tobacco[d]	Cannabis	Motor Vehicle Fuel[e]	Motor Vehicle Fees[f]	Managed Care Organization Taxes[g]
2011-12	$17,962,461	$1,063,542	$800,677	--	$ 5,544,530	$5,817,168	$251,073
2012-13	19,161,183	1,683,780	778,703	--	5,492,850	5,838,702	21,279
2013-14	20,167,858	1,281,664	746,748	--	6,063,356	6,204,720	827,561
2014-15	21,025,351	1,830,637	746,062	--	5,711,160	6,489,447	1,464,288
2015-16	20,774,834	1,869,553	754,690	--	4,957,269	6,809,481	1,656,378
2016-17	21,346,193	1,756,601	1,155,263	--	4,842,749	7,166,278	2,578,365
2017-18	23,339,282	2,089,434	2,079,749	$83,591	6,351,756	8,549,407	2,469,293
2018-19[a]	24,830,066	2,388,754	2,036,528	$355,125	7,655,091	9,484,247	3,272,579
2019-20[a]	25,988,162	2,368,174	1,994,062	$514,277	8,449,593	9,811,544	--

(a) Estimated for fiscal years 2018-19 and 2019-20.

(b) These figures include allocations to Public Transportation Account, State Fiscal Recovery Fund, Local Public Safety Fund, both Local Revenue Funds (1991 and 2011 Realignment), and the Bradley-Burns tax, which is dedicated to city and county operations. The 0.25 percent State Fiscal Recovery Fund rate was in operation from July 1, 2004 to December 31, 2015, and the Bradley-Burns tax rate was temporarily reduced by 0.25 percentage point during the same time period.

(c) These figures include the revenue estimate for a 1.0 percent surcharge on taxpayers with taxable income over $1 million, with the proceeds funding mental health programs pursuant to Proposition 63.

(d) Figures include allocations to the California Children and Families First Trust Fund, Breast Cancer Fund, and the Cigarette and Tobacco Products Surtax Fund, and starting in fiscal year 2016-17, the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund.

(e) Beginning in fiscal year 2017-18, amounts include an additional 4 percent sales tax on diesel and an additional 20 cent per gallon excise tax on diesel, and an additional 12 cent per gallon excise tax on gasoline, starting November 1, 2017.

(f) Registration and weight fees, motor vehicle license fees and other fees. Includes $800 million in fiscal year 2017-18, $1.51 billion in fiscal year 2018-19, and $1.55 billion in fiscal year 2019-20 from a new graduated fee at $25 to $175 per vehicle. See "STATE FINANCES—OTHER ELEMENTS—Local Government Impacts on State Finances."

(g) Figures include insurance tax on Medi-Cal managed care plans in fiscal years 2011-12 and 2012-13. See "State Expenditures – Health and Human Services- Health Care Reform."

Note: This table includes only Non-General Fund revenue accruing to special funds. Some revenue sources are dedicated to local governments.

Source: State of California, Department of Finance.

6. Taxes on Tobacco Products

Cigarette and tobacco taxes primarily affect special funds, with $65.3 million going to General Fund and $2.1 billion going to special funds in 2017-18. Proposition 56 increased the excise tax rate on cigarettes, tobacco products, and electronic cigarettes, effective April 1, 2017. The excise tax increased by $2 from 87 cents to $2.87 per pack of cigarettes. The equivalent excise tax on the distribution of other tobacco products such as cigars, chewing tobacco, pipe

tobacco, and snuff also increased by $2 from a $1.37-equivalent to a $3.37-equivalent tax, effective July 1, 2017. Proposition 56 also imposed the $3.37-equivalent tobacco products tax on electronic cigarettes, which had previously not been subject to a tobacco products tax. All of the new money from Proposition 56 goes to special funds.

7. Taxes on Cannabis Products

Proposition 64, The California Legal Marijuana Initiative, approved by the voters in November 2016, legalized the recreational use of cannabis within California for persons age 21 and over, effective November 9, 2016. The measure also levied new state excise taxes on the cultivation and retail sale of both recreational and medical cannabis as of January 1, 2018, to be spent for specified purposes. The cultivation tax is $9.25 per ounce of flower, $2.75 per ounce of leaves, or $1.29 per ounce of fresh whole plant. There is an additional state retail excise tax equal to 15 percent of the average market price for cannabis products. Recreational cannabis is also subject to state and local sales taxes. Medical cannabis, on the other hand, is exempted from existing state and local sales taxes if the purchaser presents a valid medical marijuana identification card. However, taxes on both medical and recreational cannabis can be levied by local governments. Revenue estimates for cannabis reflect a number of assumptions and actual revenues could be substantially lower or higher over time. Proposition 64 specified that resources in the Cannabis Tax Fund are not subject to appropriation by the Legislature. Resources are dispersed to agencies according to a set of priorities identified in statute beginning with those tasked with administering the regulation of cannabis and followed by research, law enforcement, and education programs related to cannabis.

State Expenditures

The four biggest categories of state expenditures—comprising approximately 90 percent of the annual budget each year—are K-14 Education, Higher Education, Health and Human Services and Public Safety (including Corrections and Rehabilitation). Other expenditure categories are shown in Table 17 below.

Expenditure estimates are updated three times a year after the Department of Finance has reviewed and considered data, budget requests, and other information from entities across state government. The estimates are included in the proposed balanced budgets released in the Governor's Budget by January 10 and the May Revision by May 14, with final expenditure estimates included in the enacted Budget Act. Actual expenditures may differ materially from these preliminary estimates, and there can be no assurances that the projected amounts will be spent.

1. K-14 Education under Proposition 98

General. California provides instruction and support services to roughly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. K-12 education programs are primarily funded under Proposition 98, and will receive funding of $58.7 billion from the General Fund for fiscal year 2019-20 (both Non-Proposition 98 and Proposition 98). The state also provides instruction and support services for approximately 2.1

million students based on enrollment (or approximately 1.1 million full-time equivalent students) at 115 community colleges.

Proposition 98 Funding for K-12 and Community Colleges. State funding for K-12 schools and community colleges (referred to collectively as "K-14 education") is determined largely by Proposition 98, a voter-approved constitutional amendment passed in 1988. Proposition 98, as amended by Proposition 111 in 1990, is mainly comprised of a set of three formulas, or three tests, that guarantee schools and community colleges a minimum level of funding from the state General Fund and local property taxes, commonly referred to as the minimum guarantee. Which test applies in a particular year is determined by multiple factors including the level of funding in fiscal year 1986-87, local property tax revenues, changes in school attendance, growth in per capita personal income, and growth in per capita General Fund revenues. The applicable test, as determined by these factors, sets the minimum funding level. Most of the factors are adjusted frequently and some may not be final for several years after the close of the fiscal year. Therefore, additional appropriations—referred to as settle-up funds—may be required to fully satisfy the minimum guarantee for prior years. Settle-up payments are made in future years at the discretion of the Legislature and the Governor.

Although the Constitution requires a minimum level of funding for education, the state may provide more or less than the minimum guarantee. If the state provides more than is required, the minimum guarantee is increased on an ongoing basis. If the state provides less than required, the minimum guarantee must be suspended in statute with a two-thirds vote of the Legislature. When the minimum guarantee is suspended, the suspended amount is owed to schools in the form of a maintenance factor. A maintenance factor obligation is also created in years when the operative minimum guarantee is calculated using a per capita General Fund inflation factor (Test 3) and is lower than the calculation using a per capita personal income inflation factor (Test 2). (In Test 1 years, a fixed percentage of General Fund revenues is used in the calculation.) In Test 3 years, the amount of maintenance factor obligation created is equal to the difference between the funded level and the Test 2 level. Under a suspension, the maintenance obligation created is the difference between the funded level and the operative minimum guarantee. The maintenance factor is repaid according to a constitutional formula in years when the growth in per capita General Fund revenues exceeds the growth in per capita personal income.

The passage of Proposition 30 temporarily created an additional source of funds for K-14 education. The Education Protection Account ("EPA"), created by Proposition 30, is available to offset Proposition 98 General Fund expenditures for fiscal years 2012-13 through 2018-19, freeing up General Fund resources for other purposes. Proposition 55 extends the additional income tax rates established by Proposition 30 through tax year 2030. See "Proposition 98 Funding for Fiscal Years 2018-19 and 2019-20" below.

Proposition 2 created the Public School System Stabilization Account ("PSSSA"), a special fund that serves as a Proposition 98 reserve, and requires a deposit in the PSSSA under specified conditions. These conditions have not yet been met in any fiscal year and are not anticipated to be met in fiscal year 2018-19 or fiscal year 2019-20. Therefore, there is no balance in the PSSSA and no deposit into the PSSSA is currently anticipated.

Proposition 98 Funding for Fiscal Years 2018-19 and 2019-20. As shown in Table 10, the funding provided K-12 schools and community colleges is estimated to grow moderately in fiscal years 2018-19 and 2019-20. The 2019-20 Governor's Budget estimates the Proposition 98 minimum guarantee to be $80.7 billion in fiscal year 2019-20, an increase of $2.3 billion over the amount assumed for fiscal year 2018-19 in the 2018 Budget Act, primarily due to an increase in projected revenues and local property tax. The General Fund share is $55.3 billion, which includes approximately $8.9 billion in EPA General Fund revenues.

The 2019-20 Governor's Budget estimates a revised funding level for K-12 schools and community colleges in fiscal year 2018-19 of $77.9 billion, which is $526 million lower than the level assumed at the 2018 Budget Act, primarily due to lower than projected growth in average daily attendance and a slight decrease in the year-over-year growth in revenues. While total state revenues were higher than estimated in fiscal years 2017-18 and 2018-19, the year-over-year growth from 2017-18 to 2018-19 declined slightly. To ensure school districts and community colleges were not impacted by the decrease in the Proposition 98 minimum guarantee in 2018-19, the Governor's Budget provides an additional settle-up payment to offset the decline. The General Fund share of Proposition 98 in 2018-19 is $54.0 billion, which includes approximately $8.6 billion in EPA General Fund.

Property taxes are estimated to continue increasing mostly due to shifts of local property tax revenues back to schools and community colleges, and increases in base property tax revenues.

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The 2019-20 Governor's Budget reflects Proposition 98 General Fund expenditures in fiscal years 2017-18 through 2019-20, as outlined in the table below.

TABLE 10
Proposition 98 Funding
(Dollars in Millions)

	2017-18		Fiscal Year 2018-19		2019-20	Change From Revised 2018-19 to Proposed 2019-20	
	Enacted[a]	Revised[c]	Enacted[b]	Revised[c]	Proposed[c]	Amount	Percent
K-12 Proposition 98							
State General Fund	$ 40,540	$ 40,321	$ 41,529	$ 40,338	$ 41,277	$ 938	2.3%
Education Protection Account	6,437	6,809	7,278	7,635	7,902	267	3.5%
Local property tax revenue[d]	18,981	19,648	20,413	20,720	22,064	1,344	6.5%
Subtotals[e]	$ 65,958	$ 66,778	$ 69,220	$ 68,693	$ 71,242	$ 2,549	3.7%
Community College Proposition 98							
State General Fund	$ 4,859	$ 4,915	$ 5,163	$ 5,111	$ 5,140	$ 29	0.6%
Education Protection Account	795	842	900	944	977	33	3.5%
Local property tax revenue[d]	2,911	2,963	3,110	3,119	3,321	202	6.5%
Subtotals[e]	$ 8,565	$ 8,720	$ 9,173	$ 9,174	$ 9,438	$ 264	2.9%
Total Proposition 98							
State General Fund	$ 45,399	$ 45,236	$ 46,692	$ 45,450	$ 46,417	$ 967	2.1%
Education Protection Account	7,232	7,651	8,178	8,578	8,879	301	3.5%
Local property tax revenue[d]	21,892	22,611	23,523	23,839	25,384	1,545	6.5%
Totals[f]	**$ 74,523**	**$ 75,498**	**$ 78,393**	**$ 77,867**	**$ 80,680**	**$ 2,813**	**3.6%**

(a) As of the 2017 Budget Act, enacted on June 27, 2017.

(b) As of the 2018 Budget Act, enacted on June 27, 2018.

(c) As of the 2019-20 Governor's Budget, released January 9, 2019.

(d) Beginning in fiscal year 2011-12, local property tax revenues include amounts shifted to schools as a result of the elimination of redevelopment agencies. Fiscal years 2017-18, 2018-19, and 2019-20 include the one-time distribution of cash assets held by redevelopment agencies.

(e) Beginning in fiscal year 2015-16, community college funding includes approximately $500 million for the K-14 Adult Education Block Grant, and beginning in fiscal year 2018-19, $164 million for the K-12 Strong Workforce Program.

(f) Totals may not add due to rounding.

Source: State of California, Department of Finance.

Future Obligations. As explained above, there are two forms of future obligations for the state General Fund which may be created under Proposition 98: a maintenance factor and settle-up payments. Both of these obligations have been created in years leading up to fiscal year 2018-19. The following table shows the estimated balances of Proposition 98 future obligations as of the 2019-20 Governor's Budget:

TABLE 11
Proposition 98 Obligations
(Dollars in Millions)

	Estimated Fiscal Year-End Balances[a]				
Obligation	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Maintenance Factor[b]	$ 113	$ 1,160	$ 0	$ 143	$ 150
Other Settle-Up[b]	1,607	1,390	787	687[c]	0[c]

[a] Proposition 98 factors and appropriations have been certified through fiscal year 2016-17. The 2018 Budget Act included legislation that required the Department of Finance to certify fiscal years 2009-10 through 2016-17 prior to September 15, 2018. The final certified factors and appropriations for fiscal years 2009-10 through 2016-17 are included in the 2019-20 Governor's Budget and displayed in Statewide Financial Information, Schedule 13.

[b] Settle-up and maintenance factor balances were adjusted to reflect the Proposition 98 certified values mentioned above.

[c] Included in "Underfunding of Proposition 98-Settle-Up" in Table 6.

Maintenance factor payments are included in the multi-year projection (as shown in Table 3) developed by the Department of Finance based on factors known as of the 2019-20 Governor's Budget. The maintenance factor balance is adjusted by average daily attendance and per capita personal income growth each year. A payment of $1.2 billion, as required by constitutional formula, is built into fiscal year 2017-18. In fiscal year 2017-18, the Governor's Budget provides K-12 schools and community colleges with $44 million more funding than is required by the Proposition 98 minimum guarantee. Funding provided in excess of the minimum guarantee counts as additional maintenance factor payments and reduces the maintenance factor balance by the same amount.

2. Higher Education

California has a system of public higher education comprised of three segments: the California Community Colleges ("CCCs"), the California State University System ("CSU") and the University of California ("UC").

As discussed above, the state funds its community colleges under Proposition 98. Including funds for Adult Education, the 2019-20 Governor's Budget provides $9.4 billion Proposition 98 funds for community colleges (consisting of $6.1 billion from the General Fund and $3.3 billion from local property taxes). Of the $9.4 billion, $7 billion is provided as core general purpose funding for the CCC districts. The 2018 Budget Act adopted a new student-centered funding formula to allocate core general purpose funding to CCC districts. In fiscal year 2018-19, the formula allocates 70 percent of the applicable funding based on enrollment, 20 percent based on the enrollment of low-income students, and 10 percent based on student success

metrics with an added weight for low-income students. The 2019-20 Governor's Budget proposes maintaining the 2018-19 funding formula rates, adjusted for inflation in fiscal year 2019-20, and establishing reasonable limits on the year-over-year increases in resources attributable to student success metrics by capping those year-over-year increases to 10 percent. These adjustments are intended to improve the long-term fiscal sustainability of the formula.

There are currently 115 community colleges operated by 73 community college districts including the online community college established in the 2018 Budget Act. These colleges provide associate degrees and certificates to students. Additionally, students may attend CCCs to acquire basic skills or complete general education requirements prior to transferring to a four-year undergraduate institution. The CCCs awarded approximately 257,000 associate degrees, certificates, and other awards in the 2017-18 school year. For the 2017-18 school year, about 1.1 million full-time equivalent students were enrolled at CCCs.

The CCC Board of Governors is authorized to approve baccalaureate degree pilot programs at a maximum of 15 CCC districts, with one baccalaureate degree program offered in each selected district. Ten districts launched a baccalaureate degree pilot program in the fall of 2016, and five others began operation in the fall of 2017. CCC baccalaureate degree pilot programs are authorized to operate until fiscal year 2025-26. There were 479 students enrolled in these programs in the fall of 2017.

CSU provides undergraduate and graduate programs, awarding about 126,000 degrees in the 2017-18 school year. The CSU enrolled 410,060 full-time equivalent students at 23 campuses in the 2017-18 school year.

UC provides a range of undergraduate, graduate and professional programs, awarding about 75,000 degrees in the 2017-18 school year. The ten UC campuses and the Hastings College of Law enrolled 273,063 full-time equivalent students in the 2017-18 school year.

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The following table summarizes the direct General Fund support for the three segments of state public higher education:

TABLE 12
Higher Education
General Fund Expenditures
(Dollars in Billions)

Fiscal Year	CSU[(a)(b)]	UC[(b)]	CCCs[(c)]
2015-16	$3.3	$3.3	$5.4
2016-17	3.6	3.5	5.5
2017-18	3.8	3.6	5.8
2018-19	4.1	3.7	6.1
2019-20	4.5	3.9	6.1

(a) Includes health benefit costs for CSU retirees.

(b) Includes general obligation bond debt service costs.

(c) Includes Proposition 98 General Fund expenditures for Adult Education beginning in 2015-16 and the K-12 Strong Workforce Program expenditures beginning in 2018-19.

3. Health and Human Services

Medi-Cal. Medi-Cal, California's Medicaid program, is a health care entitlement program for qualified low-income individuals and families who receive public assistance or otherwise lack health care coverage. Medi-Cal serves approximately one-third of all Californians.

The increase in Medi-Cal caseload and expenditures since fiscal year 2014-15 is largely due to implementation of federal health care reform. Recently, however, caseload growth appears to be stabilizing. Average monthly caseload for fiscal year 2018-19 is estimated to be 13.2 million, with an anticipated increase of only 0.39 percent in fiscal year 2019-20, keeping average monthly caseload at 13.2 million.

The 2019-20 Governor's Budget projects a decrease of $2.3 billion General Fund expenditures in the Medi-Cal program in the current fiscal year compared to the 2018 Budget Act projection due to significant adjustments including: (1) savings resulting from Hospital Quality Assurance Fee and drug rebate timing; (2) one-time savings from reconciliations of activity in several prior fiscal years; specifically, lower payments for deferred claims to the federal government and higher withholding of payments to skilled nursing facilities, and; (3) lower than expected managed care costs, Affordable Care Act optional expansion caseload, and higher than expected drug rebate savings.

The Medi-Cal budget estimate may significantly change over time due to its size, financial complexity, federal requirements and the fact that Medi-Cal operates on a cash, rather than an accrual, basis of accounting, which means that the timing of transactions can significantly disrupt fiscal year budgetary estimates.

The following table shows Medi-Cal expenditures.

TABLE 13
Medi-Cal Expenditures
(Dollars in Billions)

Fiscal Year	General Fund	Other State Funds	Federal Funds	Total
2014-15	$17.1	$ 8.3	$54.1	$79.5
2015-16	17.8	8.2	55.3	81.3
2016-17	18.9	11.5	59.0	89.4
2017-18	20.0	13.8	56.1	90.0
2018-19[(a)(b)]	20.7	15.1	62.7	98.5
2019-20[(a)(c)(d)]	22.9	12.5	65.4	100.7

(a) Estimated.

(b) Increase in federal fund spending in fiscal year 2018-19 compared to fiscal year 2017-18 is due largely to federal fund recoupments for the Affordable Care Act Optional Expansion managed care rates and a shift in hospital financing payments due to federal approvals.

(c) Increased General Fund spending in the Medi-Cal program is largely attributable to increased Affordable Care Act optional expansion costs, the expiration of the Managed Care Organization tax-related General Fund offsets, and no Proposition 56 tobacco tax revenue funds for General Fund growth.

(d) The decrease in other state funds is largely due to changes in the Hospital Quality Assurance Fee, the expiration of the Managed Care Organization tax, and the proposed Medi-Cal Drug Rebate Fund for drug rebates.

Note: Totals may not add due to rounding.

Health Care Reform. California's implementation of the Affordable Care Act included the mandatory and optional Medi-Cal expansions. The mandatory Medi-Cal expansion simplified eligibility, enrollment, and retention rules that make it easier to get and stay on Medi-Cal. The optional expansion of Medi-Cal extended eligibility to adults without children, and to parent and caretaker relatives with incomes up to 138 percent of the federal poverty level.

The 2019-20 Governor's Budget estimates that in fiscal year 2019-20, approximately 3.8 million Californians will have health insurance through the optional expansion of Medi-Cal, and 1.4 million through the state's insurance exchange (Covered California). The 2019-20 Governor's Budget includes costs of $20.0 billion ($2.2 billion General Fund) in fiscal year 2019-20 for the optional expansion population. The federal government paid nearly 100 percent of the costs of this expansion for fiscal years 2013-14 through 2015-16. As of January 1, 2019, California is responsible for 6 percent of these costs, with California's contribution gradually increasing each year until fiscal year 2020-21, when the state will pay 10 percent of the total costs. By fiscal year 2020-21, the General Fund share for the optional expansion is projected to be $2.6 billion.

The 2019-20 Governor's Budget does not include the extension of the Managed Care Organization (MCO) tax in fiscal year 2019-20. Federal Medicaid regulations allow states to impose certain health care-related taxes on plans or providers as long as certain conditions are met. The revenue from these taxes serve as the non-federal share of spending for health care services in a state's Medicaid program, which allows the state to draw down additional federal

funding and reduce General Fund expenditures. Effective July 1, 2016, Chapter 2, Statutes of 2016, authorized a tax on the enrollment of Medi-Cal managed care plans and commercial health plans until June 30, 2019. The 2019-20 Governor's Budget assumes net savings of $1.4 billion in fiscal year 2018-19 and $583 million in fiscal year 2019-20 from the MCO tax. (The fiscal year 2019-20 savings are due to a one-quarter lag resulting from Medi-Cal's cash basis budgeting.)

The 2019-20 Governor's Budget includes a statewide requirement for California residents to obtain comprehensive health care coverage or pay a penalty consistent with the federal penalties originally outlined under the Affordable Care Act. Funds raised by the state penalties will be dedicated to expanding subsidies for coverage on the state health insurance market place for households with incomes between 250 and 600 percent of the federal poverty line. The state mandate and subsidies are expected to prevent increases to the state's uninsured rate, reduce growth in health care premiums, and promote utilization of preventative care by strengthening the incentives in the Affordable Care Act and stabilizing the individual market. A state mandate may also have positive impacts on the budgets of counties and other safety-net providers who treat the indigent and uninsured. Penalty revenues and specific subsidy design are currently unknown and the Governor's Budget does not assume any fiscal impacts in fiscal year 2019-20.

In-Home Supportive Services ("IHSS"). The IHSS program provides domestic and related services such as housework, transportation, and personal care services to eligible low-income aged, blind, or disabled persons. These services are provided to assist individuals to remain safely in their homes as an alternative to out-of-home care.

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The following table shows IHSS caseload and related General Fund expenditures.

TABLE 14
IHSS Expenditures
(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2015-16	466,493	$2.7
2016-17[(a)]	492,542	3.2
2017-18[(b)]	516,377	3.2
2018-19[(c)(d)]	540,078	3.7
2019-20[(c)(e)]	564,330	4.3

(a) Fiscal year 2016-17 General Fund expenditures reflect (1) the full-year impact of federal Department of Labor overtime regulations for IHSS; and (2) the implementation of the state hourly minimum wage increase from $10.00 to $10.50, effective January 1, 2017.

(b) Fiscal year 2017-18 General Fund expenditures reflect (1) a revised county IHSS maintenance-of-effort structure which includes increased costs of $366.2 million to mitigate the increase in counties' costs associated with the end of the Coordinated Care Initiative; (2) implementation of the state hourly minimum wage increase from $10.50 to $11.00, effective January 1, 2018; and (3) growth in caseload and average service hours per case.

(c) Estimated.

(d) Fiscal year 2018-19 General Fund expenditures reflect (1) $318.7 million to mitigate the increase in counties' costs associated with the end of the Coordinated Care Initiative; (2) implementation of the state hourly minimum wage increase from $11 to $12, effective January 1, 2019; and (3) growth in caseload and average service hours per case.

(e) Fiscal year 2019-20 General Fund expenditures reflect (1) an increase of $241.7 million to rebase the county IHSS maintenance-of-effort; (2) implementation of the state hourly minimum wage increase from $12 to $13, effective January 1, 2020; (3) $342.3 million to restore the 7-percent across-the-board reduction in services hours; and (4) growth in caseload and average service hours per case.

CalWORKs. The California Work Opportunity and Responsibility to Kids ("CalWORKs") program, the state's version of the federal Temporary Assistance for Needy Families ("TANF") program, provides temporary cash assistance to low-income families with children to meet basic needs, such as shelter, food, and clothing. CalWORKs includes specific welfare-to-work requirements and provides supportive services, including child care, to enable adult participants to meet these requirements. Eligibility requirements and benefit levels are established by the state, but counties have flexibility in program design, services, and funding to meet local needs. The federal government pays a substantial portion of welfare benefit costs, subject to a requirement that states provide significant matching funds. Federal law imposes detailed eligibility and programmatic requirements for states to be entitled to receive federal funds. Federal law also imposes time limits on program availability for individuals, and establishes certain work requirements. Consistent with the federal law, CalWORKs contains time limits on the receipt of welfare aid. The centerpiece of CalWORKs is the linkage of eligibility to work participation requirements.

The state annually receives a TANF block grant allocation of $3.7 billion from the federal government. To qualify for the TANF funds, the state is required annually to expend a "Maintenance of Effort" amount, which is currently $2.9 billion.

Under federal law, states are required to demonstrate a 50-percent work participation rate among all TANF aided families and a 90-percent work participation rate among two-parent families. The federal government determined that the state failed to meet these requirements for federal fiscal years ("FFYs") 2008 through 2017, and the state was therefore subject to $1.8 billion in total penalties. After the state successfully completed corrective compliance plans and met the all-family rate in FFY 2015 and 2016, the federal government waived $587 million in penalties for FFYs 2008-2011 and recalculated the state's penalties for FFYs 2012 through 2015 to $758 million to reflect failure to meet the two-parent rate. The state continued to fail meeting the two-parent rate in FFY 2016 and 2017, resulting in a total of $780 million in total penalty liability based on the most recent correspondence with the federal government. The state will continue to be unable to meet the two-parent participation rate, which will result in annual penalties of approximately $7 million. The earliest the assessed penalties would be imposed is FFY 2020 pending further correspondence with the federal government.

The following table shows CalWORKs caseload and General Fund expenditures.

TABLE 15
CalWORKs Expenditures
(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2014-15	535,027	$0.6
2015-16	496,799	0.7
2016-17	454,046	0.9
2017-18	423,121	0.6
2018-19[(a)]	391,161	0.4
2019-20[(a)]	371,316	0.7

[(a)] Estimated.

SSI/SSP. The federal Supplemental Security Income ("SSI") program provides a monthly cash benefit to eligible seniors and persons with disabilities who meet the program's income and resource requirements. In California, the SSI payment is augmented with a State Supplementary Payment ("SSP") grant. The 2019-20 Governor's Budget includes approximately $2.75 billion for the SSI/SSP program from the General Fund for fiscal year 2019-20. The average monthly caseload in this program is estimated to be 1.2 million recipients in fiscal year 2019-20.

Developmental Services. The Department of Developmental Services ("DDS") provides consumers with developmental disabilities a variety of services and supports that allow them to live and work independently or in supported environments. DDS estimates it will serve approximately 349,606 individuals in the community and approximately 292 individuals in state-operated facilities in fiscal year 2019-20.

The following table shows the caseload and related General Fund expenditures for the Department of Developmental Services (excluding capital outlay and Proposition 98 funding).

TABLE 16
Department of Developmental Services Expenditures
(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2014-15	280,570	$3.1
2015-16	291,507	3.5
2016-17	311,004	3.9
2017-18	325,594	4.1
2018-19[(a)]	333,417	4.5
2019-20[(a)]	349,898	4.8

[(a)] Estimated.

4. Public Safety

The California Department of Corrections and Rehabilitation ("CDCR") operates 37 youth and adult correctional facilities and 44 youth and adult camps as well as numerous other facilities. The CDCR also contracts for multiple adult parolee service centers and community correctional facilities. The CDCR's infrastructure includes more than 46 million square feet of building space on more than 24,000 acres of land (37 square miles) statewide. The 2019-20 Governor's Budget assumes an average daily adult inmate population of 126,974 in fiscal year 2019-20 and an average daily adult parole population of 49,945 in fiscal year 2019-20.

The 2019-20 Governor's Budget includes total expenditures (excluding capital outlay) of $12.6 billion ($12.3 billion from the General Fund) for CDCR, including salaries and benefits of approximately $9.0 billion. The 2019-20 Governor's Budget continues to include savings from the implementation of Chapter 15, Statutes of 2011 (AB 109). This legislation shifted responsibility for short-term, lower-level offenders from the state to county jurisdictions. In addition, counties are responsible for community supervision of lower-level offenders upon completion of their prison sentences.

Prison Population. Pursuant to various rulings issued by a panel of three federal judges, (some affirmed by the United States Supreme Court), the state was ordered to reduce its prison population to 137.5 percent of the system's design capacity by February 28, 2016. In January 2015, CDCR met this court-ordered population benchmark because of successful implementation of a variety of court-ordered population reduction measures and approval of Proposition 47 by the voters in 2014, which required reclassification of certain felonies to misdemeanors (and related resentencing). Notwithstanding these changes, the fall 2016 adult inmate population projections estimated that population would increase by approximately 1,000 inmates per year. Given the need to establish a durable solution for prison crowding, the voters approved Proposition 57 in 2016 to maintain compliance with the court-ordered population cap, end federal court oversight, and establish more incentives for inmates to participate in rehabilitative programs.

Proposition 57 reforms the juvenile and adult criminal justice system in California by creating a parole consideration process for non-violent offenders who have served the full term

for their primary criminal offense in state prison, authorizing CDCR to award credits earned for good conduct and approved rehabilitative or educational achievements, and requiring judges to determine whether juveniles charged with certain crimes should be tried in juvenile or adult court. The 2019-20 Governor's Budget estimates that Proposition 57 will result in a population reduction of approximately 6,300 adult inmates in fiscal year 2019-20, growing to an inmate reduction of approximately 10,500 in fiscal year 2021-22. These figures are preliminary and subject to considerable uncertainty.

Prison Medical Care. The federal receiver, appointed by the court to oversee the CDCR's medical operations (the "Receiver"), has plans for the design and construction of additional facilities and improvements to existing facilities for inmates with medical or mental health care needs. See "LITIGATION—Prison Healthcare Reform and Reduction of Prison Population." All of these projects will be constructed at existing state correctional institutions.

The 2019-20 Governor's Budget includes $2.3 billion from the General Fund for the Receiver's costs in fiscal year 2019-20 which is unchanged from the 2018 Budget Act estimate of General Fund costs for the Receiver in fiscal year 2018-19.

Citing "significant progress" in improving California's prison medical care, a federal District Court judge in January 2012 ordered California officials to begin planning for the end of the federal Receivership of the state's prison medical programs. On March 10, 2015, the court modified its order to update and clarify the process to transition responsibility for inmate medical care back to the state. This transition process is ongoing. As of the end of December 2018, a total of 19 institutions have been transitioned back to the state, with 16 facilities remaining to be transferred.

Five-Year Expenditure Summary

The following table summarizes the major categories of state expenditures, including both General Fund and special fund programs for fiscal years 2012-13 through 2016-17.

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TABLE 17
Governmental Cost Funds (Budgetary Basis)
Schedule of Expenditures by Function and Character
Fiscal Years 2012-13 to 2016-17

(Dollars in Thousands)	Fiscal Year				
Expenditures by Function	**2012-13[h]**	**2013-14[h]**	**2014-15[h][i]**	**2015-16[h][j]**	**2016-17[h][k]**
Legislative, Judicial, and Executive					
Legislative	$ 329,903	$ 345,319	$ 347,844	$ 362,845	$ 381,601
Judicial	2,961,759	3,257,190	3,540,001	3,593,129	3,715,472
Executive	1,548,666	1,879,794	1,843,252	2,016,591	2,248,940
Business, Consumer Services, and Housing[a]	1,487,220	712,575	884,008	831,493	1,134,851
Transportation[a]	5,950,645	7,389,121	7,390,367	7,560,409	7,788,678
Natural Resources	3,505,612	3,431,142	4,350,235	2,908,453	2,969,790
Environmental Protection	907,427	1,000,477	1,159,685	2,858,230	2,966,221
Health and Human Services	44,613,839	46,257,581	49,929,687	51,906,730	57,018,457
Corrections and Rehabilitation[b]	8,530,717	9,111,239	9,841,406	10,016,807	10,773,544
Education					
Education – K through 12	39,789,023	38,742,395	48,853,440	47,105,843	48,577,998
Higher Education	9,055,279	10,659,644	12,658,443	13,470,420	13,765,678
Labor and Workforce Development	710,343	726,075	773,047	811,335	802,606
Government Operations[a]	--	888,422	946,248	972,837	982,691
General Government					
General Administration	1,948,034	1,851,530	2,880,301	2,316,440	2,405,785
Debt Service[c]	5,721,714	6,305,806	6,439,994	5,871,876	–
Tax Relief	427,285	421,734	416,755	413,953	422,752
Shared Revenues	3,660,110	2,082,676	1,879,362	2,139,016	1,297,140
Other Statewide Expenditures[c]	1,365,657	1,109,007	2,891,100	1,440,270	6,532,786
Reserve for Liquidation of Encumbrances[d]	(136,097)	30,739	(633,345)	(503,745)	(1,125,846)
Statewide General Administration Expenditures (Pro Rata)[e]	(592,314)	(642,848)	(602,749)	(671,457)	(96,706)
General Fund Credits from Federal Funds (SWCAP)[f]	(132,847)	(133,400)	(147,349)	(148,980)	(159,193)
Total	$ 131,651,975	$ 135,426,218	$ 155,641,732	$ 155,272,495	$ 162,403,245
Expenditures by Character					
State Operations	$ 39,122,859	$ 39,266,400	$ 43,274,995	$ 43,170,643	$ 44,160,150
Local Assistance	91,890,033	95,620,340	111,421,332	111,415,101	117,176,655
Capital Outlay[g]	639,083	539,478	945,405	686,751	1,066,440
Total	$ 131,651,975	$135,426,218	$ 155,641,732	$ 155,272,495	$ 162,403,245

(a) The Governor's Reorganization Plan (GRP), which became operative on July 1, 2013, cut the number of state agencies from twelve to ten. The GRP created a new functional category called Government Operations and several departments/functions moved under it. In addition, the business and housing components under the previously reported Business, Transportation, and Housing function merged with the State and Consumer Services function and the remaining transportation components now comprise the Transportation Agency. Information reported under the new functions are not comparable to that of prior years. The prior year amounts were adjusted to the new functions.

(b) Beginning with fiscal year 2015-16, Correctional Programs was retitled to Corrections and Rehabilitation.

(c) Beginning with fiscal year 2016-17, Debt Service was moved into Other Statewide Expenditures.

(d) Beginning with fiscal year 2016-17, Expenditure Adjustment for Encumbrances was retitled to Reserve for Liquidation of Encumbrances. Large variances between fiscal years are normal. In fiscal year 2013-14, the abnormal balance was due to the reversal of prior year accrued encumbrances being greater than the current year accrued encumbrances. In fiscal year 2014-15, the increased balance in Reserve for Liquidation of Encumbrances was due to the growth of Local Assistance expenditures. In fiscal year 2016-17, the increased balance in Reserve for Liquidation of Encumbrances was due to the addition of new operating funds in Local Assistance expenditures.

(Footnotes Continued on Following Page)

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(e) Beginning with fiscal year 2016-17, Credits for Overhead Services by General Fund was retitled to Statewide General Administration Expenditures (Pro Rata). In fiscal year 2016-17, Pro Rata was charged directly at fund level which played a role in the variance. In previous years, central service costs allocated to special funds for their fair share of these costs were charged to the departments' appropriations.

(f) Beginning with fiscal year 2016-17, Statewide Indirect Cost Recoveries was retitled to General Fund Credits from Federal Funds (SWCAP).

(g) In fiscal year 2016-17, the increase in Capital Outlay expenditures was due to an increase in expenditures of the Greenhouse Gas Reduction Fund.

(h) Executive Orders 13/14-A, 14/15-A, 15/16-A, 16/17-A, and 17/18-A were issued by the Department of Finance, as authorized under Control Section 12.45 of the Budget Acts of 2011, 2012, 2013, 2014, 2015, and 2016 respectively, and pursuant to Government Code sections 12472.5 and 13302, to defer the June 2013, June 2014, June 2015, June 2016, and June 2017 payroll expenditures for various governmental and nongovernmental cost funds to July 2013, July 2014, July 2015, July 2016, and July 2017. This affected all state departments paid through the uniform payroll system.

(i) Six FI$Cal departments did not submit their required fiscal year 2014-15 financial statements to the State Controller's Office in time to be included in the State Controller's Budgetary/Legal Basis Annual Report ("BLBAR"). The amounts reported in the BLBAR included these department's June 30, 2015 cash balances plus accruals derived from actual activities reported through October 28, 2015.

(j) Twelve FI$Cal departments submitted estimated financial statements to the State Controller's Office for fiscal year 2015-16 to be included in the BLBAR.

(k) Four FI$Cal departments submitted estimated financial statements to the State Controller's Office for fiscal year 2016-17 which were included in the BLBAR.

Source: State of California, Office of the State Controller.

Budget Reserves

1. Special Fund for Economic Uncertainties

The SFEU is funded with General Fund revenues and was established to protect the state from unforeseen revenue reductions and/or unanticipated expenditure increases. The State Controller may transfer funds from the SFEU to the General Fund as necessary to meet cash needs of the General Fund and such transfers are characterized as "loans." The State Controller is required to return moneys so transferred, without payment of interest, as soon as there are sufficient moneys in the General Fund. At the end of each fiscal year, the State Controller is required to transfer from the SFEU to the General Fund any amount necessary to eliminate any deficit in the General Fund.

There is a continuous appropriation authorizing the State Controller to transfer the unencumbered balance of the General Fund to the SFEU as of the end of each fiscal year. However, if, at the end of any fiscal year it has been determined revenues exceed the amount that may be appropriated, then the transfer shall be reduced by the amount of the excess revenues. The estimates of the transfer shall be made jointly by the Legislative Analyst's Office and the Department of Finance. See "STATE FINANCES—OTHER ELEMENTS—State Appropriations Limit." In certain circumstances, moneys in the SFEU may be used in connection with disaster relief.

For budgeting and accounting purposes, any appropriation made from the SFEU, other than the appropriations discussed above, is deemed an appropriation from the General Fund. For year-end reporting purposes, the State Controller is required to add the balance in the SFEU to the balance in the General Fund so as to show the total moneys then available for General Fund purposes.

See Table 1 and footnote (f) in Table 4 for information concerning the recent balances in the SFEU and projections of the balances for the previous and current fiscal years. The Budget Act and related trailer bills are not the only pieces of legislation which appropriate funds. Updated estimates of revenues and expenditures, existing statutory requirements and additional legislation introduced and passed by the Legislature may also impact the fiscal year-end balance in the SFEU.

2. Budget Stabilization Account

Proposition 58, approved in March 2004, created the BSA as a second budgetary reserve and established the process for transferring General Fund revenues to the BSA. In fiscal year 2014-15, $1.606 billion was transferred from the General Fund to the BSA under the provisions of Proposition 58 (the balance in the BSA was $0 from fiscal year 2008-09 until fiscal year 2014-15). Beginning with fiscal year 2015-16, however, the BSA provisions of Proposition 58 were superseded by Proposition 2.

Proposition 2 provides for both paying down debt and other long-term liabilities, and saving for a rainy day by making specified deposits into the BSA. In response to the volatility of capital gains revenues and the resulting boom-and-bust budget cycles, Proposition 2 takes into account the state's heavy dependence on the performance of the stock market and the resulting capital gains. Beginning with fiscal year 2015-16, Proposition 2:

- Requires a calculation of capital gains revenues in excess of 8 percent of General Fund tax revenues that are not required to fund a Proposition 98 increase. In addition, it requires a calculation of 1.5 percent of annual General Fund revenues. The sum of the amounts so calculated will be applied for the purposes set forth below.

- Requires half of each year's calculated amount for the first 15 years be used to pay specified types of debt or other long-term liabilities. The other half must be deposited into the BSA. After the first 15 years, at least half of each year's deposit will be deposited in the BSA, with the remainder used for supplemental debt or liabilities payments at the option of the Legislature and to the extent not so used, also deposited into the BSA.

- Allows the withdrawal of funds from the BSA only for a disaster, as defined, or if spending remains at or below the highest level of spending from the past three years. The maximum amount that can be withdrawn in the first year of a recession is limited to half of the BSA balance.

- Creates the Public School System Stabilization Account ("PSSSA"), a special fund that serves as a Proposition 98 reserve, in which spikes in funding will be saved for future years. This will smooth school spending and thereby minimize future cuts. This reserve does not change the Proposition 98 minimum guarantee calculation, and transfers to the PSSSA will not occur until various operational and economic conditions are met.

- Sets the maximum size to be reserved in the BSA for a fiscal year at 10 percent of General Fund tax revenues. When the amount in the BSA is equal to its then maximum size, any amount that otherwise would have been deposited in the BSA may be spent only on infrastructure, including deferred maintenance.

Proposition 2 requires the state to provide a multiyear budget forecast to help better manage the state's longer term finances. Under current projections, Proposition 2 will result in $19.4 billion in the BSA by fiscal year 2022-23 (including supplemental transfers to the BSA) and $13 billion in reductions of debts and liabilities in its first eight years of operation. See Table 6 for the current debt payment plan.

3. Budget Deficit Savings Account and the Safety Net Reserve Fund

The 2018 Budget Act created two additional reserves, the BDSA and the Safety Net Reserve Fund. The Safety Net Reserve Fund specifically protects safety net services during an economic downturn.

The BDSA is temporarily holding the $2.6 billion supplemental BSA deposit made in fiscal year 2018-19 (pursuant to the 2018 Budget Act) until the BSA calculation is performed in May 2019. Upon completion of the BSA calculation and transfer to BSA, any residual amount will be divided equally between the BDSA and the Safety Net Reserve Fund.

The 2018 Budget Act included an initial deposit of $200 million in fiscal year 2018-19 into the Safety Net Reserve Fund. The 2019-20 Governor's Budget adds $700 million in fiscal year 2018-19 bringing the total in this reserve to $900 million.

STATE FINANCES—OTHER ELEMENTS

Pension Systems

The state participates in two principal retirement systems, CalPERS and CalSTRS. The state makes annual General Fund contributions to the CalPERS state plans, and to CalSTRS. The state also makes annual contributions to the CalPERS state plans from other state funds. Additional contributions are made by other employers, which are part of the systems, and by employees.

The state's annual contribution to CalPERS is determined by the CalPERS Board of Administration, and depends upon a variety of factors, including future investment performance, actuarial assumptions, and additional potential changes in retirement benefits. The state's annual contribution to CalSTRS is set by statute, and the CalSTRS Board has limited authority to adjust the state's contribution. The state has always made its mandatory contributions. Annually

required General Fund contributions to CalPERS and CalSTRS are projected to be approximately $3.9 billion and $3.3 billion, respectively, for fiscal year 2019-20. In addition to these required payments, the 2019-20 Governor's Budget proposes supplemental payments to CalPERS and CalSTRS. See "OVERVIEW - State Pension Systems and Retiree Health Care Costs."

Both systems currently have unfunded liabilities in the tens of billions of dollars, and both systems have taken steps in recent years to address these gaps, which will result in increased state contributions in future years. Detailed information about the two retirement systems, including information regarding the unfunded liabilities of each system, is contained in EXHIBIT 1—"PENSION SYSTEMS."

Retiree Health Care Costs

In addition to a pension, as described in EXHIBIT 1—"PENSION SYSTEMS," the state also provides retiree health care and dental benefits to its retired employees and their spouses and dependents (when applicable). These benefits are referred to as "Other Postemployment Benefits" or "OPEB."

As of June 30, 2017, approximately 185,560 retirees were enrolled to receive health benefits and 155,440 to receive dental benefits. Generally, employees vest for those benefits after serving 10 years with the state. Additional information on the State's OPEB plan can be found in the state's audited basic financial statements for the fiscal year ended June 30, 2017, included as an appendix to this Official Statement. The long-term costs for the state's OPEB may negatively affect the state's financial condition if the state does not adequately manage such costs.

For fiscal years 2007-08 through 2016-17, the state reported on its liability for postemployment healthcare as well as other forms of postemployment benefits, such as life insurance, in its annual financial reports pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

GASB Statement No. 45 is being replaced with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which first applies to the State's reporting for fiscal year 2017-18. GASB Statement No. 75 requires:

- Recognition of the unfunded actuarial accrued liability (UAAL; i.e. Net OPEB Liability) in the financial statements.

- Development of an actuarial accrued liability (AAL; i.e. Total OPEB Liability) and normal costs using a blended discount rate which is based on a 20-year general obligation bond index if benefits are financed on a pay-as-you-go basis, and the expected return on trust assets if pre-funding assets are available to pay benefits. Normal cost is the present value of future benefits earned by employees during the current fiscal year.

- Development of an annual OPEB expense based on the normal cost plus an amortization of changes in the UAAL due to demographic experience, assumption changes, plan changes and investment experience.

GASB Statement No. 75 is expected to increase the financial statement liability because the entire UAAL is recognized in the financial statements. In addition, the liability is projected to be more volatile because the UAAL will be based on a blended discount rate that changes at each measurement date as the 20-year general obligation bond index changes.

On January 31, 2018, the State Controller's Office released the state's latest OPEB actuarial valuation report by the private actuarial firm, Gabriel, Roeder, Smith & Company, which was tasked with calculating the state's liability for these benefits. The actuarial valuations contained in the report cover the cost estimates for existing employees, retirees and dependents. The objective of the report was to determine the liabilities associated with OPEB provided to the State's employees in compliance with the new GASB standards and to develop the actuarial funding costs assuming a full-funding policy. The economic assumptions for price and wage inflation are 2.75 percent and 3.00 percent, respectively.

The report provides actuarial liabilities using a blended discount rate which is based on a 20-year general obligation bond index if benefits are financed on a pay-as-you-go basis, and the expected return on trust assets if pre-funding assets are available to pay benefits. The State's OPEB actuarial valuation report as of June 30, 2017, reports an AAL of $91.51 billion, of which $91.01 billion is unfunded.

An actuarially determined contribution ("ADC") was developed assuming a full-funding interest rate of 7.28 percent. The ADC represents the annual employer contribution that along with member contributions and investment income is projected to fully fund the program in approximately 30 years.

The AAL increased under the new GASB standards from $76.68 billion as of June 30, 2016, to $91.51 billion as of June 30, 2017, representing a change of $14.83 billion. Without the change in GASB standards, if the previous assumptions had been realized, the AAL would have increased by only $4.03 billion, to $80.71 billion as of June 30, 2017. The amount of liability increase directly due to changes from GASB Statement No. 45 to GASB Statement No. 75 was $4.83 billion. The key factors contributing to the remaining $5.97 billion of unexpected increase in actuarial liabilities include:

- Demographic experience increased the expected actuarial liabilities by 1.00 percent or $0.78 billion. Examples of demographic experience losses include: more members retiring than assumed, members retiring earlier than assumed and members living longer than assumed. During the year the number of retirees increased by 2.70 percent from 178,110 to 182,866 at June 30, 2017, which is one of the key causes of the demographic loss.

- During the year, favorable healthcare claims experience and plan design changes decreased the expected actuarial accrued liability by approximately 0.90 percent or $0.75 billion. This change in accrued liability is mainly driven by the relationship

between the assumed trend rate used to project average member claim costs in 2017, used in last year's actuarial valuation, and the actual trend rate for 2017, used to update average per member claim costs. During the plan year ended June 30, 2017, average per member claim costs were lower than assumed.

- Each year, as part of the actuarial valuation process, the trend rates are evaluated and updated based on a review of supporting documentation provided by CalPERS and a review of various publicly available trend studies. The state continues to use a select and ultimate trend assumption and the most recent premium information available at the time of the actuarial valuation. Trend rates for the June 30, 2017, actuarial valuation were reviewed and updated since the last actuarial valuation. The trend rates are assumed to begin in plan year 2019 at 8.00 percent for pre-Medicare coverage and 8.50 percent for post-Medicare coverage and gradually decrease to 4.50 percent. This assumption change increased expected actuarial liabilities by approximately 7.36 percent or $5.94 billion.

The state's funding policy provides for a 50 percent cost sharing of the normal cost, between active members and the state, graded over several years since the adoption of the pre-funding policy. Pre-funding normal cost contributions are deposited into CalPERS' California Employers' Retiree Benefit Trust (CERBT). The state expects to earn 7.28 percent per year on these contributions. Pre-funding normal costs and investment income are not available to pay benefits until the earlier of 2046, or the year that the total actuarial liabilities are fully funded. The state finances benefits on a pay-as-you-go basis prior to the year that pre-funding assets are available to pay benefits. For the purposes of developing the full-funding normal cost, AAL and ADC, a discount rate of 7.28 percent was used.

The State Controller plans to issue an actuarial valuation report annually.

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The following table is the historic annual OPEB cost summary and the projected schedule of funding progress as of the valuation date for the five fiscal years indicated below:

TABLE 18
OPEB Pay-As-You-Go Funding
(Dollars in Billions)

Fiscal Year	Annual OPEB Cost	Net Employer Contribution	Percentage of Annual OPEB Cost Contribution	Net OPEB Obligation	Unfunded Actuarial Accrued Liability[(b)]	Unfunded Actuarial Accrued Liability as Percent of Payroll[(b)]
2012-13	$4.99	$1.78	36%	$16.12	$64.57	358%
2013-14	5.12	1.87	37	19.36	71.77	373
2014-15	5.13	2.01	39	22.48	74.10	367
2015-16	5.69	2.10	37	26.07	76.53	380
2016-17[(a)]	5.85	2.07	35	29.85	N/A	N/A

(a) Net employer contribution and Net OPEB Obligation estimated for the fiscal year ended June 30, 2017.

(b) Amounts are projected as of the valuation date.

N/A: Not available

Source: State of California OPEB Valuation as of June 30, 2016 under GASB Statement No. 45. (State Controller's Office)

The following table presents information related to the actuarial funding costs assuming a full-funding policy and the upcoming GASB Statement No. 75 Accounting and Reporting for OPEB – effective beginning in fiscal year 2017-18, as of the valuation date indicated below:

TABLE 18-A
OPEB Full-Funding[(a)]
(Dollars in Billions)

Fiscal Year	Actuarially Determined Contribution (ADC)	Employer Contribution	Percentage of ADC Contribution	Actuarial Accrued Liability (Total OPEB Liability)	Unfunded Actuarial Accrued Liability (Net OPEB Liability
2016-17	$4.51	$2.39	53%	$91.51	$91.01

(a) Long-term expected return on assets is 7.28% for full funding.

Source: State of California OPEB Valuation as of June 30, 2017 under GASB Statement No. 75. (State Controller's Office)

The table below illustrates the state's budget for OPEB for five fiscal years. These costs are expected to continue to grow in the future. The employer contribution for health premiums maintains the average 100/90 percent contribution formula established in the Government Code. Under this formula, the state averages the premiums of the four largest health benefit plans in order to calculate the maximum amount the state will contribute toward each retiree's health benefits. The state also contributes 90 percent of this average for the health benefits of each of the retiree's dependents.

Generally, with 10 years of service credit, employees are entitled to 50 percent of the state's full contribution. This rate increases by 5 percent per year and with 20 years of service, the employee is entitled to the full 100/90 formula. Most state employees hired after January 1,

2016, are subject to a longer vesting schedule and an 80/80 contribution formula (effective dates vary by contract). CSU employees fully vest for the 100/90 formula at 5 years of service. An agreement between the CSU Board of Trustees and the California Faculty Association doubles the vesting period for CSU faculty hired after July 1, 2017, from 5 years to 10 years.

TABLE 19
Actual Costs/Budget for
Other Postemployment Benefits
(Dollars in Thousands)

Fiscal Year	State Employees All Funds[(b)]	State Employees General Fund	CSU Employees All General Fund	Employer OPEB Prefunding All Funds[(c)]	Employer OPEB Prefunding General Fund[(c)]	Total Contributions All Funds	Total Contributions General Fund[(d)]
2015-16	$ 1,556,348	$ 1,551,748	$ 263,459	$ 63,206	$ 0	$ 1,883,013	$ 1,815,207
2016-17	1,622,918	1,618,318	272,453	341,558[(e)]	274,874[(e)]	2,236,929	2,165,645
2017-18	1,695,269	1,690,669	285,305	188,523	91,615	2,169,097	2,067,589
2018-19[(a)]	1,784,094	1,779,894	311,289	393,708	208,380	2,489,091	2,299,563
2019-20[(a)]	1,894,954	1,890,754	331,067	577,297	288,628	2,803,318	2,510,449

(a) Estimated Contributions.

(b) "Pay-as-you-go" contributions from General Fund and Public Employee's Contingency Reserve Fund.

(c) Amount reflects the employer contribution to pay down the OPEB unfunded liability.

(d) Contributions for postemployment benefits are included for all years displayed in this table.

(e) Amount includes a one-time prefunding contribution of $240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

Source: State of California, Department of Finance.

1. Ongoing Efforts

In 2015, a comprehensive strategy to eliminate the OPEB unfunded AAL over approximately 30 years by increasing prefunding shared equally between state employers and employees and reducing the cost structure of employee and retiree health care benefits was initiated through the collective bargaining process. Statutory language passed as part of the 2015 Budget Act contains the funding policy and framework designed to support the elimination of the unfunded AAL.

The state negotiated contributions for OPEB prefunding equivalent to the normal costs of those benefits, so that the additional contributions were equally shared between employers and employees and phased in over a three-year period. The negotiated contracts require matching contributions to an OPEB trust fund to set aside 100 percent of the actuarially determined "normal costs."

The funding schedule for these agreements generally phased in contributions over three years beginning July 1, 2016, July 1, 2017, or July 1, 2018, depending on the bargaining unit. Additionally, new employees are subject to a lower employer contribution for future retiree health benefits, and a longer vesting period to qualify for the retiree health care contribution. Successor contract agreements with all 21 bargaining units require all rank-and-file and related excluded state employees to make OPEB contributions to begin prefunding those benefits and

address the $91.0 billion unfunded liability for retiree health benefits. State employees of the judicial branch are also subject to the prefunding strategy and retiree health provisions.

As part of Chapter 2, Statutes of 2016 (AB 133), the 2015 Budget Act was amended to include a one-time allocation of $240 million to pay down the state's unfunded liability for retiree health care. The state has more than $1.1 billion currently set aside in the prefunding trust fund to pay for future retiree health benefits. By the end of fiscal year 2018-19, the trust fund balance is projected to approach $1.6 billion in assets.

The funding plan to eliminate the OPEB unfunded AAL assumes that the state continues to pay for retiree health benefits on a pay-as-you-go basis while assets are accumulated in a trust fund, and that no investment income will be used to pay for benefits until the plan is fully funded. Statutory language passed as part of the 2015 Budget Act contains the framework for this funding plan, preventing the use of investment income from the retiree health care trust fund for the payment of retiree health benefits until the earlier of:

1. The date the state bargaining unit subaccount within the trust fund reaches a 100 percent funded ratio.

2. July 1, 2046—the date the actuarial calculation of the prefunding plan is expected to reach a 100 percent funded ratio.

State Appropriations Limit

The state is subject to an annual appropriations limit imposed by the state Constitution (the "Appropriations Limit"). The Appropriations Limit does not restrict appropriations to pay debt service on voter-authorized bonds.

The state is prohibited from spending "appropriations subject to limitation" in excess of the Appropriations Limit. "Appropriations subject to limitation," with respect to the state, are authorizations to spend "proceeds of taxes," which consist of tax revenues and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by that entity in providing the regulation, product or service," but "proceeds of taxes" exclude most state subventions to local governments, tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not "proceeds of taxes," such as reasonable user charges or fees and certain other non-tax funds.

Various types of appropriations are excluded from the Appropriations Limit. For example, debt service costs of bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, appropriations for tax refunds, appropriations of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels, and appropriation of certain special taxes imposed by initiative (e.g., cigarette and tobacco taxes) are all excluded. The Appropriations Limit may also be exceeded in cases of emergency.

The Appropriations Limit in each year is based on the Appropriations Limit for the prior year, adjusted annually for changes in state per capita personal income and changes in population, and adjusted, when applicable, for any transfer of financial responsibility of providing services to or from another unit of government or any transfer of the financial source for the provisions of services from tax proceeds to regulatory licenses, user charges, or user fees. The measurement of change in population is a blended average of statewide overall population growth and the change in attendance at local school and community college ("K-14") districts. The Appropriations Limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received over such two-year period above the combined Appropriations Limits for those two years is divided equally between transfers to K-14 districts and refunds to taxpayers.

An estimate of the Appropriations Limit is included in the Governor's Budget, and is thereafter subject to the budget process and established in the Budget Act.

The following table shows the Appropriations Limit for fiscal years 2015-16 through 2019-20.

TABLE 20
State Appropriations Limit
(Dollars in Millions)

	Fiscal Year				
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**
State Appropriations Limit	$ 94,042	$ 99,787	$ 103,390	$ 107,818[(a)]	$ 113,562[(a)]
Appropriations Subject to Limit	-85,918	-88,685	-99,074[(a)]	-102,906[(a)]	-106,089[(a)]
Amount (Over)/Under Limit	$ 8,124	$ 11,102	$ 4,316[(a)]	$ 4,912(a)	$ 7,473[(a)]

(a) Estimated/projected.

Source: State of California, Department of Finance.

Local Government Impacts on State Finances

The primary units of local government in California are the 58 counties, which range in population size from less than 2,000 residents in Alpine County to well over 10 million in Los Angeles County. County governments provide many basic services, including indigent health care, welfare, jails, and public safety in unincorporated areas. In addition, there are nearly 500 incorporated cities in California and thousands of special districts formed to provide various services. The fiscal condition of these local governments can impact the state's financial condition and flexibility as summarized below.

1. Constitutional and Statutory Limitations

The fiscal condition of local governments changed when Proposition 13 was approved by California voters in 1978. Proposition 13 reduced and limited the future growth of local property taxes and limited the ability of local governments to impose "special taxes" (devoted to a specific purpose) without two-thirds voter approval.

In the aftermath of Proposition 13, the state provided aid to local governments, including from the General Fund, to make up for the local governments' loss of property tax revenue. Significantly, the state assumed a much larger responsibility for funding K-12 schools and community colleges ("K-14 education"). In 1988, Proposition 98 established a minimum guaranteed level of funding for K-14 education with a combination of local property taxes and state General Fund. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—K-14 Education under Proposition 98."

During the recession of the early 1990s, the Legislature reduced the post-Proposition 13 aid to local government entities other than K-14 education by requiring cities and counties to transfer some of their property tax revenues to school districts. The Educational Revenue Augmentation Fund ("ERAF") was created by statute in 1992 for this purpose. However, the Legislature provided additional funding sources, such as sales taxes, and reduced certain mandates for local services funded by cities and counties.

Proposition 218, a constitutional amendment approved by the voters in 1996, further limited the ability of local governments to raise taxes, fees, and other exactions. The limitations include requiring a majority vote approval for general local tax increases, prohibiting fees for services in excess of the cost of providing such service, and providing that no fee may be charged for fire, police, or any other service widely available to the public.

The 2004 Budget Act, related legislation, Proposition 1A of 2004, and Proposition 22, approved by the voters in 2010, further changed the state-local fiscal relationship. These constitutional and statutory changes implemented an agreement negotiated between the Governor and local government officials (the "state-local agreement") in connection with the 2004 Budget Act.

Part of this agreement was a reduction of the vehicle license fee ("VLF") rate from 2 percent to 0.65 percent of the market value of the vehicle. To protect local governments, which had previously received all VLF revenues, the 1.35 percent reduction in VLF revenue was backfilled by an increase in the amount of property tax revenues they receive. This arrangement benefited local government finances because the annual backfill amount increased in proportion to the growth in property tax revenues, which historically has grown at a higher rate than VLF revenues (although property tax revenues did decline between fiscal years 2009-10 and 2011-12). This arrangement continues without change in the 2019-20 Governor's Budget.

Another part of the state-local agreement includes Proposition 1A of 2004, which, among other things, amended the state Constitution to reduce the Legislature's authority over local government revenue sources by placing restrictions on the state's access to local governments' property, sales, and VLF revenues as of November 3, 2004.

Proposition 22 prohibits future borrowing by the state from local government funds, and generally prohibits the Legislature from making changes in local government funding sources. In addition, allocation of local transportation funds cannot be changed without an extensive process.

2. Property Tax Revenues

The amount of property tax revenue generated each year affects the state General Fund budget because local property tax revenue is allocated to offset General Fund expenditures for K-14 education required by Proposition 98. Statewide property tax revenues are estimated to increase 6.0 percent in fiscal year 2018-19 and 6.8 percent in fiscal year 2019-20. Property tax estimates used in the calculation of the Proposition 98 minimum guaranteed level of funding are based on growth in statewide property taxes, but also include other factors such as excess tax, dissolved redevelopment agency funds, and the shift of property taxes from local governments to K-14 schools into the ERAF.

3. Dissolved Redevelopment Agency Funds

Redevelopment agencies ("RDAs") were dissolved on February 1, 2012, and their functions were taken over by successor agencies tasked with winding down the RDAs' affairs. Property tax revenue that would have gone to RDAs is now redirected to other local entities, including cities, counties, school and community college districts, and special districts, after payments are made for (1) pre-existing "pass through" payments to local agencies, (2) the former RDAs' debts (known as "enforceable obligations"), and (3) limited administrative costs.

As noted above, revenue allocated to school and community college districts results in a corresponding amount of savings for the state's General Fund. The 2019-20 Governor's Budget estimates that Proposition 98 General Fund savings are $2.0 billion in fiscal year 2018-19 and $2.1 billion in fiscal year 2019-20. Proposition 98 General Fund savings are projected to average over $2.5 billion per year from fiscal year 2020-21 through fiscal year 2022-23, with annual growth proportionate to the changes in property tax growth, and the rate at which the enforceable obligations of the former RDAs are retired.

Various local governments have disputed the implementation of the dissolution law and litigation is pending. See "LITIGATION—Budget-Related Litigation—Actions Challenging Statutes That Reformed California Redevelopment Law."

4. Realigning Services to Local Governments

The 2011 Budget Act included a major realignment of public safety programs from the state to local governments ("AB 109"). The realignment was designed to move program and fiscal responsibility to the level of government that can best provide the service, eliminate duplication of effort, generate savings, and increase flexibility. The implementation of the Community Corrections Grant Program authorized by AB 109 moved lower-level offenders from state prisons to county supervision and reduced the number of parole violators in the state's prisons.

Other realigned programs include local public safety programs, mental health, substance abuse, foster care, child welfare services, and adult protective services. The 2011 Realignment is funded through two sources in fiscal year 2019-20: (1) a state special fund sales tax of 1.0625 percent (projected to total $7.7 billion) and (2) $731.3 million in VLFs. General Fund savings have been over $2.0 billion annually from the realigned programs beginning in fiscal year 2011-

12. The state estimates savings of $2.4 billion in fiscal year 2018-19, and $3.1 billion in fiscal year 2019-20.

CASH MANAGEMENT

Traditional Cash Management Tools

1. General

The majority of the state's General Fund receipts are received in the latter part of the fiscal year. Disbursements from the General Fund occur more evenly throughout the fiscal year. The state's cash management program customarily addresses this timing difference by making use of internal borrowing (see "—Internal Borrowing") and by issuing short-term notes in the capital markets when necessary (see "—External Borrowing").

2. Internal Borrowing

The General Fund is currently authorized by law to borrow for cash management purposes from more than 700 of the state's approximately 1,300 other funds in the State Treasury (the "special funds" and each a "special fund"). Total borrowing from special funds must be approved quarterly by the Pooled Money Investment Board ("PMIB"). The State Controller submits an authorization request to the PMIB quarterly, based on forecasted available funds and borrowing needs. The Legislature may from time to time adopt legislation establishing additional authority to borrow from special funds. As of the 2019-20 Governor's Budget, the General Fund is projected to have at least $30 billion of internal funds (excluding the BSA, the SFEU and the BDSA) available to borrow during fiscal years 2018-19 and 2019-20. See "—Inter-Fund Borrowings" for a further description of this process. See Table 21 for estimates of internal borrowable resources through June 30, 2020.

One fund from which moneys may be borrowed to provide additional cash resources to the General Fund is the BSA, which increased to $11.2 billion in September 2018 and is expected to increase to $13.5 billion at the end of fiscal year 2018-19. The state also may transfer funds into the General Fund from the SFEU, which is not a special fund. See "—Inter-Fund Borrowings" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves" for a further description of this process.

3. External Borrowing

External borrowing has typically been done with revenue anticipation notes ("RANs") that are payable no later than the last day of the fiscal year in which they are issued. Prior to fiscal year 2015-16, RANs had been issued in all but one fiscal year since the mid-1980's and have always been paid at maturity. No RANs were issued in fiscal years 2015-16 through 2018-19 or are planned in fiscal year 2019-20. See "—Cash Management Borrowings." The state also is authorized under certain circumstances to issue revenue anticipation warrants ("RAWs") that are payable in the succeeding fiscal year. The state issued RAWs to bridge short-term cash management shortages in the early 1990's and early 2000's. See "—State Warrants—Reimbursement Warrants" for more information on RAWs.

RANs and RAWs are both payable from any "Unapplied Money" in the General Fund on their maturity date, subject to the prior application of such money in the General Fund to pay Priority Payments. "Priority Payments" consist of: (i) the setting apart of state revenues in support of the public school system and public institutions of higher education (as provided in Section 8 of Article XVI of the state Constitution); (ii) payment of the principal of and interest on general obligation bonds and general obligation commercial paper notes of the state as and when due; (iii) a contingent obligation for General Fund payments to local governments for certain costs for realigned public safety programs if not provided from a share of state sales and use taxes, as provided in Article XIII, Section 36 of the state Constitution, enacted by Proposition 30 (see "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Restrictions on Raising or Using General Fund Revenues"); (iv) reimbursement from the General Fund to any special fund or account to the extent such reimbursement is legally required to be made to repay borrowings therefrom pursuant to Government Code Sections 16310 or 16418; and (v) payment of state employees' wages and benefits, required state payments to pension and other state employee benefit trust funds, state Medi-Cal claims, lease payments to support lease-revenue bonds, and any amounts determined by a court of competent jurisdiction to be required by federal law or the state Constitution to be paid with state warrants that can be cashed immediately. See "—State Warrants."

Inter-Fund Borrowings

Inter-fund borrowing is used to meet temporary imbalances of receipts and disbursements in the General Fund. In the event the General Fund is or will be exhausted, the State Controller is required to notify the Governor and the PMIB (comprised of the Director of Finance, the State Treasurer and the State Controller). The Governor may then order the State Controller to direct the transfer of all or any part of the moneys not needed in special funds to the General Fund, as determined by the PMIB. All money so transferred must be returned to the special fund from which it was transferred as soon as there is sufficient money in the General Fund to do so. Transfers cannot be made which will interfere with the objective for which such special fund was created, or from certain specific funds.

The amount of loans from the SFEU, the BSA and other internal sources to the General Fund as of the end of any month is displayed in the State Controller's Statement of General Fund Cash Receipts and Disbursements, on the first page under "Borrowable Resources—Outstanding Loans." See EXHIBIT 2 to APPENDIX A.

Enactment of Proposition 22 in November 2010 prohibited future inter-fund borrowing from certain transportation funds. However, legislation was enacted on February 3, 2012 to clarify the intent of Proposition 22, making most transportation funds available for short-term cash management borrowing purposes.

In addition to temporary inter-fund cash management borrowings described in this section, budgets enacted in the current and past fiscal years have included other budgetary transfers and long-term loans from special funds to the General Fund. In some cases, such budgetary loans and transfers have the effect of reducing internal borrowable resources.

The following table shows actual internal borrowable resources available for temporary cash management loans to the General Fund on June 30 of each of the fiscal years 2015-16 through 2017-18 and estimates the amount available in fiscal years 2018-19 and 2019-20 based on the 2019-20 Governor's Budget. See EXHIBIT 2 to APPENDIX A. The amount of internal borrowable resources fluctuates daily throughout the year.

TABLE 21
Internal Borrowable Resources
(Cash Basis)
(Dollars in Millions)

	Fiscal year ended June 30[a]				
	2016	**2017**	**2018**	**2019[b]**	**2020[b]**
Internal Borrowable Resources	$ 35,866	$ 41,822	$ 46,659	$ 55,521	$ 58,830
Less: Reserve for PMIA and SMIF loans			6,734	6,700	6,301
Available Borrowable Resources	35,866	41,822	39,925	48,821	52,529
Outstanding Loans					
From Special Fund for Economic Uncertainties	0	1,749	0	304	1,808
Budget Stabilization Account	646	3,091	0	0	6,646
From Special Funds and Accounts	0	0	0	0	0
Total Outstanding Internal Loans	$ 646	$ 4,839	$ 0	$ 304	$ 8,454
Unused Internal Borrowable Resources	$ 35,219	$ 36,983	$ 39,925	$ 48,516	$ 44,075

(a) Numbers may not add due to rounding.

(b) Estimated.

Source: Fiscal years ended June 30, 2016 through June 30, 2018: State of California, Office of the State Controller.
Fiscal years ended June 30, 2019 and June 30, 2020: State of California, Department of Finance.

Cash Management Borrowings

As part of its cash management program, prior to fiscal year 2015-16 the state regularly issued short-term obligations to meet cash management needs. See "Traditional Cash Management Tools—External Borrowing" above.

The following table shows the amount of RANs issued since fiscal year 2011-12. No RANs have been issued since fiscal year 2014-15 or are planned in the current fiscal year.

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TABLE 22
State of California Revenue Anticipation Notes Issued
(Dollars in Billions)

Fiscal Year	Type	Principal Amount	Date of Issue	Maturity or Redemption Date
2011-12	Interim Notes Series A	$5.4	July 28, 2011	September 22, 2011*
	Notes Series A-1	0.5	September 22, 2011	May 24, 2012
	Notes Series A-2	4.9	September 22, 2011	June 26, 2012
	Notes Series B (B-1 & B-2)	1.0	February 22, 2012	June 28, 2012
2012-13	Notes Series A-1	2.5	August 23, 2012	May 30, 2013
	Notes Series A-2	7.5	August 23, 2012	June 20, 2013
2013-14	Notes Series A-1	1.5	August 22, 2013	May 28, 2014
	Notes Series A-2	4.0	August 22, 2013	June 23, 2014
2014-15	Notes	2.8	September 23, 2014	June 22, 2015

* Redemption date.

Source: State of California, Office of the State Treasurer.

Cash Management in Fiscal Years 2017-18 and 2018-19

The state entered fiscal year 2017-18 with General Fund internal loans at June 30, 2017 of $4.8 billion. The state's cash flow for fiscal year 2017-18 indicated that internal resources were sufficient and available to meet the normal peaks and valleys of the state's cash needs, while maintaining a cushion of at least $2.5 billion at all times. The state did not issue any RANs in fiscal year 2017-18, the third consecutive year in which external borrowing was not required.

The state's cash position was strong entering fiscal year 2018-19, as the General Fund ended the previous year with a positive cash balance of $5.5 billion. Cash flow projections for the balance of the fiscal year show no plan for a RAN borrowing to manage cash requirements, with an estimated cash cushion of unused internal borrowable resources of at least $26.0 billion at the end of each month.

State fiscal officers constantly monitor the state's cash position and if it appears that cash resources may become inadequate (including the maintenance of a projected cash reserve of at least $2.5 billion at any time), they will consider the use of other cash management techniques as described in this section, including seeking additional legislation.

Other Cash Management Tools

The state has employed additional cash management measures during some fiscal years; all of the following techniques were used at one time or another during the last several fiscal years, but none of them are planned to be used in fiscal year 2018-19.

- The State Controller has delayed certain types of disbursements from the General Fund.

- Legislation was enacted increasing the state's internal borrowing capability, and the state has increased the General Fund's internal borrowings. See "—Inter-Fund Borrowings."

- Legislation has been enacted deferring some of the state's disbursements until later in the then-current fiscal year, when more cash receipts are expected.

- The issuance of registered warrants (commonly referred to as "IOUs") because of insufficient cash resources (last occurred in 2009). See "—State Warrants" for an explanation of registered warrants.

From time to time, the Legislature changes by statute the due date for various payments, including those owed to public schools, universities and local governments, until a later date in the fiscal year in order to more closely align the state's revenues with its expenditures. This technique has been used several times in the last few fiscal years. Some of these statutory deferrals were made permanent, and others were implemented only for one fiscal year.

In addition, state law gives the State Controller some flexibility as to how quickly the state must pay its bills. For instance, income tax refunds for personal income taxes are not legally due until 45 days after the return filing deadline, which is normally April 15. Accordingly, while the state has typically paid tax refunds as returns are filed, it can conserve cash by withholding refund payments until May 30. Payments to vendors generally must be made within 45 days of receipt of an invoice. The state may delay payment until the end of this period, or it may even choose to make these payments later and pay interest. These delays are only used if the State Controller foresees a relatively short-term cash flow shortage.

State Warrants

No money may be drawn from the State Treasury except upon a warrant duly issued by the State Controller. The State Controller is obligated to draw every warrant on the fund out of which it is payable for the payment of money directed by state law to be paid out of the State Treasury; however, a warrant may not be drawn unless authorized by law and unless unexhausted specific appropriations provided by law are available to meet it. As described above, state law provides two methods for the State Controller to respond if the General Fund has insufficient "Unapplied Money" available to pay a warrant when it is drawn, referred to generally as "registered warrants" and "reimbursement warrants." "Unapplied Money" consists of money in the General Fund for which outstanding warrants have not already been drawn and which would remain in the General Fund if all outstanding warrants previously drawn and then due were paid subject to the prior application of such money to obligations of the state with a higher priority. See "CASH MANAGEMENT—Traditional Cash Management Tools." Unapplied Money may include moneys transferred to the General Fund from the SFEU and the BSA and internal borrowings from state special funds (to the extent permitted by law); however, the state is not obligated to utilize interfund borrowings for the payment of state obligations if insufficient Unapplied Money is available for such payment. See "—Inter-Fund Borrowings" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

1. Registered Warrants

If a warrant is drawn on the General Fund for an amount in excess of the amount of Unapplied Money in the General Fund, after deducting from such Unapplied Money the amount,

as estimated by the State Controller, required by law to be earmarked, reserved or set apart from the Unapplied Money for the payment of obligations having priority over obligations to which such warrant is applicable, the warrant must be registered on the reverse side as not paid because of the shortage of funds in the General Fund. The State Controller may issue registered warrants before exhausting all cash management tools (described above) that could provide Unapplied Money to the General Fund.

Registered warrants are interest bearing obligations that may be issued either with or without a maturity date. Most registered warrants bear interest at a rate designated by the PMIB up to a maximum of five percent per annum except that, if the PMIB determines that it is in the best interests of the state to do so, the PMIB may fix the rate of interest paid on registered warrants at no more than 12 percent per annum. If issued with a maturity date, the principal and interest on such warrant will not be due until that date (although it may be optionally redeemed early if the state has sufficient Unapplied Money to do so) and the state may make other payments prior to that maturity date. If a registered warrant is issued without a maturity date, or its maturity date has occurred, it becomes redeemable by the holders on the date determined by the State Controller, with the approval of the PMIB.

State law generally requires that registered warrants be redeemable in the order they are issued but not prior to their maturity date, if any. The state last issued registered warrants in 2009. The State Controller was able to manage cash resources to ensure that higher Priority Payments, such as for schools and debt service, were made on time when registered warrants were issued. The issuance of the registered warrants permitted the state to pay Priority Payments with regular warrants which could be cashed.

2. Reimbursement Warrants

In lieu of issuing individual registered warrants to numerous creditors, state law provides an alternative procedure whereby the Governor, upon request of the State Controller, may authorize utilizing the General Cash Revolving Fund in the State Treasury to borrow from other state special funds to meet payments authorized by law. The State Controller may then issue "reimbursement warrants" (sometimes called "revenue anticipation warrants" or "RAWs") for sale to investors to reimburse the General Cash Revolving Fund, thereby increasing cash resources for the General Fund to cover required payments. The General Cash Revolving Fund exists solely to facilitate the issuance of reimbursement warrants. Reimbursement warrants have a fixed maturity date which may not be later than the end of the fiscal year following the year in which they were issued.

The principal of and interest on reimbursement warrants must be paid by the State Treasurer on their respective maturity dates from any Unapplied Money in the General Fund and available for such payment. In the event that Unapplied Money is not available for payment on the respective maturity dates of reimbursement warrants, and refunding reimbursement warrants (see "—Refunding Reimbursement Warrants") have not been sold at such times as necessary to pay such reimbursement warrants, such reimbursement warrants will be paid, together with all interest due thereon (including interest accrued at the original interest rate after the maturity date), at such times as the State Controller, with the approval of the PMIB, may determine.

The state has issued reimbursement warrants on several occasions in order to meet its cash needs when state revenues were reduced because of a recession, and the state incurred budget deficits. The state last issued reimbursement warrants in June 2002 and in June 2003.

3. Refunding Reimbursement Warrants

If it appears to the State Controller that, on the maturity date of any reimbursement warrant there will not be sufficient Unapplied Money in the General Fund to pay maturing reimbursement warrants, the State Controller is authorized under state law, with the written approval of the State Treasurer, to issue and sell refunding reimbursement warrants to refund the prior, maturing reimbursement warrants. Proceeds of such refunding reimbursement warrants must be used exclusively to repay the maturing warrants. In all other respects, refunding reimbursement warrants are treated like reimbursement warrants, as described above.

STATE INDEBTEDNESS AND OTHER OBLIGATIONS

General

The State Treasurer is responsible for the sale of most debt obligations of the state and its various authorities and agencies. The state has always paid when due the principal of and interest on its general obligation bonds, general obligation commercial paper notes, lease-revenue obligations and short-term obligations, including RANs and RAWs. Additional information regarding the state's long-term debt appears in the section "STATE DEBT TABLES."

Capital Facilities Financing

1. General Obligation Bonds

The state Constitution prohibits the creation of general obligation indebtedness of the state unless a bond measure is approved by a majority of the electorate voting at a general election or a direct primary. Each general obligation bond act provides a continuing appropriation from the General Fund of amounts for the payment of debt service on the related general obligation bonds, subject under state law only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. Under the state Constitution, appropriations to pay debt service on any general obligation bonds cannot be repealed until the principal of and interest on such bonds have been paid. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures." Certain general obligation bond programs, called "self-liquidating bonds," receive revenues from specified sources so that moneys from the General Fund are not expected to be needed to pay debt service, but the General Fund will pay the debt service, pursuant to the continuing appropriation contained in the bond act, if the specified revenue source is not sufficient. The principal self-liquidating general obligation bond program for the state is the veterans general obligation bonds, which are supported by mortgage repayments from housing loans made to military veterans of the state.

General obligation bonds are typically authorized for infrastructure and other capital improvements at the state and local level. Pursuant to the state Constitution, general obligation bonds cannot be used to finance state budget deficits.

A summary of the general obligation bonds outstanding as well as authorized by the voters but unissued, as of January 1, 2019, is set forth in the following table. For greater detail, see the table "Authorized and Outstanding General Obligation Bonds" following the caption "STATE DEBT TABLES." Monthly updates of the State Debt Tables are available at www.buycaliforniabonds.com.

General Obligation Bonds
(as of January 1, 2019)

Authorized and Outstanding		**Authorized but Unissued***	
Primarily Payable from General Fund	Self-Liquidating	Primarily Payable from General Fund	Self-Liquidating
$73.1 billion	$764.1 million	$37.1 billion	$1.2 billion

* May first be issued as commercial paper notes (see "General Obligation Commercial Paper Program" below).

2. Variable Rate General Obligation Bonds

The state's general obligation bond law permits the state to issue as variable rate indebtedness up to 20 percent of the aggregate amount of its long-term general obligation bonds outstanding. The State Treasurer has adopted a Debt Management Policy that, as of the date hereof, further reduces this limitation on variable rate indebtedness to 10 percent of the aggregate amount of long-term general obligation bonds outstanding. The terms of this policy, including this 10 percent limitation, can be waived or changed in the sole discretion of the State Treasurer. The State's long-term general obligation bonds issued as variable rate indebtedness are described generally in the following table and represent about 5.28 percent of the state's total outstanding general obligation bonds. With respect to the $1,675,000,000 of variable rate general obligation bonds having scheduled mandatory tender dates, if these bonds cannot be remarketed or refunded on or prior to their respective scheduled mandatory tender dates, there is no event of default but the interest rate on the bonds not remarketed or refunded on or prior to such date will increase, in most cases in installments, on and after the applicable scheduled mandatory tender date subject to a maximum interest rate for such bonds that may be less than the statutory maximum interest rate for the bonds, until such bonds can be remarketed or refunded or are paid at maturity.

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Type of Bonds	Outstanding Principal Amount ($000) as of January 1, 2019	Current Variable Rate Interest Mode	Liquidity Support[(a)]	Other Information as of January 1, 2019
General Obligation	$2,092,470	Daily/Weekly VRDO	Letters of Credit	
General Obligation	925,000	Indexed Floating Rate to Respective Mandatory Tender Dates	None	Mandatory Tenders on December 1, 2020, December 1, 2021, April 1, 2022, December 1, 2022 and December 1, 2023
General Obligation	100,000	Indexed Floating Rate to Respective Mandatory Redemption Date	None	Mandatory Redemption on May 1, 2021
General Obligation	750,000	Fixed Term Rate to Respective Mandatory Tender Dates	None	Mandatory Tenders on December 2, 2019, April 1, 2020 and December 1, 2021
General Obligation	30,340	Indexed Floating Rate to Respective Maturity Dates	None	Fixed Maturities on May 1, 2019 and May 1, 2020
TOTAL	$3,897,810			

(a) See "Bank Arrangements Table."

Source: State of California, Office of the State Treasurer.

The state is obligated to redeem, on the applicable purchase date, any weekly and daily variable rate demand obligations ("VRDOs") tendered for purchase if there is a failure to pay the related purchase price of such VRDOs on such purchase date from proceeds of the remarketing thereof, or from liquidity support related to such VRDOs. The state has not entered into any interest rate hedging contracts in relation to any of its variable rate general obligation bonds.

3. General Obligation Commercial Paper Program

Pursuant to legislation enacted in 1995, voter-approved general obligation indebtedness may be issued either as long-term bonds or, for some but not all bond acts, as commercial paper notes. Commercial paper notes may be renewed or may be refunded by the issuance of bonds. The state uses commercial paper notes to provide flexibility for bond programs, such as to provide interim funding for voter-approved projects or to facilitate refunding of variable rate bonds into fixed rate bonds. Commercial paper notes are not included in the calculation of permitted variable rate indebtedness described under "Variable Rate General Obligation Bonds." As of January 1, 2019, a total of $2.225 billion in principal amount of commercial paper notes is authorized under agreements with various banks. See "BANK ARRANGEMENTS TABLE" for a list of the credit agreements supporting the commercial paper program.

4. Bank Arrangements

In connection with VRDOs and the commercial paper program ("CP"), the state has entered into a number of reimbursement agreements or other credit agreements with a variety of financial institutions as set forth in "BANK ARRANGEMENTS TABLE." These agreements include various representations and covenants of the state, and the terms (including interest rates and repayment schedules) by which the state would be required to pay or repay any obligations thereunder (including reimbursement of drawings resulting from any failed remarketings). To

the extent that VRDOs or CP offered to the public cannot be remarketed over an extended period (whether due to downgrades of the credit ratings of the institution providing credit enhancement or other factors) and the applicable financial institution is obligated to purchase VRDOs or CP, interest payable by the state pursuant to the reimbursement agreement or credit agreement would generally increase over current market levels relating to the VRDOs or CP, and, with respect to VRDOs the principal repayment period would generally be shorter (typically less than five years) than the repayment period otherwise applicable to the VRDOs. In addition, after the occurrence of certain events of default as specified in a credit agreement, payment of the related VRDOs may be further accelerated and payment of related CP, as applicable, may also be accelerated and interest payable by the State on such VRDOs or CP could increase significantly.

5. Lease-Revenue Obligations

In addition to general obligation bonds, the state acquires and constructs capital facilities through the issuance of lease-revenue obligations (also referred to as lease-purchase obligations). Such borrowing must be authorized by the Legislature in a separate act or appropriation. Under these arrangements, the State Public Works Board ("SPWB"), another state or local agency or a joint powers authority uses proceeds of bonds to pay for the acquisition or construction of facilities such as office buildings, university buildings, courthouses or correctional institutions. These facilities are leased to a state agency, the CSU or the Judicial Council under a long-term lease which provides the source of revenues which are pledged to the payment of the debt service on the lease-revenue bonds. Under applicable court decisions, such lease arrangements do not constitute the creation of "indebtedness" within the meaning of the state constitutional provisions that require voter approval. For purposes of APPENDIX A and the tables under "STATE DEBT TABLES," the terms "lease-revenue obligation," "lease-revenue financing," "lease-purchase obligation" or "lease-purchase" mean principally bonds or certificates of participation for capital facilities where the lease payments providing the security are payable from the operating budget of the respective lessees, which are primarily, but not exclusively, derived from the General Fund. A summary of the lease-revenue bonds outstanding as well as those authorized by the Legislature but unissued, as of January 1, 2019, is set forth in the following table.

Lease-Revenue Obligations
(as of January 1, 2019)

Outstanding General Fund Supported Issues	Authorized but Unissued
$8.9 billion	$6.4 billion

The tables under "STATE DEBT TABLES" do not include equipment leases or leases which were not sold, directly or indirectly, to the public capital markets.

6. Non-Recourse Debt

Certain state agencies and authorities issue revenue obligations for which the General Fund has no liability. These revenue bonds represent obligations payable from state revenue-producing enterprises and projects (e.g., among other revenue sources, taxes, fees and/or tolls) and conduit obligations payable from revenues paid by private users or local governments of facilities financed by the revenue bonds. In each case, such revenue bonds are not payable from

the General Fund. The enterprises and projects include transportation projects, various public works projects, public and private educational facilities (including the CSU and UC systems), housing, health facilities and pollution control facilities. See the table "State Agency Revenue Bonds and Conduit Financing" under "STATE DEBT TABLES" for a summary of outstanding revenue bonds and notes which are non-recourse to the General Fund as of December 31, 2018.

7. Build America Bonds

In February 2009, Congress enacted certain new municipal bond provisions as part of the federal economic stimulus act ("ARRA"), which allowed municipal issuers such as the state to issue "Build America Bonds" ("BABs") for new infrastructure investments. BABs are bonds whose interest is subject to federal income tax, but pursuant to ARRA the U.S. Treasury was to repay the issuer an amount equal to 35 percent of the interest cost on any BABs issued during 2009 and 2010. The BAB subsidy payments related to general obligation bonds are General Fund revenues to the state, while subsidy payments related to lease-revenue bonds are deposited into a fund which is made available to the SPWB for any lawful purpose. In neither instance are the subsidy payments specifically pledged to repayment of the BABs to which they relate. The cash subsidy payment with respect to the BABs, to which the state is entitled, is treated by the Internal Revenue Service as a refund of a tax credit and such refund may be offset by the Department of the Treasury by any liability of the state payable to the federal government. None of the state's BAB subsidy payments to date have been reduced because of such an offset.

Between April 2009 and December 2010, the state issued $13.5 billion of BAB general obligation bonds and the SPWB issued $551 million of BAB lease-revenue bonds (of which $150 million have been redeemed). The aggregate amount of the subsidy payments expected to be received for the remainder of fiscal year 2018-19 through the maturity of the outstanding BABs (mostly 20 to 30 years from issuance) based on the 35 percent subsidy rate is approximately $6.39 billion for the general obligation BABs and $157.8 million for the SPWB lease-revenue BABs.

Pursuant to certain federal budget legislation adopted in August 2011, starting as of March 1, 2013, the government's BAB subsidy payments were reduced as part of a government-wide "sequestration" of many program expenditures. The amount of the reduction of the BAB subsidy payment has been less than $30 million annually and is presently scheduled to continue until 2025, although Congress can terminate or modify it sooner, or extend it. None of the BAB subsidy payments are pledged to pay debt service for the general obligation and SPWB BABs, so this reduction will not affect the state's ability to pay its debt service on time, nor have any material impact on the state's General Fund.

Future Issuance Plans; General Fund Debt Ratio

Based on estimates from the Department of Finance, as well as updates from the State Treasurer's Office, approximately $4.2 billion of new money general obligation bonds (some of which may initially be in the form of commercial paper notes) and approximately $1.2 billion of lease-revenue bonds are expected to be issued in fiscal year 2019-20. These estimates will be updated by the State Treasurer's Office based on information provided by the Department of Finance with respect to the updated funding needs of, and actual spending by, departments. In

addition, the actual amount of bonds sold will depend on other factors such as overall budget constraints, market conditions and other considerations. The state also expects to issue refunding bonds as market conditions warrant.

The ratio of debt service on general obligation and lease-revenue bonds supported by the General Fund, to annual General Fund revenues and transfers (the "General Fund Debt Ratio"), can fluctuate as assumptions for future debt issuance and revenue projections are updated from time to time. Any changes to these assumptions will impact the projected General Fund Debt Ratio. Based on the General Fund revenue estimates less transfers to the BSA contained in the 2019-20 Governor's Budget Summary and bond issuance estimates referred to in the preceding paragraph, the General Fund Debt Ratio is estimated to equal approximately 5.92 percent in fiscal year 2018-19 and 5.74 percent in fiscal year 2019-20.

The General Fund Debt Ratio is calculated based on the amount of debt service expected to be paid, without adjusting for receipts from the U.S. Treasury for the state's current outstanding general obligation and lease-revenue BABs or the availability of any special funds that may be used to pay a portion of the debt service to help reduce General Fund costs. The total of these offsets is estimated at approximately $1.9 billion for fiscal year 2018-19 and $2.5 billion for fiscal year 2019-20. Including the estimated offsets reduces the General Fund Debt Ratio to 4.52 percent in fiscal year 2018-19 and 3.98 percent in fiscal year 2019-20. The actual General Fund Debt Ratio in future fiscal years will depend on a variety of factors, including actual debt issuance (which may include additional issuance approved in the future by the Legislature and, for general obligation bonds, the voters), actual interest rates, debt service structure, and actual General Fund revenues and transfers.

See the table "OUTSTANDING STATE DEBT, FISCAL YEARS 2013-14 THROUGH 2017-18" under "STATE DEBT TABLES" for certain historical ratios of debt service to General Fund receipts.

Tobacco Settlement Revenue Bonds

In 1998, the state signed a settlement agreement with the four major cigarette manufacturers, in which the participating manufacturers agreed to make payments to the state in perpetuity. Under a separate Memorandum of Understanding, half of the payments made by the cigarette manufacturers are paid to the state and half to certain local governments, subject to certain adjustments.

In 2002, the state established a special purpose trust to purchase the tobacco assets and to issue revenue bonds secured by the tobacco settlement revenues. Legislation in 2003 authorized a credit enhancement mechanism that requires the Governor to request an appropriation from the General Fund in the annual Budget Act for payment of debt service and other related costs in the event tobacco settlement revenues and certain other amounts are insufficient. The Legislature is not obligated to make any General Fund appropriation so requested.

The credit enhancement mechanism only applies to certain tobacco settlement bonds that were issued in 2005, 2013, 2015 and 2018 with an outstanding principal amount of approximately $2.12 billion (the "enhanced bonds"). The enhanced bonds are neither general

nor legal obligations of the state and neither the faith and credit, nor the taxing power, nor any other assets or revenues of the state shall be pledged to the payment of the enhanced bonds. However, as described above, the state committed to request a General Fund appropriation from the Legislature in the event tobacco settlement revenues are insufficient to pay debt service on the enhanced bonds, and in the event that certain other available amounts, including the reserve fund for the enhanced bonds, are depleted. Every enacted budget since 2003 has included this appropriation, but use of the appropriated moneys has never been required.

Draws on the reserve fund for the enhanced bonds in the amount of approximately $7.94 million were used to make required debt service payments on the 2005 bonds in 2011 and 2012. In April 2013, the reserve fund was replenished in full from tobacco revenues. As of December 31, 2018, the balance of the reserve fund for the enhanced bonds is approximately $154.6 million. If, in any future year tobacco settlement revenues are less than required debt service payments on the enhanced bonds in such year, additional draws on the reserve fund will be required and at some point in the future the reserve fund may become fully depleted. The state is not obligated to replenish the reserve fund from the General Fund, or to request an appropriation to replenish the reserve fund.

Office of Statewide Health Planning and Development Guarantees

The Office of Statewide Health Planning and Development ("OSHPD") insures loans and bonds that finance and refinance construction and renovation projects for nonprofit and publicly-owned healthcare facilities. This program ("Cal-Mortgage Loan Insurance") is currently authorized by statute to insure up to $3 billion for health facility projects.

State law established the Health Facility Construction Loan Insurance Fund (the "Fund") as a trust fund which is continuously appropriated and may only be used for purposes of this program. The Fund is used as a depository of fees and insurance premiums and any recoveries and is the initial source of funds used to pay administrative costs of the program and shortfalls resulting from defaults by insured borrowers. If the Fund is unable to make payment on an insured loan or bond, state law provides for the State Treasurer to issue debentures to the holders of the defaulted loan or bond which are payable on parity with state general obligation bonds. The Fund is liable for repayment to the General Fund of any money paid from the General Fund. All claims on insured loans to date have been paid from the Fund and no debentures have been issued.

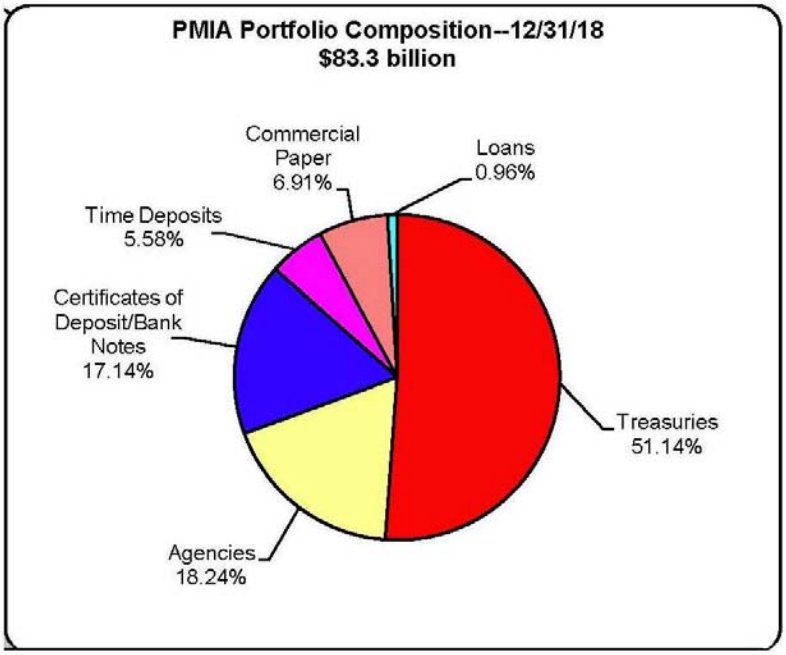
As of November 30, 2018, OSHPD insured 82 loans to nonprofit or publicly owned health facilities throughout California with a current outstanding aggregate par amount of approximately $1.714 billion, and a cash balance of approximately $161 million. The actuarial study of the Fund as of June 30, 2016, was completed in August 2018 (the "2016 actuarial study"). Based upon a number of assumptions, the 2016 actuarial study concluded, among other things, that the Fund appeared to be sufficient, under the "expected scenario" to maintain a positive balance until at least fiscal year 2045-46. Even under the "most pessimistic scenario," the 2016 actuarial study found that there was a 70 percent likelihood that the Fund's reserves as of June 30, 2016 would protect against any General Fund losses until at least fiscal year 2026-27, and a 90 percent likelihood that the Fund's reserves as of June 30, 2016 would protect against any General Fund losses until at least fiscal year 2021-22. There can be no assurances that the

financial condition of the Fund has not materially declined since the 2016 actuarial study. More information on the program can be obtained from OSHPD's website.

In December 2016, OSHPD, the Department of Finance, and the State Treasurer entered into a memorandum of understanding that outlined the processes for the (i) issuance of debentures; (ii) payment of debentures from the General Fund should the Fund fail to pay the debentures; and (iii) repayment to the General Fund for any money paid for debentures.

INVESTMENT OF STATE FUNDS

Moneys on deposit in the State Centralized Treasury System are invested by the State Treasurer in the PMIA. As of December 31, 2018, the PMIA held approximately $62 billion of state moneys, and $21.3 billion invested for about 2,373 local governmental entities through the Local Agency Investment Fund ("LAIF"). The assets of the PMIA as of December 31, 2018 are shown in the following chart. Amounts owing on the internal cash loan from the Surplus Money Investment Fund (a state fund managed by the State Treasurer's Office as part of the PMIA), to fund the supplemental pension payment to CalPERS as described in "DEBTS AND LIABILITIES UNDER PROPOSITION 2," are not reflected as an asset of the PMIA in the table below.



Source: State of California, Office of the State Treasurer.

The State's Treasury operations are managed in compliance with the Government Code and according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The PMIA operates with the oversight of the PMIB. The LAIF portion of the PMIA operates with the oversight of the Local Agency Investment Advisory Board (consisting of the State Treasurer and four other appointed members).

The PMIA is not invested, nor has it ever been invested, in structured investment vehicles or collateralized debt obligations. The PMIA portfolio performance, and the PMIA's holdings are displayed quarterly on the State Treasurer's website and may be accessed under PMIB Quarterly Reports. The PMIA is not currently invested in auction rate securities.

The State Treasurer does not invest in leveraged products or inverse floating rate securities. The investment policy permits the use of reverse repurchase agreements subject to limits of no more than 10 percent of the PMIA. All reverse repurchase agreements are cash matched either to the maturity of the reinvestment or an adequately positive cash management date which is approximate to the maturity of the reinvestment.

The average life of the investment portfolio of the PMIA as of December 31, 2018 was 192 days. Over the prior 12 months, the average life has ranged from 207 days to 172 days.

OVERVIEW OF STATE GOVERNMENT

Organization of State Government

The state Constitution provides for three separate branches of government: the legislative, the judicial, and the executive. The state Constitution guarantees the electorate the right to make basic decisions, including amending the state Constitution and local government charters. In addition, the state voters may directly influence state government through the initiative, referendum, and recall processes. The state Constitution provides for mechanisms through which it may be amended or revised.

California's Legislature consists of a 40-member Senate and an 80-member Assembly. Assembly members are elected for two-year terms, and Senators are elected for four-year terms. A person may serve a total of 12 years in either the Assembly, the Senate, or a combination of both. These term limits apply only to members of the Legislature elected after June 2012.

The Legislature meets almost year round for a two-year session. The Legislature employs the Legislative Analyst, who provides reports on state finances, among other subjects. The Office of the California State Auditor, an independent office since 1993, annually issues an auditor's report based on an examination of the General Purpose Financial Statements of the State Controller, in accordance with generally accepted accounting principles. See "FINANCIAL STATEMENTS."

The Governor is the chief executive officer of the state. The Governor presents the annual budget and traditionally presents an annual package of bills constituting a legislative program. In addition to the Governor, state law provides for seven other statewide elected officials in the executive branch. The Governor and the other statewide officials may be elected

for up to two four-year terms. The current elected statewide officials, their party affiliation, and the dates on which they were first elected to their current terms are as follows:

Office	Name	Party Affiliation	First Elected
Governor	Gavin Newsom	Democrat	2018
Lieutenant Governor	Eleni Kounalakis	Democrat	2018
Controller	Betty T. Yee	Democrat	2014
Treasurer	Fiona Ma	Democrat	2018
Attorney General	Xavier Becerra	Democrat	2018
Secretary of State	Alex Padilla	Democrat	2014
Superintendent of Public Instruction	Tony Thurmond	Democrat	2018
Insurance Commissioner	Ricardo Lara	Democrat	2018

The executive branch is principally organized through eleven agency areas.

Some state programs are administered by boards and commissions, such as The Regents of the University of California, Public Utilities Commission, Franchise Tax Board and California Transportation Commission, which have authority over certain functions of state government with the power to establish policy and promulgate regulations. The appointment of members of boards and commissions is usually shared by the Legislature and the Governor, and often includes ex officio members.

Employee Relations

As of the release of the 2019-20 Governor's Budget, the state work force for fiscal year 2019-20 was estimated at approximately 380,000 positions. Approximately 164,000 of those positions represent state employees of the legislative and judicial branches of government, and institutions of higher education. Of the remaining 216,000 positions, over 80 percent are subject to collective bargaining on wages, hours, and other terms and conditions of employment with the Administration, which are contained in a Memorandum of Understanding ("MOU") subject to ratification by the Legislature; less than 20 percent are excluded from collective bargaining.

State law provides that state employees, defined as any civil service employee of the state and teachers under the jurisdiction of the Department of Education or the Superintendent of Public Instruction, and excluding certain other categories, have a right to form, join, and participate in the activities of employee organizations for the purpose of representation on all matters of employer-employee relations. Once a bargaining unit ("BU") selects an employee organization, only that organization can represent those employees.

There are 21 collective BUs that are represented by employee organizations. The Service Employees International Union ("SEIU") is the exclusive representative for 9 of 21 BUs, or approximately 50 percent of those represented employees subject to collective bargaining. Since the 2016 Budget Act, contract agreements with all bargaining units that represent state employees address the state's unfunded retiree health care obligation ($91.01 billion as of the latest actuarial valuation) through shared prefunding of program costs along with other cost

containment strategies. See "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs."

The Administration will begin collective bargaining negotiations with 5 of the state's 21 bargaining units, representing Attorneys and Administrative Law Judges, Correctional Officers, Public Safety, Stationary Engineers, and Psychiatric Technicians, whose contracts will expire in late June or early July 2019. Additionally, collective bargaining negotiations with Highway Patrol Officers, whose contract expired in July 2018, are expected to continue in the upcoming calendar year. While these negotiations are underway, the existing MOUs continue to be in effect until replaced or extended pursuant to law.

ECONOMY AND POPULATION

California's economy, the largest among the 50 states and one of the largest in the world, has major components in high technology, trade, entertainment, manufacturing, tourism, construction, and services. The makeup of the state economy generally mirrors that of the national economy. See "GOVERNOR'S PROPOSED FISCAL YEAR 2019-20 BUDGET—Development of Revenue Estimates."

In July 2018, California's total population reached 39.8 million residents, an increase of 0.54 percent since July 2017. Since the national census on April 1, 2010, the state has grown by 2.6 million persons. The most recent projected population growth rate for 2019 is 0.7 percent, resulting in a population of 40.2 million in July 2019 and 40.5 million in July 2020. Births and net migrants to California have seen substantial declines recently, resulting in downward revisions to current population estimates. Provisional births for fiscal year 2017-18 totaled 466,000, a decline of 3.5% from 483,000 births during fiscal year 2016-17. Net migration, which averaged 78,000 persons per year during fiscal years 2010-11 through 2015-16, declined to 65,000 net migrants in fiscal year 2016-17 and fell to 20,000 persons in fiscal year 2017-18. Future estimates and projections may be revised downward if declining trends in fertility and net migration continue, with growth rates below 0.5 percent possible.

Natural increase (births minus deaths) will account for most of the growth in the next few years, with net migration into the state also continuing to contribute to population growth. The total fertility rate in California, at 1.69 children per woman, is lower than the U.S. average (1.77) and both show steady declines in recent years. Low fertility may lead to declining school enrollment and reductions in the size of the future labor force, although those effects may be mitigated by migration patterns, labor force participation rates, and other factors affecting school enrollment and attendance rates.

California's life expectancy was approximately 81.2 years in 2017—among the highest of any U.S. state and well above the national average of 78.6 years. Greater longevity and the greater proportion of baby boomers may eventually lead to an older population in California than the U.S. and an increased dependency ratio of retirement age to working age adults, although these dynamics and their consequences will be determined by migration patterns, labor force attachment, and transfer payments, among other factors.

Currently, there are 9.3 million Californians under age 18. California has a younger population than the remainder of the U.S., with a slightly higher percentage under 18, a lower percentage 65 and older, and a younger median age. Population growth rates will vary by age group. The state's overall projected five-year growth of 4.6 percent (from 2018-2023) is higher than the anticipated 2.0 percent growth in the working-age population (25-64 years old). Among younger ages, the school-age group (5-17 years old) is expected to grow by 0.9 percent and the college-age group (18-24 years old) to increase by 0.3 percent, while the preschool-age group (0-4 years old) is expected to decline by 3.0 percent. The population of the retirement-age group (age 65 and older), is expected to expand rapidly (22.1 percent).

The following table shows population totals for California and the U.S. as of July 1, 2018.

TABLE 23
Population

Year	California	Annual Percent Change	United States	Annual Percent Change	California as % of United States
2009	37,077,204	0.6%	307,006,550	0.9%	12.1%
2010	37,334,578	0.7	309,326,085	0.8	12.1
2011	37,678,534	0.9	311,580,009	0.7	12.1
2012	38,045,271	1.0	313,874,218	0.7	12.1
2013	38,425,695	1.0	316,057,727	0.7	12.2
2014	38,756,940	0.9	318,386,421	0.7	12.2
2015	39,076,128	0.8	320,742,673	0.7	12.2
2016	39,328,337	0.6	323,071,342	0.7	12.2
2017	39,610,556	0.7	325,147,121	0.6	12.2
2018	39,825,181	0.5	327,167,434	0.6	12.1

Source: U.S. figures from U.S. Department of Commerce, Bureau of the Census; California figures from State of California, Department of Finance.

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Labor Force, Employment, Income, Construction and Export Growth

The following table presents California's civilian labor force data for the resident population, age 16 and over, and unemployment rates for California and the U.S., in each case, reflecting the annual average for the applicable calendar year.

TABLE 24
Labor Force
(Thousands)

Year	Labor Force	Employment	Unemployment Rate California	Unemployment Rate United States
2009	18,215	16,183	11.1%	9.3%
2010	18,336	16,092	12.2	9.6
2011	18,415	16,258	11.7	8.9
2012	18,524	16,603	10.4	8.1
2013	18,625	16,958	8.9	7.4
2014	18,758	17,351	7.5	6.2
2015	18,896	17,725	6.2	5.3
2016	19,094	18,049	5.5	4.9
2017	19,312	18,393	4.8	4.4
2018[P/]	19,446	18,635	4.2	3.9

[P/] Preliminary. Benchmark revisions are expected to be released on March 8, 2019.

Source: State of California, Employment Development Department.

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The following table shows California's nonfarm payroll employment distribution and growth for 2008 and 2018.

TABLE 25
Nonfarm Payroll Employment by Major Sector
2008 and 2018
(Thousands)

Industry Sector	Employment 2008	Employment 2018[P/]	Distribution of Employment 2008	Distribution of Employment 2018[P/]
Mining and Logging	26.6	22.1	0.2%	0.1%
Construction	787.7	854.8	5.1	5.0
Manufacturing				
Nondurable Goods	527.6	479.4	3.4	2.8
Durable Goods	905.2	838.8	5.9	4.9
High Technology	377.8	359.3	2.5	2.1
Other Durable Goods	527.4	479.6	3.4	2.8
Trade, Transportation & Utilities	2,848.6	3,076.3	18.6	17.9
Information	477.1	539.3	3.1	3.1
Financial Activities	841.5	835.8	5.5	4.9
Professional & Business Services	2,239.1	2,633.2	14.6	15.4
Educational & Health Services	2,047.8	2,715.7	13.4	15.8
Leisure & Hospitality	1,571.5	2,002.9	10.3	11.7
Other Services	511.3	562.8	3.3	3.3
Government				
Federal Government	248.3	245.5	1.6	1.4
State & Local Government	2,270.6	2,342.9	14.8	13.7
TOTAL	**15,302.9**	**17,149.3**	**100.0%**	**100.0%**

[P/] Preliminary. Benchmark revisions are expected to be released on March 8, 2019.

Note: Figures may not add due to rounding.

Source: State of California, Employment Development Department.

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The following tables show California's total and per capita income patterns.

TABLE 26
Total Personal Income in California
(Dollars in Millions)

Year	Total Personal Income	Annual % Change	California % of U.S.
2008	$1,606,765	1.5%	12.9%
2009	1,554,230	(3.3)	12.9
2010	1,627,839	4.7	13.0
2011	1,738,413	6.8	13.1
2012	1,853,467	6.6	13.2
2013	1,885,672	1.7	13.3
2014	2,021,640	7.2	13.5
2015	2,173,300	7.5	13.8
2016	2,259,414	4.0	14.0
2017	2,364,129	4.6	14.1

Preliminary 2018 data are expected to be released on March 26, 2019.

Note: Omits income for government employees overseas.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

TABLE 27
Personal Income Per Capita
(Dollars)

Year	California	Annual % Change	United States	Annual % Change	California % of U.S.
2008	$43,895	0.5%	$40,904	2.7%	107.3%
2009	42,050	(4.2)	39,284	(4.0)	107.0
2010	43,609	3.7	40,545	3.2	107.6
2011	46,145	5.8	42,727	5.4	108.0
2012	48,751	5.6	44,582	4.3	109.4
2013	49,173	0.9	44,826	0.5	109.7
2014	52,237	6.2	47,025	4.9	111.1
2015	55,679	6.6	48,940	4.1	113.8
2016	57,497	3.3	49,831	1.8	115.4
2017	59,796	4.0	51,640	3.6	115.8

Preliminary 2018 data are expected to be released on March 26, 2019.

Note: Omits income for government employees overseas.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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The following tables show certain information with respect to residential and non-residential construction in California.

TABLE 28
Units and Valuation of New Housing Authorized by Building Permits
(Dollars in Millions)

	Units			
Year	**Total Number**	**Single-Family**	**Multi-Family**	**Valuation**
2008	64,962	33,050	31,912	$18,072
2009	36,421	25,454	10,967	12,037
2010	44,762	25,526	19,236	13,731
2011	47,336	21,631	25,705	14,415
2012	59,225	27,560	31,665	17,731
2013	85,472	36,991	48,481	23,027
2014	85,846	37,091	48,755	24,376
2015	98,073	44,896	53,177	29,116
2016	100,961	49,208	51,753	31,199
2017	113,439	56,111	57,328	34,831

Preliminary 2018 data are expected to be released on January 31, 2019.

Note: Valuation includes additions and alterations.

Source: Construction Industry Research Board; California Homebuilding Foundation.

TABLE 29
Value of Non-residential Construction Authorized
(Dollars in Millions)

Year	Commercial	Industrial	Other	Additions and Alterations	Total
2008	$ 6,514	$ 938	$ 2,984	$ 8,776	$ 19,212
2009	1,920	360	1,985	6,602	10,866
2010	1,990	358	1,937	6,914	11,200
2011	2,213	479	2,153	8,146	12,991
2012	3,216	1,410	2,383	7,627	14,635
2013	5,294	1,072	6,340	8,975	21,681
2014	7,208	1,116	4,327	11,056	23,706
2015	8,292	1,253	4,590	12,128	26,263
2016	9,337	1,037	4,482	12,533	27,389
2017	9,589	1,778	4,517	12,255	28,139

Preliminary 2018 data are expected to be released on January 31, 2019.

Source: Construction Industry Research Board; California Homebuilding Foundation.

The following table shows changes in California's exports of goods.

TABLE 30
California's Exports of Goods
(Dollars in Millions)

Year	Exports[(a)]	Annual % Change
2008	$144,805.75	7.8%
2009	120,079.97	(17.1)
2010	143,208.23	19.3
2011	159,421.39	11.3
2012	161,757.31	1.5
2013	168,191.55	4.0
2014	173,868.59	3.4
2015	165,360.38	(4.9)
2016	163,438.92	(1.2)
2017	172,012.42	5.2

Preliminary 2018 data are expected to be released in February 2019.

(a) Origin of Movement (OM) series.

Source: U.S. Department of Commerce, Bureau of the Census.

BANK ARRANGEMENTS TABLE

The following table includes certain information relating to letters of credit, liquidity facilities and other bank arrangements entered into in connection with variable rate obligations and commercial paper notes. See also "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—Bank Arrangements."

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BANK ARRANGEMENTS TABLE

(See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—Bank Arrangements.")

As of January 17, 2019

Program	Series	Outstanding Par Amount	Credit Provider	Expiration Date	Type of Credit	Reset Mode
GO VRDOs	2003A 1	$44,500,000	Barclays Bank PLC	8/26/2022	LOC	Daily
GO VRDOs	2003A 2-3	$178,600,000	Bank of Montreal	9/7/2021	LOC	Daily
GO VRDOs	2003B 1-4	$250,000,000	Bank of America, N.A.	1/15/2021	LOC	Weekly
GO VRDOs	2003C 1	$89,300,000	TD Bank, N.A.	8/28/2023	LOC	Weekly
GO VRDOs	2003C 3-4	$89,100,000	US Bank National Association	3/25/2022	LOC	Weekly
GO VRDOs	2004A 1, 4 & 5	$200,000,000	Citibank, N.A.	9/7/2021	LOC	Daily
GO VRDOs	2004A 2 &3	$136,900,000	State Street Bank & Trust Company	1/16/2024	LOC	Daily
GO VRDOs	2004A 6, 7, 8 & 10	$200,000,000	Citibank, N.A.	9/7/2021	LOC	Weekly
GO VRDOs	2004 A 9	$45,500,000	State Street Bank & Trust Company	1/16/2024	LOC	Weekly
GO VRDOs	2004B 1-3	$165,000,000	Citibank, N.A.	9/7/2021	LOC	Daily
GO VRDOs	2004B 4	$31,900,000	Citibank, N.A.	9/7/2021	LOC	Weekly
GO VRDOs	2004B 5-6	$95,600,000	US Bank National Association	10/1/2021	LOC	Daily
GO VRDOs	2005A-1-1	$26,560,000	Royal Bank of Canada	11/4/2019	LOC	Weekly
GO VRDOs	2005A-1-2	$26,460,000	Royal Bank of Canada	11/4/2019	LOC	Weekly
GO VRDOs	2005A-2-1	$143,200,000	Sumitomo Mitsui Banking Corporation	9/22/2023	LOC	Weekly
GO VRDOs	2005A-2-2	$8,760,000	Royal Bank of Canada	11/4/2019	LOC	Weekly
GO VRDOs	2005A-3	$15,220,000	Mizuho Bank, Ltd.	11/15/2019	LOC	Weekly
GO VRDOs	2005B-1	$147,100,000	Mizuho Bank, Ltd.	11/15/2019	LOC	Weekly
GO VRDOs	2005B-2	$30,340,000	MUFG Bank, Ltd.[1]	11/4/2019	LOC	Weekly
GO VRDOs	2005B-3	$49,100,000	Sumitomo Mitsui Banking Corporation	9/22/2023	LOC	Weekly
GO VRDOs	2005B-4	$15,220,000	Barclays Bank PLC	5/1/2020	LOC	Weekly
GO VRDOs	2005B-5	$88,890,000	MUFG Union Bank, N.A.	3/26/2021	LOC	Daily
GO VRDOs	2005B-7	$15,220,000	Barclays Bank PLC	5/1/2020	LOC	Daily
Total GO VRDOs		$2,092,470,000				

[1] Effective April 1, 2018, The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its legal name to MUFG Bank, Ltd.

	A1/B1	$500,000,000	Wells Fargo Bank, N.A.	9/24/2021	LOC	Up to 90 days
	A2/B2	$500,000,000	Royal Bank of Canada	1/13/2023	LOC	Up to 90 days
	A3/B3	$200,000,000	MUFG Union Bank, N.A.	3/26/2021	LOC	Up to 90 days
GO CP [a]	A4/B4	$200,000,000	The Toronto-Dominion Bank	11/19/2020	LOC	Up to 90 days
	A5/B5	$225,000,000	US Bank National Association	7/15/2022	LOC	Up to 90 days
	A6/B6	$350,000,000	Bank of America, N.A.	1/15/2021	LOC	Up to 90 days
	A7/B7	$125,000,000	Mizuho Bank, Ltd.	11/4/2019	LOC	Up to 90 days
	A8/B8	$125,000,000	Bank of the West	2/11/2020	LOC	Up to 90 days
	Total GO CP	**$2,225,000,000**				
Grand Total		**$4,317,470,000**				

[a] For commercial paper (CP), the total outstanding par represents the maximum principal commitment under related bank agreements.

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STATE DEBT TABLES

The tables which follow provide information on outstanding state debt, authorized but unissued general obligation bonds and commercial paper notes, debt service requirements for state general obligation and lease-revenue bonds, and authorized and outstanding state revenue bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS." For purposes of these tables, "General Fund bonds," also known as "non-self liquidating bonds," are general obligation bonds expected to be paid from the General Fund without reimbursement from any other fund. Although the principal of general obligation commercial paper notes in the "non-self liquidating" category is legally payable from the General Fund, the state expects that principal of such commercial paper notes will be paid only from the issuance of new commercial paper notes or the issuance of long-term general obligation bonds to retire the commercial paper notes. Interest on "non-self liquidating" general obligation commercial paper notes is payable from the General Fund.

"Enterprise Fund bonds," also known as "self liquidating bonds," are general obligation bonds for which program revenues are expected to be sufficient to reimburse in full the General Fund for debt service payments, but any failure to make such a reimbursement does not affect the obligation of the state to pay principal and interest on the bonds from the General Fund.

The following tables do not include the following bond issues:

$2,291,850,000 of State of California Various Purpose General Obligation Bonds were issued on March 14, 2019. This sale included $2,041,850,000 of refunding bonds the proceeds of which will (together with premium paid by the purchasers of the bonds) refund $ 2,301,510,000 of outstanding General Obligation Bonds.

$842,885,000 of State of California Federally Taxable Various Purpose General Obligation Bonds were sold on March 26, 2019, and are expected to be issued on April 4, 2019.

OUTSTANDING STATE DEBT
FISCAL YEARS 2013-14 THROUGH 2017-18
(Dollars in Thousands Except for Per Capita Information)

	2013-14	2014-15	2015-16	2016-17	2017-18
Outstanding Debt (a)					
General Obligation Bonds					
General Fund (Non-Self Liquidating)	$ 75,714,125	$ 76,005,055	$ 74,941,755	$ 73,837,840	$ 74,160,490
Enterprise Fund (Self Liquidating)	$ 671,180	$ 646,750	$ 787,760	$ 701,740	$ 688,650
Special Revenue Fund (Self Liquidating)	$ 3,417,115	$ 929,735	$ 0	$ 0	$ 0
Total General Obligation Bonds	**$ 79,802,420**	**$ 77,581,540**	**$ 75,729,515**	**$ 74,539,580**	**$ 74,849,140**
Revenue Bonds					
Lease-Purchase Debt	$ 11,266,240	$ 10,989,480	$ 9,808,190	$ 9,400,075	$ 9,103,975
Total Revenue Bonds	**$ 11,266,240**	**$ 10,989,480**	**$ 9,808,190**	**$ 9,400,075**	**$ 9,103,975**
Total Outstanding General Obligation and Revenue Bonds	**$ 91,068,660**	**$ 88,571,020**	**$ 85,537,705**	**$ 83,939,655**	**$ 83,953,115**
Bond Sales During Fiscal Year					
Non-Self Liquidating General Obligation Bonds	$ 5,905,370	$ 6,613,070	$ 7,316,280	$ 9,046,715	$ 8,444,045
Self Liquidating General Obligation Bonds	$ 0	$ 110,000	$ 545,440	$ 0	$ 106,805
Lease-Purchase Debt	$ 4,849,680	$ 728,085	$ 1,004,305	$ 1,304,420	$ 541,785
Debt Service (b)					
Non-Self Liquidating General Obligation Bonds	$ 6,308,990	$ 6,580,411	$ 6,641,942	$ 6,775,916	$ 6,932,317
Lease-Purchase Debt	$ 980,477	$ 1,030,213	$ 1,013,838	$ 1,012,291	$ 1,032,630
General Fund Receipts (c)	$ 103,966,197	$ 116,385,580	$ 120,417,389	$ 122,608,066	$ 136,732,289
Non-Self Liquidating General Obligation Bonds Debt Service as a Percentage of General Fund Receipts	**6.07%**	**5.65%**	**5.52%**	**5.53%**	**5.07%**
Lease-Purchase Debt Service as a Percentage of General Fund Receipts	**0.94%**	**0.89%**	**0.84%**	**0.83%**	**0.76%**
Population (d)	38,425,695	38,756,940	39,076,128	39,328,337	39,610,556
Non-Self Liquidating General Obligation Bonds Outstanding per Capita	**$ 1,970.40**	**$ 1,961.07**	**$ 1,917.84**	**$ 1,877.47**	**$ 1,872.24**
Lease-Purchase Debt Outstanding per Capita	**$ 293.20**	**$ 283.55**	**$ 251.00**	**$ 239.02**	**$ 229.84**
Personal Income (e)	$ 1,885,672,000	$ 2,021,640,000	$ 2,173,300,000	$ 2,259,414,000	$ 2,364,129,000
Non-Self Liquidating General Obligation Bonds Outstanding as Percentage of Personal Income	**4.02%**	**3.76%**	**3.45%**	**3.27%**	**3.14%**
Lease-Purchase Debt Outstanding as Percentage of Personal Income	**0.60%**	**0.54%**	**0.45%**	**0.42%**	**0.39%**

(a) Principal outstanding as of July 1 of the next fiscal year.
(b) Calculated on a cash basis. The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service. Debt service costs of bonds issued in any fiscal year largely appear in subsequent fiscal years.
(c) Calculated on a cash basis. General Fund Receipts includes both revenues and nonrevenues, such as borrowings, the proceeds of which are deposited in the General Fund (e.g. tobacco securitization bonds).
(d) As of July 1, the beginning of the fiscal year. See Table 23 of Appendix A.
(e) See Table 26 of Appendix A.

SOURCES: Outstanding Debt, Bonds Sales During Fiscal Year and Debt Service: State of California, Office of the Treasurer
General Fund Receipts: State of California, Office of the State Controller
Population: State of California, Department of Finance
Personal Income: U.S. Department of Commerce, Bureau of Economic Analysis

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 1/1/2019
(Thousands)

	Proposition Number	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding [a] $	Unissued $
GENERAL FUND BONDS (Non-Self Liquidating)						
1988 School Facilities Bond Act [b]	79	11/08/88	797,745	26,580	0	0
1990 School Facilities Bond Act [b]	123	06/05/90	797,875	55,345	0	0
1992 School Facilities Bond Act [b]	155	11/03/92	898,211	145,520	0	0
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 [f]	40	03/05/02	2,596,643	1,934,420	27,485	170,788
California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access For All Act of 2018	68	06/05/18	4,100,000	0	22,560	4,077,440
California Library Construction and Renovation Bond Act of 1988 [b]	85	11/08/88	72,405	7,540	0	0
* California Park and Recreational Facilities Act of 1984 [b]	18	06/05/84	368,900	7,615	0	0
* California Parklands Act of 1980	1	11/04/80	285,000	1,410	0	0
California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	14	03/07/00	350,000	206,415	0	5,040
* California Safe Drinking Water Bond Law of 1976 [b]	3	06/08/76	172,500	2,080	0	0
* California Safe Drinking Water Bond Law of 1984	28	11/06/84	75,000	1,205	0	0
* California Safe Drinking Water Bond Law of 1986	55	11/04/86	100,000	14,870	0	0
California Safe Drinking Water Bond Law of 1988	81	11/08/88	75,000	19,160	0	0
* California Wildlife, Coastal, and Park Land Conservation Act [b]	70	06/07/88	768,670	75,505	0	0
Children's Hospital Bond Act of 2004	61	11/02/04	750,000	512,065	160	46,545
Children's Hospital Bond Act of 2008	3	11/04/08	980,000	730,290	37,100	175,490
Children's Hospital Bond Act of 2018	4	11/06/18	1,500,000	0	0	1,500,000
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (Hi-Ed)	1A	11/03/98	2,500,000	1,417,450	0	0
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (K-12)	1A	11/03/98	6,700,000	3,059,190	10,785	615
* Clean Air and Transportation Improvement Bond Act of 1990	116	06/05/90	1,990,000	513,855	0	4,985
* Clean Water Bond Law of 1984	25	11/06/84	325,000	6,240	0	0
* Clean Water and Water Conservation Bond Law of 1978	2	06/06/78	375,000	2,900	0	0
Clean Water and Water Reclamation Bond Law of 1988	83	11/08/88	65,000	12,670	0	0
* Community Parklands Act of 1986	43	06/03/86	100,000	1,435	0	0
* County Correctional Facility Capital Expenditure Bond Act of 1986	52	06/03/86	495,000	7,685	0	0
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	86	11/08/88	500,000	36,775	0	0
Disaster Preparedness and Flood Prevention Bond Act of 2006 [e]	1E	11/07/06	3,990,000	2,574,995	18,710	1,236,202

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 1/1/2019
(Thousands)

	Proposition Number	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding [a] $	Unissued $
GENERAL FUND BONDS (Non-Self Liquidating)						
Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	122	06/05/90	300,000	33,160	635	7,490
* Fish and Wildlife Habitat Enhancement Act of 1984	19	06/05/84	85,000	3,820	0	0
Higher Education Facilities Bond Act of 1988	78	11/08/88	600,000	14,825	0	0
Higher Education Facilities Bond Act of June 1990	121	06/05/90	450,000	29,800	0	540
Higher Education Facilities Bond Act of June 1992	153	06/02/92	900,000	181,445	0	0
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	1B	11/07/06	19,925,000	16,239,835	17,130	1,057,305
Housing and Emergency Shelter Trust Fund Act of 2002	46	11/05/02	2,100,000	358,060	2,745	71,395
Housing and Emergency Shelter Trust Fund Act of 2006	1C	11/07/06	2,850,000	1,226,400	68,925	368,135
Housing and Homeless Bond Act of 1990	107	06/05/90	150,000	880	0	0
Kindergarten Through Community College Public Education Facilities Bond Act of 2016 (CCC)	51	11/08/16	2,000,000	15,550	7,355	1,975,765
Kindergarten Through Community College Public Education Facilities Bond Act of 2016 (K-12)	51	11/08/16	7,000,000	908,910	35,325	6,021,710
Kindergarten-University Public Education Facilities Bond Act of 2002 (Hi-Ed)	47	11/05/02	1,650,000	1,152,530	0	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (K-12)	47	11/05/02	11,400,000	8,079,895	14,045	6,240
Kindergarten-University Public Education Facilities Bond Act of 2004 (Hi-Ed)	55	03/02/04	2,300,000	1,824,805	0	58,019
Kindergarten-University Public Education Facilities Bond Act of 2004 (K-12)	55	03/02/04	10,000,000	7,282,020	20,755	22,200
Kindergarten-University Public Education Facilities Bond Act of 2006 (Hi-Ed)	1D	11/07/06	3,087,000	2,816,070	840	38,775
Kindergarten-University Public Education Facilities Bond Act of 2006 (K-12)	1D	11/07/06	7,329,000	6,250,045	6,535	196,620
* New Prison Construction Bond Act of 1986	54	11/04/86	500,000	935	0	0
New Prison Construction Bond Act of 1988	80	11/08/88	817,000	3,125	35	1,245
New Prison Construction Bond Act of 1990	120	06/05/90	450,000	2,965	0	605
Passenger Rail and Clean Air Bond Act of 1990	108	06/05/90	1,000,000	8,390	0	0
Public Education Facilities Bond Act of 1996 (Higher Education)	203	03/26/96	975,000	379,975	530	4,650
Public Education Facilities Bond Act of 1996 (K-12) [c]	203	03/26/96	2,012,035	637,125	0	0
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act [e]	13	03/07/00	1,884,000	1,203,910	0	43,346
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 [e][f]	84	11/07/06	5,266,357	3,208,920	196,745	1,341,362
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000	12	03/07/00	2,100,000	1,239,620	16,155	49,005
Safe, Clean, Reliable Water Supply Act [e]	204	11/05/96	969,500	423,750	0	62,915
Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century	1A	11/04/08	9,950,000	2,665,785	36,390	6,573,190
* School Building and Earthquake Bond Act of 1974	1	11/05/74	150,000	10,640	0	0

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 1/1/2019
(Thousands)

	Proposition Number	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding [a] $	Unissued $
GENERAL FUND BONDS (Non-Self Liquidating)						
School Facilities Bond Act of 1990	146	11/06/90	800,000	84,510	0	0
School Facilities Bond Act of 1992	152	06/02/92	1,900,000	298,160	0	10,280
Seismic Retrofit Bond Act of 1996	192	03/26/96	2,000,000	885,445	0	0
* State, Urban, and Coastal Park Bond Act of 1976	2	11/02/76	280,000	2,545	0	0
Stem Cell Research and Cures Bond Act of 2004	71	11/02/04	3,000,000	1,218,445	91,535	473,650
Veterans Homes Bond Act of 2000	16	03/07/00	50,000	32,170	0	975
Veterans Housing and Homeless Prevention Bond Act of 2014	41	06/03/14	600,000	7,860	27,365	563,670
Veterans and Affordable Housing Bond Act of 2018	1	11/06/18	3,000,000	0	0	3,000,000
Voting Modernization Bond Act of 2002	41	03/05/02	200,000	0	0	64,495
Water Conservation Bond Law of 1988	82	11/08/88	60,000	13,685	0	5,235
* Water Conservation and Water Quality Bond Law of 1986 [e]	44	06/03/86	136,500	18,995	0	230
Water Quality, Supply, and Infrastructure Improvement Act of 2014 [f]	1	11/04/14	7,465,000	539,425	113,855	6,754,590
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 [e]	50	11/05/02	3,345,000	2,443,350	28,400	274,339
Total General Fund Bonds			**152,764,341**	**73,120,995**	**802,100**	**36,265,081**

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 1/1/2019
(Thousands)

	Proposition Number	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding [a] $	Unissued $
ENTERPRISE FUND BONDS (Self Liquidating)						
* California Water Resources Development Bond Act	1	11/08/60	1,750,000	44,980	0	167,600
Veterans Bond Act of 1986	42	06/03/86	850,000	8,060	0	0
Veterans Bond Act of 1988	76	06/07/88	510,000	26,095	0	0
Veterans Bond Act of 1990	142	11/06/90	400,000	28,600	0	0
Veterans Bond Act of 1996	206	11/05/96	400,000	65,825	0	0
Veterans Bond Act of 2000	32	11/07/00	500,000	302,430	0	0
Veterans Bond Act of 2008 [d]	12	11/04/08	300,000	288,150	0	1,755
Veterans and Affordable Housing Bond Act of 2018 (CalVet)	1	11/06/18	1,000,000	0	0	1,000,000
Total Enterprise Fund Bonds			**5,710,000**	**764,140**	**0**	**1,169,355**
TOTAL GENERAL OBLIGATION BONDS			**158,474,341**	**73,885,135**	**802,100**	**37,434,436**

(a) A total of not more than $2.225 billion of commercial paper principal plus accrued interest may be owing at one time. Bond acts marked with an asterisk (*) are not legally permitted to utilize commercial paper.
(b) SB 1018 (06/27/2012) reduced the voter authorized amount
(c) SB 1018 (06/27/2012) and SB 71 (06/27/2013) reduced the voter authorized amount
(d) AB 639 (10/10/2013) reduced the voter authorized amount
(e) AB 1471 (11/04/2014) reduced the voter authorized amount
(f) SB 5 (6/5/2018) reduced the voter authorized amount

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR ENTERPRISE FUND SELF LIQUIDATING BONDS
Fixed Rate
As of January 1, 2019

Fiscal Year Ending June 30	Current Debt		
	Interest	Principal	Total (a)
2019 (b)	13,478,588.26	16,890,000.00	30,368,588.26
2020	24,942,232.50	42,740,000.00	67,682,232.50
2021	23,708,741.25	33,085,000.00	56,793,741.25
2022	22,923,191.25	17,395,000.00	40,318,191.25
2023	22,509,352.50	13,800,000.00	36,309,352.50
2024	22,268,426.25	6,230,000.00	28,498,426.25
2025	22,073,003.75	9,010,000.00	31,083,003.75
2026	21,934,626.25	2,030,000.00	23,964,626.25
2027	21,592,337.50	21,415,000.00	43,007,337.50
2028	21,003,603.51	18,480,000.00	39,483,603.51
2029	20,287,091.90	30,520,000.00	50,807,091.90
2030	19,089,135.00	45,830,000.00	64,919,135.00
2031	17,599,136.25	45,415,000.00	63,014,136.25
2032	16,123,370.85	41,495,000.00	57,618,370.85
2033	14,891,620.00	27,790,000.00	42,681,620.00
2034	13,628,160.18	42,120,000.00	55,748,160.18
2035	12,159,571.25	38,740,000.00	50,899,571.25
2036	10,866,772.50	33,290,000.00	44,156,772.50
2037	9,801,922.50	25,515,000.00	35,316,922.50
2038	8,840,654.49	26,655,000.00	35,495,654.49
2039	7,919,030.00	22,255,000.00	30,174,030.00
2040	7,039,981.25	23,275,000.00	30,314,981.25
2041	6,003,462.50	31,095,000.00	37,098,462.50
2042	5,047,785.00	20,655,000.00	25,702,785.00
2043	4,292,233.75	21,475,000.00	25,767,233.75
2044	3,502,345.00	22,330,000.00	25,832,345.00
2045	2,679,951.25	23,195,000.00	25,874,951.25
2046	1,825,220.00	24,115,000.00	25,940,220.00
2047	1,042,375.00	18,815,000.00	19,857,375.00
2048	422,415.00	14,745,000.00	15,167,415.00
2049	74,800.00	3,740,000.00	3,814,800.00
Total	**$ 399,571,136.69**	**$ 764,140,000.00**	**$ 1,163,711,136.69**

(a) Includes scheduled mandatory sinking fund payments.
(b) Represents the remaining debt service requirements from February 1, 2019 through June 30, 2019.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Fixed Rate
As of January 1, 2019

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2019 (c)	1,843,057,938.61	1,324,145,000.00	3,167,202,938.61
2020	3,584,140,270.06	3,209,925,000.00	6,794,065,270.06
2021	3,445,034,777.84	3,221,915,000.00	6,666,949,777.84
2022	3,291,812,389.06	3,239,040,000.00	6,530,852,389.06
2023	3,137,094,530.53	2,837,680,000.00	5,974,774,530.53
2024	3,007,163,117.14	2,566,480,000.00	5,573,643,117.14
2025	2,888,221,586.90	2,741,450,000.00	5,629,671,586.90
2026	2,755,435,362.85	2,510,425,000.00	5,265,860,362.85
2027	2,622,187,658.31	2,609,705,000.00	5,231,892,658.31
2028	2,499,344,795.86	2,600,745,000.00	5,100,089,795.86
2029	2,372,699,095.10	2,548,470,000.00	4,921,169,095.10
2030	2,248,503,691.35	2,619,940,000.00	4,868,443,691.35
2031	2,105,121,489.05	2,673,005,000.00	4,778,126,489.05
2032	1,974,628,801.90	2,647,560,000.00	4,622,188,801.90
2033	1,838,543,162.51	2,781,055,000.00	4,619,598,162.51
2034	1,717,821,092.71	3,283,005,000.00	5,000,826,092.71
2035	1,492,586,749.09	3,070,980,000.00	4,563,566,749.09
2036	1,308,403,676.25	2,913,765,000.00	4,222,168,676.25
2037	1,139,534,519.90	3,044,485,000.00	4,184,019,519.90
2038	963,381,042.55	3,197,825,000.00	4,161,206,042.55
2039	823,230,060.20	3,413,375,000.00	4,236,605,060.20
2040	535,497,406.25	2,067,885,000.00	2,603,382,406.25
2041	366,279,287.50	2,190,000,000.00	2,556,279,287.50
2042	263,999,287.50	1,319,000,000.00	1,582,999,287.50
2043	208,541,912.50	1,326,325,000.00	1,534,866,912.50
2044	134,972,892.50	875,000,000.00	1,009,972,892.50
2045	104,094,918.75	550,000,000.00	654,094,918.75
2046	73,321,493.75	500,000,000.00	573,321,493.75
2047	49,596,493.75	525,000,000.00	574,596,493.75
2048	23,060,847.13	650,000,000.00	673,060,847.13
2049	4,125,000.00	165,000,000.00	169,125,000.00
Total	**$ 48,821,435,347.40**	**$ 69,223,185,000.00**	**$ 118,044,620,347.40**

(a) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(b) Includes scheduled mandatory sinking fund payments. Does not include outstanding commercial paper.
(c) Represents the remaining debt service requirements from February 1, 2019 through June 30, 2019.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Variable Rate
As of January 1, 2019

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2019 (c)	33,351,810.45	113,420,000.00	146,771,810.45
2020	73,858,185.21	105,700,000.00	179,558,185.21
2021	72,261,658.47	154,400,000.00	226,661,658.47
2022	69,857,226.34	39,200,000.00	109,057,226.34
2023	69,325,509.09	121,100,000.00	190,425,509.09
2024	67,401,419.29	233,600,000.00	301,001,419.29
2025	63,362,957.85	176,400,000.00	239,762,957.85
2026	60,503,482.86	263,300,000.00	323,803,482.86
2027	55,672,896.15	274,600,000.00	330,272,896.15
2028	46,990,734.99	559,000,000.00	605,990,734.99
2029	36,148,084.82	467,700,000.00	503,848,084.82
2030	27,156,763.53	364,390,000.00	391,546,763.53
2031	19,443,993.03	323,600,000.00	343,043,993.03
2032	11,666,783.20	425,600,000.00	437,266,783.20
2033	3,673,923.16	271,400,000.00	275,073,923.16
2034	83,332.23	1,600,000.00	1,683,332.23
2035	64,189.00	-	64,189.00
2036	64,372.15	-	64,372.15
2037	64,005.85	-	64,005.85
2038	64,189.00	-	64,189.00
2039	64,189.00	-	64,189.00
2040	63,325.85	800,000.00	863,325.85
2041	53,320.25	-	53,320.25
2042	53,113.33	-	53,113.33
2043	53,113.33	-	53,113.33
2044	53,249.09	-	53,249.09
2045	53,148.91	-	53,148.91
2046	53,199.00	-	53,199.00
2047	47,973.22	2,000,000.00	2,047,973.22
Total	**$ 711,510,148.65**	**$ 3,897,810,000.00**	**$ 4,609,320,148.65**

(a) The estimate of future interest payments is based on rates in effect as of January 1, 2019. The interest rates for the daily, weekly and monthly rate bonds range from 1.09 - 3.13%.
The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, Series 2014A currently bears interest at a fixed rate of 3.00%, and Series 2016A currently bears interest at a fixed rate of 4.00% (the "Prop 1B Put Bonds"). The Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century, currently bears interest at a fixed rate of 2.193% (the "Prop 1A Put Bonds"). The Prop 1B Put Bonds and the Prop 1A Put Bonds will bear interest at the respective fixed rate until each series' respective reset date, and are assumed to bear the respective fixed rates for each such series from reset until maturity.
(b) Includes scheduled mandatory sinking fund payments. Does not include outstanding commercial paper.
(c) Represents the remaining estimated debt service requirements from February 1, 2019 through June 30, 2019.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR LEASE-REVENUE DEBT
Fixed Rate
January 1, 2019

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2019 (c)	220,311,538.05	205,190,000.00	425,501,538.05
2020	425,173,102.85	549,705,000.00	974,878,102.85
2021	398,980,286.45	522,595,000.00	921,575,286.45
2022	373,305,541.48	510,050,000.00	883,355,541.48
2023	349,725,389.04	467,405,000.00	817,130,389.04
2024	326,914,805.97	464,615,000.00	791,529,805.97
2025	303,707,574.93	483,340,000.00	787,047,574.93
2026	279,339,882.51	497,605,000.00	776,944,882.51
2027	254,036,991.07	522,820,000.00	776,856,991.07
2028	227,865,984.56	535,730,000.00	763,595,984.56
2029	201,083,523.07	502,080,000.00	703,163,523.07
2030	175,817,998.38	494,245,000.00	670,062,998.38
2031	151,491,841.25	487,270,000.00	638,761,841.25
2032	126,171,967.49	499,105,000.00	625,276,967.49
2033	101,862,694.49	430,315,000.00	532,177,694.49
2034	79,464,586.24	414,050,000.00	493,514,586.24
2035	57,325,451.05	377,670,000.00	434,995,451.05
2036	39,795,362.50	254,245,000.00	294,040,362.50
2037	27,779,150.00	249,975,000.00	277,754,150.00
2038	15,522,100.00	179,825,000.00	195,347,100.00
2039	7,217,712.50	124,310,000.00	131,527,712.50
2040	2,078,800.00	81,865,000.00	83,943,800.00
Total	**$ 4,144,972,283.88**	**$ 8,854,010,000.00**	**$ 12,998,982,283.88**

(a) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(b) Includes scheduled mandatory sinking fund payments.
(c) Represents the remaining debt service requirements from February 1, 2019 through June 30, 2019.

SOURCE: State of California, Office of the Treasurer.

STATE PUBLIC WORKS BOARD AND OTHER LEASE-REVENUE FINANCING OUTSTANDING ISSUES
As of January 1, 2019

Name of Issue		Outstanding
GENERAL FUND SUPPORTED ISSUES:		
State Public Works Board		
California Community Colleges	$	136,645,000
California Department of Corrections and Rehabilitation		4,004,300,000
Trustees of the California State University		154,685,000
Various State Facilities (a)		4,393,930,000
Total State Public Works Board Issues	**$**	**8,689,560,000**
Total Other State Facilities Lease-Revenue Issues (b)	$	164,450,000
Total General Fund Supported Issues	**$**	**8,854,010,000**
SPECIAL FUND SUPPORTED ISSUES:		
San Bernardino Joint Powers Financing Authority		6,865,000
Total Special Fund Supported Issues	**$**	**6,865,000**
TOTAL	**$**	**8,860,875,000**

(a) Includes projects that are supported by multiple funding sources in addition to the General Fund.
(b) Includes $53,180,000 Sacramento City Financing Authority Lease-Revenue Refunding Bonds State of California - Cal/EPA Building, 2013 Series A, which are supported by lease rentals from the California Environmental Protection Agency; these rental payments are subject to annual appropriation by the State Legislature.

SOURCE: State of California, Office of the Treasurer.

GENERAL OBLIGATION AND REVENUE BONDS
SUMMARY OF DEBT SERVICE REQUIREMENTS
As of January 1, 2019

	Total Debt		
	Interest	**Principal**	**Total (a)**
GENERAL OBLIGATION BONDS			
GENERAL FUND NON-SELF LIQUIDATING (b)			
Fixed Rate	$ 48,821,435,347.40	$ 69,223,185,000.00	$ 118,044,620,347.40
Variable Rate (c)	711,510,148.65	3,897,810,000.00	4,609,320,148.65
ENTERPRISE FUND SELF LIQUIDATING			
Fixed Rate	399,571,136.69	764,140,000.00	1,163,711,136.69
REVENUE BONDS			
GENERAL FUND LEASE-REVENUE			
Lease-Revenue	4,144,972,283.88	8,854,010,000.00	12,998,982,283.88
General Fund and Lease-Revenue Total (d)	**$ 54,077,488,916.62**	**$ 82,739,145,000.00**	**$ 136,816,633,916.62**

(a) Includes scheduled mandatory sinking fund payments.
(b) Does not include outstanding commercial paper.
(c) The estimate of future interest payments is based on rates in effect as of January 1, 2019. The interest rates for the daily, weekly and monthly rate bonds range from 1.09 - 3.13%.
The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, Series 2014A currently bears interest at a fixed rate of 3.00% and Series 2016A currently bears interest at a fixed rate of 4.00% (the "Prop 1B Put Bonds"). The Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century, Series 2017B currently bears interest at a fixed rate of 2.193% (the "Prop 1A Put Bonds"). The Prop 1B Put Bonds and the Prop 1A Put Bonds will bear interest at the respective fixed rate until each series' respective reset date, and are assumed to bear the respective fixed rates for each such series from reset until maturity.
(d) Estimated interest included.

SOURCE: State of California, Office of the Treasurer.

STATE AGENCY REVENUE BONDS
AND CONDUIT FINANCING
As of December 31, 2018

Issuing Agency	Outstanding[(a)(b)(c)]
State Revenue Bond Financing Programs:	
California Alternative Energy and Advanced Transportation Financing Authority	2,130,667
California Department of Transportation - GARVEE	21,155,000
California Earthquake Authority	105,000,000
California Health Facilities Financing Authority	49,090,000
California Housing Finance Agency	1,311,510,197
California Infrastructure and Economic Development Bank	1,577,510,000
California State University	6,211,478,000
Department of Water Resources - Central Valley Project	2,484,675,000
Department of Water Resources - Power Supply Program	3,212,545,000
The Regents of the University of California	19,708,535,000
Veterans Revenue Debenture	315,665,000
TOTAL	**34,999,293,864**
Conduit Financing:	
California Alternative Energy and Advanced Transportation Financing Authority	3,619,623
California Educational Facilities Authority	4,514,226,072
California Health Facilities Financing Authority	17,443,103,912
California Housing Finance Agency	965,122,241
California Infrastructure and Economic Development Bank	4,257,298,677
California Pollution Control Financing Authority	3,569,266,755
California School Financing Authority	1,160,329,392
TOTAL	**31,912,966,672**

(a) Totals for California Department of Transportation, California State University, Department of Water Resources and Veterans Revenue Debenture were provided by the State of California, Office of the Treasurer. All other totals were provided by the listed issuing agency.

(b) Does not include the Tobacco Settlement Revenue Bonds issued by Golden State Tobacco Securitization Corporation.

(c) Certain state agencies and authorities issue revenue obligations for which the General Fund has no liability. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing -Non-Recourse Debt." The tables above are intended to provide general information concerning the scope of the various State Revenue Bond Financing and Conduit Financing Programs referenced therein, and are not intended to be an exhaustive listing of all of the outstanding obligations of the respective programs.

EXHIBIT 1 TO APPENDIX A

PENSION SYSTEMS

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PENSION SYSTEMS

General

California Public Employees' Retirement System ("CalPERS") and California State Teachers' Retirement System ("CalSTRS") are the two principal retirement systems in which the state participates. The assets and liabilities of the funds administered by CalPERS and CalSTRS are included as fiduciary funds in the financial statements of the state. Thus, a summary description of CalPERS and CalSTRS is set forth in the state's financial statements and required supplementary information. CalPERS and CalSTRS each have unfunded liabilities in the tens of billions of dollars. See "FINANCIAL STATEMENTS."

CalPERS is administered by a 13-member Board of Administration (the "CalPERS Board") that includes four ex officio members: the State Controller, the Director of the California Department of Human Resources, the State Treasurer, and a member designated by the State Personnel Board. The other nine CalPERS Board members include six elected members: a member elected by active school employees, a member elected by retirees, a member elected by active state employees, a member elected by active public agency employees, two members elected by all members, and three appointed members: a public representative appointed jointly by the Speaker of the Assembly and the Senate Rules Committee, an official of a life insurer appointed by the Governor, and an elected local official appointed by the Governor.

CalSTRS is administered by a 12-member Teachers' Retirement Board (the "CalSTRS Board") that includes four ex officio members: the California Director of Finance, State Controller, the State Superintendent of Public Instruction, and the State Treasurer. The other eight CalSTRS Board members serve four-year terms and include three CalSTRS member-elected representatives who represent current educators, and five representatives appointed by the Governor and confirmed by the Senate including: one retired CalSTRS member, three public representatives, and one school board representative.

The 2019-20 Governor's Budget reflects changes in actuarial assumptions made by CalPERS and CalSTRS in recent years that significantly increased the state's required General Fund pension contributions. At its December 21, 2016 meeting, the CalPERS Board reduced the assumed rate of return on its investments from 7.5 to 7 percent, to be phased in over three fiscal years (2017-18 through 2019-20). Similarly, on February 1, 2017, the CalSTRS Board approved a reduction in its assumed rate of return on investments to 7 percent to be phased in over two fiscal years (2017-18 and 2018-19). These actions increased the state's unfunded pension liabilities and thereby resulted in necessary increases in the state's contributions to the pension systems.

The University of California ("UC") maintains a separate retirement system. The 2019-20 Governor's Budget did not specifically allocate any of UC's appropriation to fund its employer retirement costs; UC manages its retirement contributions within its overall budget.

General Fund retirement costs are expected to continue to increase in the foreseeable future. The amount of such increases will depend on a variety of factors, including but not

limited to actual investment returns, actuarial assumptions, actual experience, benefit adjustments and, in the case of CalSTRS, statutory changes to contribution levels.

The information in this section relating to CalPERS and CalSTRS is primarily derived from information produced by CalPERS and CalSTRS, their independent accountants and their actuaries. The state has not independently verified the information produced by CalPERS and CalSTRS and makes no representations nor expresses any opinion as to the accuracy of the information produced by CalPERS and CalSTRS.

The comprehensive annual financial reports of CalPERS and CalSTRS are available on their websites at www.calpers.ca.gov and www.calstrs.com, respectively. The CalPERS and CalSTRS websites also contain the most recent actuarial valuation reports, as well as other information concerning benefits and other matters. Such information is not incorporated by reference herein. The state cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

CalPERS

1. General

CalPERS administers a total of 12 funds, including four funds for the defined benefit retirement plans: the Public Employees' Retirement Fund ("PERF"), the Legislators' Retirement Fund ("LRF"), the Judges' Retirement Fund ("JRF"), and the Judges' Retirement Fund II ("JRF II"). (These plans, as well as the other plans administered by CalPERS, are described in the comprehensive financial reports of CalPERS, which can be found on CalPERS' website at www.calpers.ca.gov. Such information is not incorporated by reference herein.) The PERF, LRF, JRF, and JRF II are defined benefit pension plans which generally provide benefits based on members' years of service, age, final compensation, and benefit formula. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Certain summary information concerning PERF is set forth below. Certain summary information concerning LRF, JRF, JRF II, and the 1959 Survivor Benefit program (which provides payments to the survivors of eligible members who die before retirement) is set forth at the end of this section.

CalPERS is administered by a 13-member Board of Administration (the "CalPERS Board"), that includes the State Controller, Director of the California Department of Human Resources, the State Treasurer, and a member designated by the State Personnel Board, who serve ex officio. The other CalPERS Board members include a member elected by active school employees, a member elected by retirees, a member elected by active state employees, a member elected by active public agency employees, two members elected by all members, a public representative appointed jointly by the Speaker of the Assembly and the Senate Rules Committee, an official of a life insurer appointed by the Governor, and an elected local official appointed by the Governor.

2. Members and Employers

The PERF is a multiple-employer defined benefit retirement fund. In addition to the state, employer participants include nearly 3,000 public agencies and school districts. CalPERS acts as the common investment and administrative agent for the member agencies. The state and schools (for "classified employees," which generally consist of school employees other than teachers) are required by law to participate in CalPERS. Other public agencies can elect whether or not to participate in CalPERS or administer their own plans. Members of CalPERS generally become fully vested in their retirement benefits earned to date after five years of credited service. Separate accounts are maintained for each employer participating in CalPERS, and separate actuarial valuations are performed for each individual employer's plan to determine the employer's periodic contribution rate and other information for the individual plan, based on the benefit selected by the employer and the individual plan's proportionate share of CalPERS assets.

Unless otherwise specified, the information relating to CalPERS provided in this section relates only to state employees. State employees include Executive Branch, California State University, Judicial, and Legislature employees.

The following table reflects the number of state employee members of CalPERS as of June 30, 2017 and June 30, 2018.

TABLE 31
CalPERS State Employee Membership as of June 30

Category	2017	2018
Retirees	202,438	208,086
Survivors and Beneficiaries	36,356	38,545
Active Members	272,222	269,697
Inactive Members	93,540	97,875
Total	604,556	614,203

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2017 and June 30, 2018.

Benefits for state employees are paid according to the category of employment and the type of benefit coverage provided by the state. Generally, all employees in a covered class of employment who work on a half-time basis or more are eligible to participate in CalPERS. The five categories of membership applicable to state employees are set forth below. Certain categories also have "tiers" of membership. It is up to the employee to select his or her preferred membership tier. Different tiers may have different benefits, as well as different employee contribution requirements. The member categories are as follows:

- Miscellaneous Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.

- Safety Members – employees whose principal duties are in active law enforcement or fire prevention and suppression work but are not defined as a

State Peace Officer/Firefighter Member, or who occupy positions designated by law as Safety Member positions.

- State Industrial Members – employees of the California Department of Corrections and Rehabilitation who have the same service retirement and other benefits as Miscellaneous Members, but who also have industrial death and disability benefits under certain limited circumstances.

- State Peace Officer/Firefighter Members – employees who are involved in law enforcement, firefighting and fire suppression, public safety, protective services, or the management and supervision thereof, whose positions are defined as State Peace Officer/Firefighter Members in the Government Code or by the Department of Human Resources.

- Patrol Members – California Highway Patrol officers and their related supervisors and managers.

3. Retirement Benefits

Generally, annual pension benefits depend on employment category, years of service credit, final compensation, and age of retirement. Annual pension benefits generally range from 2 percent of final compensation at age 55 for each year of service credit (applicable to Miscellaneous and State Industrial category members) to 3 percent of final compensation for each year of service for retirement at age 50 (for State Peace Officer/Firefighter category members). Pension benefits are subject to annual cost of living adjustments (generally ranging from 2-3 percent) and an additional adjustment intended to preserve the "purchasing power" of the pension benefit. Additional pension benefits also generally include disability and death benefit provisions. A detailed description of the pension benefits payable by PERF to state employees is set forth in CalPERS' actuarial valuations.

The Public Employees' Pension Reform Act of 2013 ("PEPRA") (AB 340, Chapter 296, Statutes of 2012) increased the retirement age for new CalPERS members hired on or after January 1, 2013 ("PEPRA members"). State Miscellaneous and State Industrial PEPRA members who retire at age 62 will be eligible for a benefit equal to 2 percent of final compensation for each year of credited service (up to 2.5 percent of final compensation for members retiring after age 67). Approximately 32 percent of the state active member population consists of PEPRA members as of June 30, 2018.

The following table shows the amount of pension benefits paid from CalPERS for fiscal years 2012-13 through 2016-17.

TABLE 32
CalPERS (State Only)
Schedule of Pension Benefits Paid
(Dollars in Millions)

Fiscal Year	Benefits Paid
2012-13	$6,935
2013-14	7,410
2014-15	7,859
2015-16	8,307
2016-17	8,717

Source: CalPERS State Actuarial Valuation for Fiscal Years Ended June 30, 2013 through June 30, 2017.

4. Member and State Contributions

The pension benefits for state employee members in CalPERS are funded by contributions from members and the state, and by earnings from investments. Member and state contributions are a percentage of applicable member compensation and are determined annually on an actuarial basis. Member contribution rates are defined by law and vary by bargaining units within the same employee classification. The required contribution rates of active CalPERS state members are based on a percentage of their salary ranging from 3.75 to 13 percent.

State contributions are made from the General Fund, special funds, and non-governmental cost funds. The state has made the full amount of actuarially required contribution each year. The rates below also include additional state contributions due to savings realized by the state as a result of increased employee contributions under PEPRA.

The 2019-20 Governor's Budget includes the following employer contribution rates for fiscal year 2019-20:

	Contribution Rates
State Miscellaneous Tier 1	31.298%
California State University, Miscellaneous Tier 1	31.298
State Miscellaneous Tier 2	31.298
State Industrial	21.881
State Safety	22.682
State Peace Officers & Firefighters	48.247
California State University, Peace Officers and Firefighters	48.247
California Highway Patrol	58.319

Table 33 shows the state's actual and estimated contributions to CalPERS for fiscal years 2015-16 through 2019-20.

TABLE 33
State Contributions to PERF, including CSU
(Dollars in Millions)

Fiscal Year	State Employees All Funds	State Employees General Fund	CSU Employees All Funds	CSU General Fund	Total Contributions	Total General Fund
2015-16	$4,338	$2,281	$585	$584	$4,922	$2,866
2016-17	4,754	2,506	621	621	5,375	3,128
2017-18[(a)]	5,188	2,727	661	661	5,849	3,388
2018-19[(b) (c)]	5,506	2,890	683	683	6,190	3,574
2019-20[(b)]	6,028	3,166	727	727	6,756	3,893

(a) Does not reflect the one-time $6 billion supplemental pension payment to CalPERS in fiscal year 2017-18 per Chapter 50, Statutes of 2017 (SB 84) as described below.

(b) Estimated contributions.

(c) Does not reflect the proposed one-time $3 billion General Fund supplemental pension payment to CalPERS in fiscal year 2018-19 as proposed in the 2019-20 Governor's Budget.

Note: Totals may not add due to rounding effects.

Source: State of California, Department of Finance.

In addition to the state's actuarially-determined contributions, the 2017 Budget Act included a one-time $6 billion supplemental pension payment to CalPERS in fiscal year 2017-18, to mitigate the future increase in state contributions and reduce unfunded liabilities. The supplemental pension payment is being funded through an internal cash loan from the Surplus Money Investment Fund (a state fund managed by the State Treasurer's Office as part of the Pooled Money Investment Account to invest surplus cash from special funds held by state departments). The supplemental pension payment was apportioned accordingly to the five state retirement plans administered by CalPERS based on the unfunded liability of each plan. As of the 2019-20 Governor's Budget, the Department of Finance projects that the $6 billion supplemental pension payment will save an estimated $4.8 billion in state contributions (net of principal and interest on the loan) to CalPERS from all state funded sources over the next two decades. The amount of estimated savings allocable to each such fund will generally be proportionate to its share of the payments on the loan. Approximately half of the total loan payments are expected to come from the General Fund. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2" in the forepart of Appendix A for a description of the loan and related repayment terms and sources.

The 2019-20 Governor's Budget proposes a one-time $3 billion General Fund supplemental pension payment to CalPERS in fiscal year 2018-19, in addition to the state's actuarially-determined contribution. Based on current CalPERS actuarial assumptions, this supplemental pension payment is estimated to result in total savings of about $7.2 billion over the next three decades.

5. Prospective Funding Status; Future State Contributions

The level of future required contributions from the state depends on a variety of factors, including future investment portfolio performance, actuarial assumptions, and additional potential changes in retirement benefits. In December 2016, the CalPERS Board voted to lower its assumed rate of return from 7.5 to 7 percent over three years, which will result in contribution increases for employers and some employees. The increase in contributions the state will incur, as a result of the discount rate change, will be implemented over a five-year ramp-up period, with full implementation in fiscal year 2023-24. It was estimated at the 2017 Budget Act that by fiscal year 2023-24, state contributions will increase by $931 million ($552 million General Fund), reaching $8.6 billion ($4.9 billion General Fund) in total, due to changes in the discount rate, scheduled contribution increases under existing funding policies, and payroll growth. In addition, as previously mentioned, the 2017 Budget Act included a one-time $6 billion additional payment to CalPERS in fiscal year 2017-18, which results in a decrease to the state's projected contributions beginning in fiscal year 2018-19. The $3 billion proposed supplemental pension payment to CalPERS in 2018-19 is projected to result in further reductions to the state's contributions starting in fiscal year 2019-20.

The projected state contribution rates for fiscal years 2019-20 through 2023-24 as published in the actuarial valuation for the fiscal year ended June 30, 2017 are included in the table below. These projected rates were approved by the CalPERS Board at its April 2018 meeting and serve as the basis for the sensitivity analysis included in the June 30, 2017 valuation, also set forth below. The June 30, 2017 valuation also includes the additional state contribution rates required by statute to offset increased member contributions under PEPRA for fiscal year 2017-18. The table below shows the projected state contribution rates for fiscal years 2019-20 through 2023-24, and assumes the additional statutorily required state contribution rates for 2017-18 remain constant through fiscal year 2023-24. Beginning with the actuarial valuation for the fiscal year ended June 30, 2016, CalPERS combined the Tier 1 and Tier 2 of the State Miscellaneous employer contribution rates as a single State Miscellaneous rate for administrative efficacy. The projected state contribution rates reflect the impact of the 2017-18 $6 billion supplemental pension payment thus far, the fiscal year 2017-18 investment return of 8.6 percent and projected additional contributions required to offset increased member contributions under PEPRA. The estimated impact of the proposed 2018-19 $3 billion supplemental pension payment is not reflected.

Projected Contribution Rates

Plan:	Fiscal Year 2019-20	2020-21	2021-22	2022-23	2023-24
State Miscellaneous	31.298%	31.998%	32.398%	32.298%	32.598%
State Industrial	21.881	22.481	22.781	22.481	22.581
State Safety	22.682	22.882	22.882	22.682	21.982
State Peace Officers & Firefighters	48.247	49.447	50.147	50.147	50.447
California Highway Patrol	58.319	59.819	60.519	60.719	61.219

Source: CalPERS State Actuarial Valuation for Fiscal Year Ended June 30, 2017.

In accordance with state law, the actuarial valuation for the fiscal year ended June 30, 2017 includes a sensitivity analysis of discount rates. The analysis shows that employer contribution rates are highly sensitive to changes in the discount rate and that employer contribution rates would be significantly reduced if a higher discount rate is used, and employer contribution rates would significantly increase if a lower discount rate is used. The actuarial valuation for the fiscal year ended June 30, 2017 contains information concerning the specific impact on employer contribution rates and unfunded liability resulting from these different discount rate assumptions.

The tables below show projected state contribution rates for fiscal years 2020-21 through 2022-23 for the employee categories under five different investment return scenarios, based on an 8.6 percent investment return for fiscal year 2017-18. The projected state contribution rates assume that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur. The five different investment return scenarios are as follows:

- The first scenario assumes a 1.00 percent return for each of the fiscal years 2018-19, 2019-20, and 2020-21.
- The second scenario assumes a 4.00 percent return for each of the fiscal years 2018-19, 2019-20, and 2020-21.
- The third scenario assumes a 7.00 percent return for each of the fiscal years 2018-19, 2019-20, and 2020-21.
- The fourth scenario assumes a 9.00 percent return for each of the fiscal years 2018-19, 2019-20, and 2020-21.
- The fifth scenario assumes a 12.00 percent return for each of the fiscal years 2018-19, 2019-20, and 2020-21.

In all the scenarios, rates are expressed as a percentage of payroll.

Estimated: Fiscal Year 2020-21

Assumed return	1.00%	4.00%	7.00%	9.00%	12.00%
Projected Contribution Rates					
State Miscellaneous	32.8%	32.4%	31.9%	31.7%	31.2%
State Industrial	22.3	21.9	21.6	21.4	21.0
State Safety	22.3	22.1	21.7	21.5	21.2
State Peace Officers & Firefighters	49.0	48.4	47.8	47.4	46.8
California Highway Patrol	59.7	59.1	58.5	58.0	57.4

Source: CalPERS State Actuarial Valuation for Fiscal Year Ended June 30, 2017.

Estimated: Fiscal Year 2021-22

Assumed return	1.00%	4.00%	7.00%	9.00%	12.00%
Projected Contribution Rates					
State Miscellaneous	34.8%	33.6%	32.3%	31.4%	30.1%
State Industrial	23.9	22.9	21.9	21.2	20.1
State Safety	23.4	22.7	21.7	21.1	20.2
State Peace Officers & Firefighters	52.1	50.3	48.5	47.2	45.4
California Highway Patrol	62.9	61.1	59.2	57.9	56.0

Source: CalPERS State Actuarial Valuation for Fiscal Year Ended June 30, 2017.

Estimated: Fiscal Year 2022-23

Assumed return	1.00%	4.00%	7.00%	9.00%	12.00%
Projected Contribution Rates					
State Miscellaneous	37.1%	34.7%	32.2%	30.5%	27.9%
State Industrial	25.6	23.7	21.6	20.2	18.1
State Safety	24.6	23.3	21.5	20.2	18.3
State Peace Officers & Firefighters	55.5	52.1	48.5	46.0	42.2
California Highway Patrol	66.6	63.1	59.4	56.8	52.9

Source: CalPERS State Actuarial Valuation, for Fiscal Year Ended June 30, 2017.

6. Investment Policy; Investment Returns

Pursuant to the state Constitution, the CalPERS Board has sole and exclusive fiduciary responsibility over the assets of the PERF. CalPERS' assets are managed both externally by professional investment management firms and internally by CalPERS investment staff. The CalPERS Board monitors the performance of the managers with the assistance of an external investment consultant.

CalPERS has established a series of procedures and guidelines with respect to investments. The procedures, grouped together as the "Total Fund Investment Policy," serve to guide CalPERS' investment strategy for PERF. The CalPERS Board reviews the Total Fund Investment Policy as needed. Additional information concerning CalPERS investments can be found on the CalPERS website.

The following tables set forth the total return on all assets for PERF for fiscal years 2008-09 through 2017-18, as well as time-weighted average returns.

TABLE 34
CalPERS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Return
2008-09	(24.0)%
2009-10	13.3
2010-11	21.7
2011-12	0.1
2012-13	13.2
2013-14	18.4
2014-15	2.4
2015-16	0.6
2016-17	11.2
2017-18	8.6

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2008 through June 30, 2018.

TABLE 35
PERF Time-Weighted Average Returns as of June 30, 2018

Period	Time Weighted Average Rate of Return
3 years	6.7%
5 years	8.1
10 years	5.6
20 years	6.1

Source: CalPERS August 13, 2018, Board Meeting Agenda Item; CalPERS Newsletter, July 12, 2018 for the 20-year time period.

With the exception of the 5-year rate, every rate is below 7.375 percent, CalPERS' actuarially assumed rate of return for fiscal year 2017-18. In order to more accurately reflect investment expectations given the current environment, the CalPERS Board of Administration voted at its December 21, 2016 meeting to phase in a reduction in the assumed rate of return, from 7.5 percent to 7 percent, by fiscal year 2019-20.

CalPERS has publicly indicated that it expects actual investment returns in the next ten year period will be less than the 7 percent rate of return. Actual investment returns lower than the actuarially assumed level will result in decreased funding status, and increased actuarially required contributions.

7. Actuarial Methods and Assumptions

The total cost CalPERS incurs to provide benefits includes administrative expenses. All of these costs are funded through contributions to the PERF and investment earnings on PERF's assets. CalPERS' Chief Actuary estimates the total cost of the benefits to be paid and, using the actuarial funding method determined by CalPERS (as described below), the actuary allocates these costs to the fiscal years. CalPERS' financial objective is to fund in such a manner as to keep contribution rates approximately level as a percentage of payroll from generation to generation, while accumulating sufficient assets over each member's working career in order to cover the total cost of providing benefits.

The primary funding method used to accomplish this objective is the "Entry Age Normal Cost Method." Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual costs as a level percent of pay in each year from the age of hire (entry age) to the assumed retirement age. The cost allocated to the current fiscal year is called the "normal cost." The Actuarial Accrued Liability ("AAL") for active members is then calculated as the portion of the total cost of the plan allocated to prior years.

The CalPERS Chief Actuary considers various factors in determining the assumptions to be used in preparing the actuarial report. Demographic assumptions are based on a study of the actual history of retirement, rates of termination/separation of employment, years of life expectancy after retirement, disability, and other factors. This experience study is generally done once every four years. The most recent experience study was completed in 2017 in connection with the preparation of actuarial recommendations by the CalPERS Chief Actuary as described below.

In December 2016, the CalPERS Board lowered the discount rate to be phased in over three years: for fiscal year 2017-18 to a rate of 7.375 percent, for fiscal year 2018-19 to a rate of 7.25 percent, and for fiscal year 2019-20 to a rate of 7 percent. The impact on the contribution rates began to be phased-in for the state beginning in fiscal year 2017-18.

The following table sets forth certain economic actuarial assumptions for fiscal years 2017-18 through 2020-21.

TABLE 36
Actuarial Assumptions—PERF

	Fiscal Year[a]			
Assumption	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Investment Returns	7.25%	7.00%	7.00%	7.00%
Inflation	2.625	2.50	2.50	2.50
Salary Increase (Total Payroll)	2.875	2.75	2.75	2.75

(a) The assumptions for fiscal year 2017-18 are cited in the CalPERS State Actuarial Valuation for Fiscal Year Ended June 30, 2017. The investment return assumptions for fiscal year 2018-19 and subsequent fiscal years were approved by the CalPERS Board at its December 2016 meeting, as a result of the Asset Liability Management Process completed at that time. The assumptions for inflation and salary increase for fiscal year 2018-19 and subsequent fiscal years were also approved by the CalPERS Board at its December 2017 meeting, as recommended by the 2017 experience study.

On November 18, 2015, the CalPERS Board adopted a Funding Risk Mitigation Policy that seeks to reduce funding risk over time. It establishes a mechanism whereby CalPERS investment performance that significantly outperforms the discount rate triggers adjustments to the discount rate, expected investment return, and strategic asset allocation targets. Reducing the volatility of investment returns is expected to increase the long-term sustainability of CalPERS pension benefits for members. In February 2017, the CalPERS Board revised the Funding Risk Mitigation Policy. The revisions include suspension of the policy until fiscal year 2020-21, and a decrease of the required first excess investment return threshold from 4 to 2 percent.

On February 14, 2018, the CalPERS Board of Administration adopted revisions to its actuarial amortization policy. Major revisions that affect state plans were made to the amortization of investment gains and losses, as well as to actuarial surplus. For the amortization of investment gains and losses, the amortization period was reduced from 30 years to 20 years, and the 5-year direct smoothing process was removed from the end of the amortization period. Amortization of actuarial surplus was eliminated. These policy revisions will be applied to the amortization of investment gains and losses, and actuarial surplus, experienced on or after June 30, 2019. These revisions will affect contributions starting in fiscal year 2020-21.

8. Actuarial Valuation; Determination of Required Contributions

The required state contributions to PERF are determined on an annual basis by the CalPERS Chief Actuary. The actuary uses demographic and other data (such as employee age, salary, and service credits) and various assumptions (such as estimated salary increases, interest rates, employee turnover, and mortality and disability rates) to determine the amount that the state must contribute in a given year to provide sufficient funds to PERF to pay benefits when due. The actuary then produces a report, called the "actuarial valuation," in which the actuary reports on the assets, liabilities, and required contribution for the following fiscal year. State law requires the state to make the actuarially-required contribution to PERF each year.

A portion of the actuarial valuations performed by CalPERS actuaries are audited each year by an independent actuarial firm. The actuarial valuations specific to state employees are audited every three years. The most recent audit was for the June 30, 2015 actuarial valuation and was completed in December 2016.

9. Funding Status

The following table sets forth the schedule of funding status relating to the state's participation in PERF as of the five most recent actuarial valuation dates. Funding status is measured by a comparison of the state's share of PERF assets to pay state employee benefits with plan liabilities.

On April 18, 2018, the CalPERS Board adopted the contribution rates for the state plans as of June 30, 2017. The unfunded liability allocable to state employees (excluding judges and elected officials) is estimated to be $58.7 billion as of June 30, 2017, which is a decrease of $812 million from the June 30, 2016 valuation. The funded ratio increased to 67.4 percent as of June 30, 2017 from 65.1 percent as of June 30, 2016.

CalPERS earned an 11.2 percent net return on investments for fiscal year 2016-17 and an 8.6 percent net return on investments for fiscal year 2017-18. While high returns will have a positive impact on funded status, the three-year phase in to a 7 percent assumed rate of return will have a negative impact. See Table 36 for phase-in of lowered assumed rates of return.

TABLE 37
PERF Schedule of Funding Status
State Employees Only
(Dollars in Millions)

	Fiscal Year				
	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Market Value of Assets (MVA)	$97,453	$111,982	$112,532	$111,121	$121,587
Actuarial Accrued Liabilities	147,393	155,247	162,091	170,657	180,311
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis	(49,940)	(43,265)	(49,559)	(59,536)	(58,724)
Covered Payroll	15,347	16,476	17,453	18,092	18,799
Funded Ratio (MVA)	66.1%	72.1%	69.4%	65.1%	67.4%

Source: CalPERS State Actuarial Valuation for Fiscal Years Ended June 30, 2013 through June 30, 2017.

10. Other Retirement Plans

In addition to PERF, CalPERS also administers the Judges' Retirement System ("JRS"), the Judges' Retirement System II ("JRS II"), the Legislators' Retirement System ("LRS"), and the 1959 Survivor Benefit program.

In the JRF actuarial reports for the year ended June 30, 2018, CalPERS reported that JRF and JRF II had an unfunded actuarial liability of approximately $3.3 billion and $22.8 million, respectively. For the same year, the LRF reported a funding surplus of $16.6 million. In the 1959 Survivor Benefit Program actuarial report for the year ended June 30, 2017, CalPERS reported that the program had an unfunded actuarial liability of approximately $41 million; an updated estimate will be published with the actuarial valuation as of June 30, 2018, which is expected to be released in spring 2019.

The state's fiscal year 2019-20 retirement contributions from the General Fund are estimated to be $216 million for JRF, $79 million for JRF II, and approximately $1.0 million for LRF. The state's fiscal year 2019-20 General Fund retirement contribution to the 1959 Survivor Benefit Program has not yet been estimated; it will be published with the actuarial valuation for the 1959 Survivor Benefit Program as of June 30, 2018, which is expected to be released in spring 2019. In fiscal year 2018-19, the state's General Fund retirement contribution to this program is $5.0 million.

Further information concerning JRF, JRF II, and LRF can be found in CalPERS' financial reports and actuarial reports and is set forth in Note 10 (and the "Net Pension Liability and Related Rates" included in the Required Supplementary Information) to the Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2017 attached as an appendix to this Official Statement.

CalSTRS

1. General

CalSTRS was established under the California Education Code in 1913 to provide benefits to California public school and community college teachers and to certain other employees of the state's public school system (kindergarten through community college). CalSTRS is the administrator of multiple-employer, cost-sharing defined benefit plans, tax-deferred defined contribution plans, a Medicare Premium Payment Program, and a Teachers' Deferred Compensation Fund.

The largest CalSTRS fund, the State Teachers' Retirement Plan (the "STRP"), is a multiple employer, cost-sharing, defined benefit plan comprised of four programs: the Defined Benefit Program (referred to in the state's fiscal year 2016-17 financial statements and in this Official Statement as the "DB Program"), the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. Within the DB Program there is also a Supplemental Benefits Maintenance Account (the "SBMA") which provides purchasing power protection for retired members.

The state is not an employer (with certain very limited exceptions) in any CalSTRS programs but does contribute to the DB Program and the SBMA from its General Fund pursuant to statutes in the Education Code. The DB Program is funded through a combination of investment earnings and statutorily set contributions from three sources: the members of CalSTRS, the employers, and the state. Contribution rates for the members and employers to fund the DB Program are not adjusted to reflect or offset actual investment returns or other factors which affect the funded status of the DB Program. The same is true for the contribution rates for the state. For contributions from employers and the state, the CalSTRS Board was provided limited rate setting authority in 2014 under the provisions of AB 1469 (Chapter 47, Statutes of 2014).

The SBMA is a separate account within the DB Program that is funded with a combination of investment earnings and statutorily set contributions from the state. The

Purchasing Power Protection Program payments for retired members are made only to the extent funds are available in the SBMA and are not a vested benefit. See "-Funding for the SBMA."

CalSTRS is administered by a 12-member Teachers' Retirement Board (the "CalSTRS Board") that includes the California Director of Finance, the State Controller, State Superintendent of Public Instruction, and the State Treasurer, who serve ex officio. The other CalSTRS Board members serve four-year terms and include three CalSTRS member-elected representatives representing current educators, one retired CalSTRS member, three public representatives, and one school board representative, each appointed by the Governor and confirmed by the Senate.

Certain summary information concerning the DB Program is set forth below.

2. Members and Employers

As of June 30, 2018, the DB Program included 1,740 employers. The following table reflects the total number of members in the DB Program as of June 30, 2017 and 2018.

TABLE 38
DB Program Membership

Membership	June 30, 2017	June 30, 2018
Active Members	445,778	449,555
Inactive Members	192,688	198,186
Retirees and Beneficiaries	294,835	301,629
Total	933,301	949,370

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2017 and June 30, 2018 – Notes to Basic Financial Statements, Note 1.

CalSTRS reported in its Comprehensive Annual Financial Report for fiscal year ended June 30, 2018 that over the past six years, the number of active members has grown by 8 percent, while the number of retirees and beneficiaries has grown by 12 percent. CalSTRS noted that the average growth rate for active membership is expected to increase in the coming years, as the hiring rate for teachers continues to recover from the economic recession that began in 2008.

3. Retirement Benefits

Member benefits are determined by statute in the Education Code and are generally based on a member's age, final compensation, and years of credited service. Members are 100 percent vested in retirement benefits after five years of credited service and are eligible for normal retirement at age 60 and for early retirement at age 55 or at age 50 with 30 years of credited service. The normal retirement benefit is 2 percent of final compensation (as defined in the Education Code) for each year of credited service (up to 2.4 percent of final compensation for members retiring after age 60), and members who retired on or after January 1, 2001 with 30 or more years of service by December 31, 2010 receive monthly bonus payments of up to $400 per month. PEPRA increased the retirement age for new CalSTRS members hired on or after

January 1, 2013. PEPRA members who retire at age 62 will be eligible for a benefit equal to 2 percent of final compensation for each year of credited service (up to 2.4 percent of final compensation for members retiring after age 62). The PEPRA member population in CalSTRS has been increasing steadily over the last few years. As of June 30, 2017, there were about 82,000 active PEPRA members. According to CalSTRS, there were about 144,000 active PEPRA members as of June 30, 2018, representing roughly 32 percent of the total active population.

Benefits are increased by 2 percent (a simple, not a compounded, cost-of-living increase) of the initial allowance, on each September 1 following the first anniversary of the effective date of the benefit.

The following table shows the amount of benefits and administrative expenses paid under the DB Program for fiscal years 2012-13 through 2016-17:

TABLE 39
DB Program
Schedule of Benefits Paid and Administrative Expenses
(Dollars in Millions)

Fiscal Year	Amount of Benefits Paid	Administrative Expenses
2012-13	$10,844	$133
2013-14	11,414	154
2014-15	11,972	146
2015-16	12,546	183
2016-17	13,226	180

Source: CalSTRS Actuarial Valuations for Fiscal Years ended June 30, 2013 through 2017.

4. Funding for the DB Program

The DB Program is funded with a combination of investment earnings and contributions from members, employers, and the state. The DB Program is one of the four programs under the State Teachers' Retirement Program (STRP). Although specific amounts vary from year to year, approximately 61 percent of total inflows to the STRP were derived from investment earnings, according to CalSTRS. As described below, the contribution rates of the members, employers, and the state are determined by statute in the Education Code instead of actuarially determined amounts as is done for the CalPERS system. Over time, this has contributed to an underfunding of the DB Program.

On June 24, 2014, the Governor signed AB 1469, a comprehensive long-term funding solution intended to eliminate the current CalSTRS unfunded liability on the DB Program by 2046. The changes in contribution rates for members, employers and the state required by AB 1469 are described below. While the plan is intended to eliminate the unfunded liability of the DB Program by 2046, there is no assurance that it will be eliminated by that date. See "— Prospective Funding Status; Future Contributions" below. Accordingly, there can be no assurances that the required amounts annually payable among the members, employers, and state will not significantly increase in the future.

The 2019-20 Governor's Budget proposes multiple supplemental pension payments from the state to CalSTRS. The proposed payments are discussed in further detail later in this section, and are also noted in Table 40.

Member Contributions. Under AB 1469, member contributions increased over time from 8 percent of creditable compensation of the member to the current rate of 10.25 percent for members not subject to PEPRA and to 10.205 percent for members subject to PEPRA. In addition, PEPRA members are required to pay at least one-half the normal cost of their DB Program benefits, and under AB 1469, the contribution rate for PEPRA members will be adjusted if the normal cost changes by more than 1 percent since the last time the member contribution rate was set.

Employer Contributions. Employers are required to make contributions to the DB Program. Prior to the passage of AB 1469, the employer contribution rate was 8.25 percent of creditable compensation. Under AB 1469, employer contributions have increased from 8.25 percent of creditable compensation to the current rate of 16.28 percent, and will continue to increase over time on each July 1 through 2020 to 19.1 percent of creditable compensation in fiscal year 2020-21. Beginning in fiscal year 2021-22 through fiscal year 2045-46, AB 1469 authorizes the CalSTRS Board to adjust the employer contribution up or down 1 percentage point each year, but no higher than 20.25 percent total and no lower than 8.25 percent, to eliminate the remaining unfunded obligation that existed on July 1, 2014. CalSTRS currently anticipates that the CalSTRS Board would be asked to lower the employer rate the first time the CalSTRS Board will exercise this authority.

Included in the contribution rates listed above is 0.25 percent to be applied toward the cost of unused sick leave credit. Each year, a portion of the employers' contributions is also transferred to the Medicare Premium Program which has the effect of reducing aggregate annual contributions to the DB Program.

State Contributions. The state's General Fund base contribution to the DB Program is 2.017 percent of creditable compensation from two fiscal years prior. For example, for fiscal year 2011-12, the state's contribution was based on creditable compensation from fiscal year 2009-10. Before fiscal year 2014-15, the state also contributed a supplemental contribution based on a percentage of creditable compensation from two fiscal years prior when there is an unfunded obligation or a normal cost deficit exists for benefits in place as of July 1, 1990 in an amount not to exceed 1.505 percent of creditable compensation from two fiscal years prior.

Under AB 1469, the state increased its supplemental contribution to the July 1, 1990 benefit obligation to the current rate of 5.311 percent. Beginning in fiscal year 2017-18 through fiscal year 2045-46, the CalSTRS Board is authorized to adjust the supplemental state contribution rate up 0.50 percent each year to eliminate the unfunded obligation for benefits in place as of July 1, 1990. If there is no unfunded obligation, the supplemental contribution shall be reduced to zero. In fiscal years 2017-18 and 2018-19, the CalSTRS Board adopted the maximum increase allowed.

The 2018 Budget Act reflects a 7.328 percent total (base and supplemental) state contribution rate to the DB Program in fiscal year 2018-19, as approved by the CalSTRS Board.

The 2019-20 Governor's Budget assumes the CalSTRS Board will increase the fiscal year 2019-20 state contribution rate by the maximum amount allowed in statute of 0.5 percent, to 7.828 percent.

As described above, AB 1469 provides the CalSTRS Board with limited authority to increase or decrease the school and state contributions based on changing conditions. The plan is intended to eliminate the unfunded liability of the DB Program by 2046. However, while AB 1469 provides for significant increases in the statutorily required contributions to CalSTRS from the state, employers and members, it does not provide that such statutory rates be adjusted to equal actuarially required amounts from time to time. Actuarially required amounts will vary from time to time based on a variety of factors, including actuarial assumptions, investment performance and member benefits. To the extent rates established pursuant to AB 1469 are less than actuarially required amounts from time to time, such circumstances could materially adversely affect the funded status of CalSTRS.

In addition to the statutorily-required state contribution, the 2019-20 Governor's Budget proposes a $1.1 billion supplemental pension payment in fiscal year 2019-20 towards the state's share of the unfunded liability for the DB Program. This amount is the first installment of an estimated $2.9 billion to be paid to CalSTRS through fiscal year 2022-23 using available Proposition 2 debt repayment funding. Based on current CalSTRS actuarial assumptions, the full $2.9 billion supplemental payment will result in total estimated savings of $7.4 billion over the next three decades. The 2019-20 Governor's Budget also proposes a $3 billion General Fund supplemental pension payment to CalSTRS in fiscal year 2018-19 on behalf of CalSTRS school employers. Of this amount, $2.3 billion will be paid towards the CalSTRS employers' share of the unfunded liability for the DB Program. The remaining $700 million will supplant the required contributions for CalSTRS employers, by $350 million in each of fiscal years 2019-20 and 2020-21. The total $3 billion payment is projected to save employers an estimated $6.9 billion over the next three decades, under current CalSTRS actuarial assumptions.

5. Change in Accounting Standards

The 2018 CalSTRS Financial Statements were prepared in accordance with GASB Statement 67. GASB Statement 67 impacts the financial reporting requirements for CalSTRS but does not change the funding requirements for members, employers, or the state. The 2018 CalSTRS Financial Statements are available on the CalSTRS website at www.calstrs.com.

Under GASB Statement 67, CalSTRS is required to report the net pension liability (NPL) instead of the previously required unfunded actuarial accrued liability (UAAL). Additionally, CalSTRS opted to provide other pension information to display the proportionate share of contributions per employer. Employers may consider this schedule when determining their proportionate share of the NPL to be recognized in their financial statements pursuant to GASB Statement 68.

Investors should note that the CalSTRS 2018 Financial Statements display the NPL of the entire STRP and do not provide a calculation of the DB Program separately. CalSTRS reports that an actuarial valuation of the DB Program will continue to be prepared. See "Actuarial Valuation" below for information about the most recent valuation report for the DB Program.

In Schedule A of the Independent Auditor's Report and Other Pension Information of the STRP for the fiscal year ended June 30, 2018 (which is available on the CalSTRS website at www.calstrs.com), 36.409 percent of the total employer and state contributions is allocated to the state. This value is used by the state's financial statements to represent the percent of NPL allocated to the state. GASB Statement 68 requires employers and non-employer contributing entities to report any NPL as a liability in their Statement of Net Position. The state's proportionate share of the NPL is 36.28 percent or $29.3 billion as of the June 30, 2016 measurement date pursuant to the state's financial statements for the fiscal year ended June 30, 2017.

6. Funding for the SBMA

The SBMA is a separate account within the DB Program that is funded with a combination of investment income and contributions from the state. The contribution rate for the state's funding of the SBMA is determined by statute in the Education Code. The Purchasing Power Protection Program funded from the SBMA provides quarterly payments to retired and disabled members and beneficiaries to restore purchasing power to beneficiaries if the purchasing power of their initial retirement or disability allowances have fallen below a specified percentage. The Purchasing Power Protection Program payments are made only to the extent funds are available in the SBMA and are not a vested benefit.

The state's General Fund contribution to the SBMA is 2.5 percent of creditable compensation of the fiscal year ending in the prior calendar year, less a specified amount that is currently limited to $72 million.

The following table displays the total state contributions to CalSTRS for the DB Program, SBMA, and the additional Pre-1990 Defined Benefit supplemental payments made pursuant to AB 1469 for the last five fiscal years.

TABLE 40
Schedule of General Fund Contributions from the State
(Dollars in Millions)

Fiscal Year	DB Program	SBMA	Pre-1990 DB	Total
2015-16	$548	$607	$781	$1,936
2016-17	581	649	1,243	2,473
2017-18	619	695	1,476	2,790
2018-19	647	730	1,705	3,082
2019-20[(a)]	662	748	1,907	3,318

(a) The 2019-20 Governor's Budget proposes multiple supplemental pension payments to CalSTRS that are not reflected in this table.
Source: State of California, Department of Finance.

7. Actuarial Methods and Assumptions

Although contributions are set by statute, CalSTRS retains an independent actuary (the "CalSTRS Consulting Actuary") that prepares annual actuarial valuation reports of the DB Program. The CalSTRS Consulting Actuary also prepares reports reviewing the DB Program's

actual experience every four years. The CalSTRS Board uses experience reports to evaluate how realistic the long-term assumptions have been and may be in the future. In December 2016, the CalSTRS Consulting Actuary prepared the most recent experience report and recommended the changes in actuarial assumptions described below. The CalSTRS Board adopted these recommended changes at its February 2017 meeting. The most recent valuation report for the DB Program, dated April 9, 2018 (the "2017 CalSTRS Valuation"), was prepared as of June 30, 2017 and was adopted by the CalSTRS Board at its May 2018 meeting. The newly adopted assumptions are used in the 2017 CalSTRS Valuation.

In preparing the 2017 CalSTRS Valuation, the CalSTRS Consulting Actuary used the Entry Age Actuarial Cost Method to measure the accruing costs of benefits under the DB Program. GASB Statements 67 and 68 require all state and local governments with pension liabilities to use the Entry Age Actuarial Cost Method beginning in fiscal year 2014-15 if they are not already doing so. Under the Entry Age Actuarial Cost Method, the actuarial present value of projected benefits of each individual is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. The portion of the actuarial present value allocated to the valuation year is called the normal cost and represents the cost assigned to a member for a given year, such that it would meet the continuing costs of a particular benefit if contributed each year starting with the date of membership. The CalSTRS Consulting Actuary notes that the Entry Age Actuarial Cost Method is designed to produce a normal cost rate that remains a level percentage of earned salaries and that the normal cost rate is expected to remain fairly stable so long as the benefit provisions are not amended, the assumptions are not changed, membership experience emerges as assumed, and the demographic characteristics of the membership remain reasonably consistent. Some of the key demographic information taken into account includes assumptions about membership, service retirements, disability retirements, deaths, and merit salary increases, and some of the economic items include assumptions about investment performance, inflation, and wage growth.

The portion of the actuarial value of benefits not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial obligation, and the excess, if any, of the actuarial obligation over the actuarial value of assets is the unfunded actuarial obligation. Assumptions about how long benefits will be paid for active and inactive members and when such members will retire and how long they will live are required in calculating the actuarial obligation, and economic assumptions and valuation methods are required in valuing assets. The following table sets forth certain actuarial methods and assumptions for the four fiscal years ended June 30, 2018.

TABLE 41
Actuarial Methods and Assumptions—DB Program

	Fiscal Year			
Methods	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Actuarial Cost Method	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization Method	Level Percent of payroll	Level Percent of payroll	Level Percent of payroll	Level Percent of payroll
Amortization Period	Closed	Closed	Closed	Closed
Remaining Amortization Period	32 years	31 years	30 years	30 years
Asset Valuation Method	Adjustment to market value	Adjustment to market value	Adjustment to market value	Adjustment to market value
Actuarial Assumptions				
Investment Rate of Return	7.50%	7.50%	7.50%	7.25%
Interest on Accounts	4.50	4.50	4.50	3.00
Wage Growth	3.75	3.75	3.75	3.50
Consumer Price Inflation	3.00	3.00	3.00	2.75
Post-retirement Benefit Increases	2.00 (simple)	2.00 (simple)	2.00 (simple)	2.00 (simple)

Source: CalSTRS Comprehensive Annual Financial Reports for Fiscal Years ended June 30, 2015 through June 30, 2018.

Table 41 refers to the actuarial methods and assumptions used in the CalSTRS Comprehensive Annual Financial Reports, including the assumed investment rate of return. At its February 1, 2017 meeting, the CalSTRS Board voted to lower the assumed investment rate of return in two steps in order to mitigate the impact on members. The CalSTRS Board voted to lower the assumed investment rate of return from 7.50 percent to 7.25 percent effective for fiscal year 2017-18 and to 7.00 percent effective for fiscal year 2018-19. The actuarial valuation is forward-looking, and uses assumptions to set future contribution rates. For example, the 2017 CalSTRS Valuation uses the investment rate of return assumed for fiscal year 2018-19 (7.00 percent) to determine the state contribution rate for that same fiscal year. In addition, the CalSTRS Board approved several changes to demographic assumptions, with the most significant change being the mortality assumption. The mortality assumption changes were based on the July 1, 2010 through June 30, 2015 experience study adopted by the CalSTRS Board in February 2017. CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among CalSTRS members. These changes generally create additional funding pressures on the DB Plan.

8. Actuarial Valuation

In calculating the actuarial value of assets, contributions for the past year are added to the actuarial value of assets at the end of the prior year; benefits and expenses are subtracted; an assumed rate of return is added, and as described below, a portion of market value gains and losses are added or subtracted. The assumed investment rate of return on DB Program assets (net of investment and administrative expenses) and the assumed interest to be paid on refunds of

member accounts are based in part on an inflation assumption of 2.75 percent for fiscal years 2017-18 and thereafter.

Actual market returns are taken into account but to reduce rate volatility, actual market gains and losses are spread or "smoothed" over a three-year period. That is, one third of the difference between the expected actuarial value of assets and the fair market value of assets is taken into account to determine the actuarial value of assets. Based on the 2017 CalSTRS Valuation, due to the asset smoothing method, approximately one-third of the approximately $3.8 billion investment gain has not been recognized (the difference between the AVA and MVA in Table 42 below). GASB Statements 67 and 68, beginning in fiscal year 2013-14 for pension plans and fiscal year 2014-15 for employers, required state and local governments with pension liabilities to recognize the differences between expected and actual investment returns over a closed 5-year period instead of the 3-year period currently used by CalSTRS. CalSTRS continues to use 3-year period for valuation purposes and the 5-year period for financial reporting purposes.

9. Funding Status

The following table sets forth the schedule of funding status as of the five most recent actuarial valuation dates based on information provided by CalSTRS from the actuarial valuation reports for such years. Funding status is measured by a comparison of DB Program assets with DB Program liabilities.

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TABLE 42
DB Program Schedule of Funding Status
(Dollars in Millions)

	Fiscal Year				
	2012-13	**2013-14[(a)]**	**2014-15[(a)]**	**2015-16[(a)]**	**2016-17[(a)]**
Market Value of Assets (MVA)	$147,907	$169,406	$169,127	$165,118	$183,482
Actuarial Value of Assets (AVA)	148,614	158,495	165,553	169,976	179,689
Actuarial Accrued Liabilities (AAL)-entry age	222,281	231,213	241,753	266,704	286,950
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis[(a)]	(74,374)	(61,807)	(72,626)	(101,586)	(103,468)
Excess of Actuarial Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) AVA Basis	(73,667)	(72,718)	(76,200)	(96,728)	(107,261)
Covered Payroll	25,479	26,470	28,013	29,826	31,136
Funded Ratio (MVA)	67%	73%	70%	62%	64%
Funded Ratio (AVA)	67%	69%	69%	64%	63%

(a) The AAL is referred to as the Actuarial Obligation and the UAAL is referred to as the Unfunded Actuarial Obligation (UAO) in the 2014, 2015, 2016, and 2017 CalSTRS Valuation.

Source: CalSTRS Actuarial Valuations for Fiscal Years ended June 30, 2013 through June 30, 2017.

The new actuarial assumptions adopted at the CalSTRS Board February 2017 meeting were first reflected in the valuation report for the DB Program as of June 30, 2016, which provided the estimated impact associated with the reduction in the assumed rate of return.

The market value of the entire DB Program investment portfolio (including the SBMA assets) was $197.7 billion as of June 30, 2017, an 11.1 percent increase from $177.9 billion on June 30, 2016.

10. Prospective Funding Status; Future Contributions

Primarily due to the changes made to actuarial assumptions by the CalSTRS Board in February 2017, the 2019-20 Governor's Budget reflects the assumption that the CalSTRS Board will increase the state contribution rate by 0.5 percent of payroll, to 7.828 percent, effective July 1, 2019. In the 2017 CalSTRS Valuation, the state contribution rate was projected to continue to increase by 0.5 percent of payroll for the next five years. The 2019-20 Governor's Budget

estimates $3.3 billion General Fund for fiscal year 2019-20 state contributions to CalSTRS. The 0.5 percent increase in the state contribution rate results in an approximately $164 million increase in General Fund contributions for fiscal year 2019-20. Note that this information does not reflect the impact of the supplemental pension payments towards the state's share of the unfunded liability for the DB Program, as proposed by 2019-20 Governor's Budget. Under the current CalSTRS actuarial assumptions and the AB 1469 funding plan, that with the proposed supplemental pension payments, the state contribution rate is expected to increase by 0.5 percent for fiscal years 2019-20, 2020-21- and 2021-22, and remain roughly the same through fiscal year 2045-46.

According to the 2017 CalSTRS Valuation, future revenues from contributions and appropriations for the DB Program are projected to be sufficient to finance its obligation by 2046, except for a small portion of the UAAL attributable to new benefits attributable to post-2014 service that is not actuarially funded. This amount is estimated to be $369 million as of June 30, 2017.

11. Investment Policy; Investment Returns

Pursuant to the state Constitution, the CalSTRS Board has sole and exclusive fiduciary responsibility over all CalSTRS' assets (including the DB Program assets). CalSTRS' assets (including the DB Program assets) are managed both externally by professional investment management firms and internally by CalSTRS investment staff. The CalSTRS Board monitors the performance of the managers with the assistance of an external investment consultant.

CalSTRS has established a series of procedures and guidelines with respect to investments. The procedures, grouped together as the "Investment Policy and Management Plan," serve to guide CalSTRS asset allocation strategy for all CalSTRS' programs, including the DB Program. The CalSTRS Board reviews the Investment Policy and Management Plan annually. CalSTRS follows strategic allocation guidelines that identify targets for the percentage of funds to be invested in each asset class. These targets are typically implemented over a period of several years. Additional information concerning CalSTRS investments can be found on the CalSTRS website.

The following table sets forth the total return on all CalSTRS' assets (including the DB Program assets) for the fiscal years ended June 30, 2009 through June 30, 2018, as well as time-weighted average returns.

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TABLE 43
CalSTRS Investment Results Based On Market Value

Fiscal Year	Time-Weighted Annual Return
2008-09	(25.08)%
2009-10	11.95
2010-11	22.83
2011-12	1.59
2012-13	13.55
2013-14	18.30
2014-15	4.52
2015-16	1.35
2016-17	13.44
2017-18	9.00

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2018.

TABLE 44
CalSTRS Time-Weighted Gross Returns as of June 30, 2018

Period	Time-Weighted Rate of Return
3 years	7.8%
5 years	9.2
10 years	6.3
20 years	6.5

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2018.

The 10-year and 20-year rates of return are below the 7.25 percent rate of return, CalSTRS' actuarially assumed rate of return. The CalSTRS Board voted at its February 2017 meeting to phase in a reduction in its assumed rate of return, from 7.5 percent to 7 percent, by fiscal year 2018-19.

June 2018

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

BETTY T. YEE
California State Controller

BETTY T. YEE
California State Controller

July 10, 2018

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2017, through June 30, 2018. This statement reflects the State of California's General Fund cash position, and compares actual receipts and disbursements for the 2017-18 fiscal year to cash flow estimates prepared by the Department of Finance (DOF) for the 2017-18 Budget Act. The statement is prepared in compliance with Provision 5 of Budget Act item 0840-001-0001, using records compiled by the State Controller. Prior-year actual amounts are also displayed for comparative purposes.

Attachment A compares actual receipts and disbursements for the 2017-18 fiscal year to cash flow estimates published in the 2018-19 May Revision Budget. These cash flow estimates are predicated on projections and assumptions made by the DOF in preparation of the 2018-19 May Revision Budget.

Attachment B compares actual receipts and disbursements for the 2017-18 fiscal year to cash flow estimates prepared by the Department of Finance based upon the 2017-18 Budget Act.

These statements also are available on the State Controller's website at www.sco.ca.gov under the category Monthly Financial Reports.

Please direct any questions relating to this report to Casandra Moore-Hudnall, Chief of the State Accounting and Reporting Division, by telephone at (916) 445-5834.

Sincerely,

Original signed by

BETTY T. YEE

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2018-19 May Revision Estimates
(Amounts in thousands)

	July 1 through June 30				
	2018				2017
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ -**	**$ -**	**$ -**	-	**$ -**
Add Receipts:					
Revenues	135,289,821	133,763,984	1,525,837	1.1	121,907,487
Nonrevenues	1,442,468	1,379,142	63,326	4.6	700,579
Total Receipts	136,732,289	135,143,126	1,589,163	1.2	122,608,066
Less Disbursements (c):					
State Operations	32,619,395	33,337,680	(718,285)	(2.2)	31,356,131
Local Assistance	90,774,228	92,416,832	(1,642,604)	(1.8)	89,864,535
Capital Outlay	(757,748)	(719,567)	(38,181)	-	1,118,668
Nongovernmental	3,716,602	4,014,113	(297,511)	(7.4)	4,461,801
Total Disbursements	126,352,477	129,049,058	(2,696,581)	(2.1)	126,801,135
Receipts Over / (Under) Disbursements	10,379,812	6,094,068	4,285,744	70.3	(4,193,069)
Net Increase / (Decrease) in Temporary Loans	(4,839,285)	(4,839,285)	-	-	4,193,069
GENERAL FUND ENDING CASH BALANCE	5,540,527	1,254,783	4,285,744		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	**$ 5,540,527**	**$ 1,254,783**	**$ 4,285,744**		**$ -**
BORROWABLE RESOURCES					
Special Fund for Economic Uncertainties	$ 1,248,929	$ 1,252,603	$ (3,674)	(0.3)	$ 1,748,646
Budget Stabilization Account	8,486,422	8,486,422	-	-	2,444,539
Other Internal Sources	36,923,643	34,977,040	1,946,603	5.6	37,629,244
Cash Balance from Borrowable Resources	46,658,994	44,716,065	1,942,929	4.3	41,822,429
Less:					
PMIA Loans (AB 55, GC 16312 and 16313)	733,964	700,000	33,964	4.9	
SMIF Loans (SB 84, GC 20825)	6,000,000	5,898,040	101,960	1.7	
Total Available Borrowable Resources (e)	39,925,030	38,118,025	1,807,005	4.7	41,822,429
Outstanding Loans to General Fund (b)	-	-	-	-	4,839,285
Unused Borrowable Resources	$ 39,925,030	$ 38,118,025	$ 1,807,005	4.7	$ 36,983,144

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2017-18 fiscal year was prepared by the Department of Finance for the 2018-19 May Revision. Any projections or estimates are set forth as such and not as representation of facts.
(b) The $10.38 billion in excess receipts over disbursements repaid the $4.84 billion of outstanding loans carried forward from June 30, 2017, leaving a net ending cash balance of $5.54 billion and $0.00 in outstanding loans at June 30, 2018.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.
(e) Cash Balance from Borrowable Resources has been reduced by Pooled Money Investment Account (PMIA) loans pursuant to Assembly Bill (AB) 55 (Government Code (GC) sections 16312 and 16313) and Surplus Money Investment Fund (SMIF) loans pursuant to Senate Bill (SB) 84 (Chapter 50/17, GC section 20825).
(f) A $1.00 billion repayment was made from the Medi-Cal Provider Interim Payment Fund to the General Fund in June 2018.
(g) The Department of Health Care Services transferred $3.50 billion of Managed Care Organization (MCO) revenues from the Insurance Companies Tax Account to the Miscellaneous Tax Revenue Account within the Health and Human Services Special Fund. The MCO tax was effective on July 1, 2016 pursuant to SB 2 (Chapter 2/16) to fund the nonfederal share of Medi Cal managed care rates for health care services provided to eligible persons.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2018				2017
	2018	2017	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 30,576	$ 32,019	$ 381,670	$ 370,749	$ 10,921	2.9	$ 370,714
Corporation Tax	3,234,380	2,416,515	12,488,304	11,990,271	498,033	4.2	10,112,520
Cigarette Tax	8,045	2,769	69,145	66,537	2,608	3.9	77,837
Estate, Inheritance, and Gift Tax	5	153	577	551	26	4.7	1,360
Insurance Companies Tax	235,105	282,483	2,574,537	2,513,935	60,602	2.4	2,428,192
Personal Income Tax	12,571,919	10,939,582	93,478,159	92,288,972	1,189,187	1.3	82,717,968
Retail Sales and Use Taxes	3,145,955	2,317,076	24,859,910	25,215,336	(355,426)	(1.4)	24,712,418
Vehicle License Fees	1	1	8	-	8	-	11
Pooled Money Investment Interest	34,575	10,732	181,979	172,086	9,893	5.7	68,896
Not Otherwise Classified	650,672	631,855	1,255,532	1,145,547	109,985	9.6	1,417,571
Total Revenues	**19,911,233**	**16,633,185**	**135,289,821**	**133,763,984**	**1,525,837**	**1.1**	**121,907,487**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	9,427	-	460,217	449,366	10,851	2.4	-
Transfers from Other Funds	7,802	8,371	481,564	491,109	(9,545)	(1.9)	368,222
Miscellaneous	61,526	39,271	500,687	438,667	62,020	14.1	332,357
Total Nonrevenues	**78,755**	**47,642**	**1,442,468**	**1,379,142**	**63,326**	**4.6**	**700,579**
Total Receipts	**$ 19,989,988**	**$ 16,680,827**	**$ 136,732,289**	**$ 135,143,126**	**$ 1,589,163**	**1.2**	**$ 122,608,066**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2018				2017
	2018	2017	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	Actual Over or (Under) Estimate %	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ (173,588)	$ 98,911	$ 1,350,393	$ 1,560,162	$ (209,769)	(13.4)	$ 1,510,165
Business, Consumer Services and Housing	99	3,771	26,738	27,112	(374)	(1.4)	26,596
Transportation	-	-	1,752	1,750	2	0.1	3,892
Resources	(38,646)	74,101	1,801,916	2,472,280	(670,364)	(27.1)	1,610,092
Environmental Protection Agency	10,283	12,888	130,426	208,753	(78,327)	(37.5)	78,585
Health and Human Services:							
Health Care Services and Public Health	2,445	(6,882)	286,034	314,956	(28,922)	(9.2)	281,029
Department of State Hospitals	97,976	121,012	1,513,814	1,535,396	(21,582)	(1.4)	1,737,149
Other Health and Human Services	28,999	42,674	625,945	714,708	(88,763)	(12.4)	660,167
Education:							
University of California	103,839	29,291	3,533,017	3,529,632	3,385	0.1	3,496,496
State Universities and Colleges	2,600	8,156	3,473,025	3,472,893	132	0.0	3,270,842
Other Education	16,358	8,136	227,965	229,929	(1,964)	(0.9)	226,831
Dept. of Corrections and Rehabilitation	883,482	870,335	11,399,040	11,402,895	(3,855)	(0.0)	10,362,484
Governmental Operations	340,811	71,187	1,041,567	1,133,685	(92,118)	(8.1)	786,576
General Government	230,533	238,738	2,189,544	2,076,914	112,630	5.4	2,398,061
Public Employees Retirement System	(258,155)	(235,819)	(68,718)	(67,644)	(1,074)	1.6	(68,443)
Debt Service (d)	(67,150)	47,868	5,064,396	4,700,583	363,813	7.7	4,929,778
Interest on Loans	3,041	35,860	22,541	23,676	(1,135)	(4.8)	45,831
Total State Operations	**1,182,927**	**1,420,227**	**32,619,395**	**33,337,680**	**(718,285)**	**(2.2)**	**31,356,131**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	4,122,063	4,581,817	45,755,685	46,722,789	(967,104)	(2.1)	46,633,480
Community Colleges	499,353	498,648	5,607,465	5,664,221	(56,756)	(1.0)	5,497,258
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	2,790,444	2,790,444	-	-	2,472,993
Other Education	19,320	45,854	2,247,807	2,267,072	(19,265)	(0.8)	1,877,850
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	3,637	761	220,265	224,083	(3,818)	(1.7)	265,198
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	-
Health Care Services and Public Health:							
Medical Assistance Program	2,847,471	1,540,740	19,965,548	20,218,106	(252,558)	(1.2)	18,783,848
Other Health Care Services/Public Health	28,600	46,911	269,456	222,659	46,797	21.0	478,331
Developmental Services - Regional Centers	(14,310)	(65,893)	3,529,107	3,717,223	(188,116)	(5.1)	3,296,929
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	369,302	430,649	6,139,873	6,213,377	(73,504)	(1.2)	5,963,886
CalWORKs	(105,640)	17,217	549,443	812,894	(263,451)	(32.4)	1,022,924
Other Social Services	79,856	71,426	1,086,107	1,015,071	71,036	7.0	892,991
Tax Relief	285	-	411,612	425,001	(13,389)	(3.2)	411,030
Other Local Assistance	86,453	70,437	2,201,416	2,123,892	77,524	3.7	2,267,817
Total Local Assistance	**7,936,390**	**7,238,567**	**90,774,228**	**92,416,832**	**(1,642,604)**	**(1.8)**	**89,864,535**

See notes on page A1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2018				2017
	2018	2017	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**2,673**	**1,263**	**(757,748)**	**(719,567)**	**(38,181)**	**5.3**	**1,118,668**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	-	-	-	634,500
Transfer to Budget Stabilization Account	-	1,483,000	2,289,000	2,289,000	-	-	2,777,000
Transfer to Other Funds	116,050	389,199	1,313,010	1,651,511	(338,501)	(20.5)	1,108,114
Transfer to Revolving Fund	(3,379)	(7,425)	4,616	7,996	(3,380)	(42.3)	3,330
Advance:							
MediCal Provider Interim Payment	(1,000,000)	(1,000,000)	-	- (f)	-	-	-
State-County Property Tax Administration Program	(18,141)	(12,890)	16,526	58,399	(41,873)	(71.7)	(11,209)
Social Welfare Federal Fund	38,200	(3,500)	29,001	19,422	9,579	49.3	(32,456)
Local Governmental Entities	-	-	(1,243)	(1,243)	-	-	(1,215)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	367,457	301,765	65,692	(10,972)	76,664	(698.7)	(16,263)
Total Nongovernmental	**(499,813)**	**1,150,149**	**3,716,602**	**4,014,113**	**(297,511)**	(7.4)	**4,461,801**
Total Disbursements	**$ 8,622,177**	**$ 9,810,206**	**$ 126,352,477**	**$ 129,049,058**	**$ (2,696,581)**	**(2.1)**	**$ 126,801,135**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (1,251,179)	$ (1,554)	$ (1,748,646)	$ (1,748,646)	$ -	-	$ 1,748,646
Budget Stabilization Account	(4,576,105)	(1,623,783)	(3,090,639)	(3,090,639)	-	-	2,444,539
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	-	(5,245,284)	-	-	-	-	(116)
Revenue Anticipation Notes	-	-	-	-	-	-	-
Net Increase / (Decrease) Loans	**$ (5,827,284)**	**$ (6,870,621)**	**$ (4,839,285)**	**$ (4,839,285)**	**$ -**	**-**	**$ 4,193,069**

See notes on page A1.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through June 30			
	General Fund		Special Funds	
	2018	2017	2018	2017
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 381,670	$ 370,714	$ -	$ -
Corporation Tax	12,488,304	10,112,520	-	-
Cigarette Tax	69,145	77,837	2,358,976	775,057
Cannabis Excise Taxes	-	-	40,291	-
Estate, Inheritance, and Gift Tax	577	1,360	-	-
Insurance Companies Tax	2,574,537	2,428,192	(1,625,854) (g)	2,486,655
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	5,590,039	4,354,110
Diesel & Liquid Petroleum Gas	-	-	791,885	519,536
Jet Fuel Tax	-	-	3,247	3,276
Vehicle License Fees	8	11	2,839,006	2,681,462
Motor Vehicle Registration and Other Fees	-	-	5,843,078	4,547,150
Personal Income Tax	93,478,159	82,717,968	1,674,071	1,478,783
Retail Sales and Use Taxes	24,859,910	24,712,418	14,648,272	13,720,539
Pooled Money Investment Interest	181,979	68,896	4,671	291
Total Major Taxes, Licenses, and Investment Income	**134,034,289**	**120,489,916**	**32,167,682**	**30,566,859**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fees	2,010	2,188	58,508	56,268
Cannabis Licensing Fees	-	-	990	-
Electrical Energy Tax	-	-	688,489	728,045
Private Rail Car Tax	9,746	9,015	-	-
Penalties on Traffic Violations	-	-	719	54,197
Health Care Receipts	7,886	10,354	-	-
Revenues from State Lands	91,105	90,120	-	-
Abandoned Property	412,141	405,141	-	-
Trial Court Revenues	35,232	37,302	1,506,002	1,497,829
Horse Racing Fees	1,000	1,052	14,871	13,691
Cap and Trade	-	-	2,913,175	891,915
Miscellaneous Tax Revenue	-	-	4,146,600 (g)	-
Miscellaneous	696,412	862,399	14,770,185	13,273,265
Not Otherwise Classified	**1,255,532**	**1,417,571**	**24,099,539**	**16,515,210**
Total Revenues, All Governmental Cost Funds	**$ 135,289,821**	**$ 121,907,487**	**$ 56,267,221**	**$ 47,082,069**

See notes on page A1.

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2017-18 Budget Act
(Amounts in thousands)

	July 1 through June 30				
	2018				2017
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ -**	**$ -**	**$ -**	-	**$ -**
Add Receipts:					
Revenues	135,289,821	128,473,234	6,816,587	5.3	121,907,487
Nonrevenues	1,442,468	914,994	527,474	57.6	700,579
Total Receipts	136,732,289	129,388,228	7,344,061	5.7	122,608,066
Less Disbursements (c):					
State Operations	32,619,395	32,195,465	423,930	1.3	31,356,131
Local Assistance	90,774,228	93,151,946	(2,377,718)	(2.6)	89,864,535
Capital Outlay	(757,748)	(657,231)	(100,517)	-	1,118,668
Nongovernmental	3,716,602	3,700,547	16,055	0.4	4,461,801
Total Disbursements	126,352,477	128,390,727	(2,038,250)	(1.6)	126,801,135
Receipts Over / (Under) Disbursements	10,379,812	997,501	9,382,311	940.6	(4,193,069)
Net Increase / (Decrease) in Temporary Loans	(4,839,285)	(997,501)	(3,841,784)	385.1	4,193,069
GENERAL FUND ENDING CASH BALANCE	5,540,527	-	5,540,527		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	**$ 5,540,527**	**$ -**	**$ 5,540,527**		**$ -**
BORROWABLE RESOURCES					
Special Fund for Economic Uncertainties	$ 1,248,929	$ 1,426,100	$ (177,171)	(12.4)	$ 1,748,646
Budget Stabilization Account	8,486,422	8,486,422	-	-	2,444,539
Other Internal Sources	36,923,643	33,948,070	2,975,573	8.8	37,629,244
Cash Balance from Borrowable Resources	46,658,994	43,860,592	2,798,402	6.4	41,822,429
Less:					
PMIA Loans (AB 55, GC 16312 and 16313)	733,964	700,000	33,964	4.9	
SMIF Loans (SB 84, GC 20825)	6,000,000	5,898,040	101,960	1.7	
Total Available Borrowable Resources (e)	39,925,030	37,262,552	2,662,478	7.1	41,822,429
Outstanding Loans to General Fund (b)	-	3,841,784	(3,841,784)	(100.0)	4,839,285
Unused Borrowable Resources	$ 39,925,030	$ 33,420,768	$ 6,504,262	19.5	$ 36,983,144

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2017-18 fiscal year was prepared by the Department of Finance for the 2017-18 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.
(b) The $10.38 billion in excess receipts over disbursements repaid the $4.84 billion of outstanding loans carried forward from June 30, 2017, leaving a net ending cash balance of $5.54 billion and $0.00 in outstanding loans at June 30, 2018.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.
(e) Cash Balance from Borrowable Resources has been reduced by Pooled Money Investment Account (PMIA) loans pursuant to Assembly Bill (AB) 55 (Government Code (GC) sections 16312 and 16313) and Surplus Money Investment Fund (SMIF) loans pursuant to Senate Bill (SB) 84 (Chapter 50/17, GC section 20825).
(f) A $1.00 billion repayment was made from the Medi-Cal Provider Interim Payment Fund to the General Fund in June 2018.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2018				2017
	2018	2017	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 30,576	$ 32,019	$ 381,670	$ 376,735	$ 4,935	1.3	$ 370,714
Corporation Tax	3,234,380	2,416,515	12,488,304	10,875,937	1,612,367	14.8	10,112,520
Cigarette Tax	8,045	2,769	69,145	64,845	4,300	6.6	77,837
Estate, Inheritance, and Gift Tax	5	153	577	-	577	-	1,360
Insurance Companies Tax	235,105	282,483	2,574,537	2,537,706	36,831	1.5	2,428,192
Personal Income Tax	12,571,919	10,939,582	93,478,159	89,141,615	4,336,544	4.9	82,717,968
Retail Sales and Use Taxes	3,145,955	2,317,076	24,859,910	24,376,332	483,578	2.0	24,712,418
Vehicle License Fees	1	1	8	-	8	-	11
Pooled Money Investment Interest	34,575	10,732	181,979	106,105	75,874	71.5	68,896
Not Otherwise Classified	650,672	631,855	1,255,532	993,959	261,573	26.3	1,417,571
Total Revenues	**19,911,233**	**16,633,185**	**135,289,821**	**128,473,234**	**6,816,587**	**5.3**	**121,907,487**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	9,427	-	460,217	322,546	137,671	42.7	-
Transfers from Other Funds	7,802	8,371	481,564	426,256	55,308	13.0	368,222
Miscellaneous	61,526	39,271	500,687	166,192	334,495	201.3	332,357
Total Nonrevenues	**78,755**	**47,642**	**1,442,468**	**914,994**	**527,474**	**57.6**	**700,579**
Total Receipts	**$ 19,989,988**	**$ 16,680,827**	**$ 136,732,289**	**$ 129,388,228**	**$ 7,344,061**	**5.7**	**$ 122,608,066**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2018				2017
	2018	2017	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ (173,588)	$ 98,911	$ 1,350,393	$ 1,614,678	$ (264,285)	(16.4)	$ 1,510,165
Business, Consumer Services and Housing	99	3,771	26,738	25,069	1,669	6.7	26,596
Transportation	-	-	1,752	1,750	2	0.1	3,892
Resources	(38,646)	74,101	1,801,916	1,740,154	61,762	3.5	1,610,092
Environmental Protection Agency	10,283	12,888	130,426	89,360	41,066	46.0	78,585
Health and Human Services:							
Health Care Services and Public Health	2,445	(6,882)	286,034	300,073	(14,039)	(4.7)	281,029
Department of State Hospitals	97,976	121,012	1,513,814	1,476,203	37,611	2.5	1,737,149
Other Health and Human Services	28,999	42,674	625,945	677,972	(52,027)	(7.7)	660,167
Education:							
University of California	103,839	29,291	3,533,017	3,543,041	(10,024)	(0.3)	3,496,496
State Universities and Colleges	2,600	8,156	3,473,025	3,409,367	63,658	1.9	3,270,842
Other Education	16,358	8,136	227,965	222,451	5,514	2.5	226,831
Dept. of Corrections and Rehabilitation	883,482	870,335	11,399,040	10,821,664	577,376	5.3	10,362,484
Governmental Operations	340,811	71,187	1,041,567	745,677	295,890	39.7	786,576
General Government	230,533	238,738	2,189,544	2,820,408	(630,864)	(22.4)	2,398,061
Public Employees Retirement System	(258,155)	(235,819)	(68,718)	(151,685)	82,967	(54.7)	(68,443)
Debt Service (d)	(67,150)	47,868	5,064,396	4,839,741	224,655	4.6	4,929,778
Interest on Loans	3,041	35,860	22,541	19,542	2,999	15.3	45,831
Total State Operations	**1,182,927**	**1,420,227**	**32,619,395**	**32,195,465**	**423,930**	**1.3**	**31,356,131**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	4,122,063	4,581,817	45,755,685	48,206,963	(2,451,278)	(5.1)	46,633,480
Community Colleges	499,353	498,648	5,607,465	5,803,088	(195,623)	(3.4)	5,497,258
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	2,790,444	2,790,444	-	-	2,472,993
Other Education	19,320	45,854	2,247,807	2,269,112	(21,305)	(0.9)	1,877,850
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	3,637	761	220,265	226,071	(5,806)	(2.6)	265,198
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	-
Health Care Services and Public Health:							
Medical Assistance Program	2,847,471	1,540,740	19,965,548	19,461,442	504,106	2.6	18,783,848
Other Health Care Services/Public Health	28,600	46,911	269,456	371,971	(102,515)	(27.6)	478,331
Developmental Services - Regional Centers	(14,310)	(65,893)	3,529,107	3,494,565	34,542	1.0	3,296,929
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	369,302	430,649	6,139,873	6,442,545	(302,672)	(4.7)	5,963,886
CalWORKs	(105,640)	17,217	549,443	692,104	(142,661)	(20.6)	1,022,924
Other Social Services	79,856	71,426	1,086,107	1,044,929	41,178	3.9	892,991
Tax Relief	285	-	411,612	427,001	(15,389)	(3.6)	411,030
Other Local Assistance	86,453	70,437	2,201,416	1,921,711	279,705	14.6	2,267,817
Total Local Assistance	**7,936,390**	**7,238,567**	**90,774,228**	**93,151,946**	**(2,377,718)**	**(2.6)**	**89,864,535**

See notes on page A1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2018				2017
	2018	2017	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**2,673**	**1,263**	**(757,748)**	**(657,231)**	**(100,517)**	**15.3**	**1,118,668**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	-	-	-	634,500
Transfer to Budget Stabilization Account	-	1,483,000	2,289,000	2,289,000	-	-	2,777,000
Transfer to Other Funds	116,050	389,199	1,313,010	1,408,927	(95,917)	(6.8)	1,108,114
Transfer to Revolving Fund	(3,379)	(7,425)	4,616	-	4,616	-	3,330
Advance:							
MediCal Provider Interim Payment	(1,000,000)	(1,000,000)	-	- (f)	-	-	-
State-County Property Tax Administration Program	(18,141)	(12,890)	16,526	-	16,526	-	(11,209)
Social Welfare Federal Fund	38,200	(3,500)	29,001	-	29,001	-	(32,456)
Local Governmental Entities	-	-	(1,243)	-	(1,243)	-	(1,215)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	367,457	301,765	65,692	2,620	63,072	2,407.3	(16,263)
Total Nongovernmental	**(499,813)**	**1,150,149**	**3,716,602**	**3,700,547**	**16,055**	0.4	**4,461,801**
Total Disbursements	**$ 8,622,177**	**$ 9,810,206**	**$ 126,352,477**	**$ 128,390,727**	**$ (2,038,250)**	**(1.6)**	**$ 126,801,135**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (1,251,179)	$ (1,554)	$ (1,748,646)	$ (322,546)	$ (1,426,100)	442.1	$ 1,748,646
Budget Stabilization Account	(4,576,105)	(1,623,783)	(3,090,639)	(674,955)	(2,415,684)	357.9	2,444,539
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	-	(5,245,284)	-	-	-	-	(116)
Revenue Anticipation Notes	-	-	-	-	-	-	-
Net Increase / (Decrease) Loans	**$ (5,827,284)**	**$ (6,870,621)**	**$ (4,839,285)**	**$ (997,501)**	**$ (3,841,784)**	**385.1**	**$ 4,193,069**

See notes on page B1.

(Concluded)

February 2019

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

BETTY T. YEE
California State Controller

BETTY T. YEE
California State Controller

March 11, 2019

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2018, through February 28, 2019. This statement reflects the State of California's General Fund cash position, and compares actual receipts and disbursements for the 2018-19 fiscal year to cash flow estimates prepared by the Department of Finance (DOF) for the 2018-19 Budget Act. The statement is prepared in compliance with Provision 5 of Budget Act item 0840-001-0001, using records compiled by the State Controller. Prior-year actual amounts are also displayed for comparative purposes.

Attachment A compares actual receipts and disbursements for the 2018-19 fiscal year to cash flow estimates published in the 2019-20 Governor's Budget. These cash flow estimates are predicated on projections and assumptions made by the DOF in preparation of the 2019-20 Governor's Budget.

Attachment B compares actual receipts and disbursements for the 2018-19 fiscal year to cash flow estimates prepared by the DOF based upon the 2018-19 Budget Act.

These statements also are available online at www.sco.ca.gov under the category Monthly Financial Reports.

Please direct any questions relating to this report to Casandra Moore-Hudnall, Chief of the State Accounting and Reporting Division, by telephone at (916) 445-5834.

Sincerely,

Original signed by

BETTY T. YEE

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2019-20 Governor's Budget Estimates
(Amounts in thousands)

	July 1 through February 28				
	2019				2018
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ 5,540,527**	**$ 5,540,527**	**$ -**	-	**$ -**
Add Receipts:					
Revenues	79,932,265	84,136,714	(4,204,449)	(5.0)	81,071,010
Nonrevenues	3,641,009	759,467	2,881,542 (g)	379.4	997,767
Total Receipts	83,573,274	84,896,181	(1,322,907)	(1.6)	82,068,777
Less Disbursements (c):					
State Operations	23,978,038	24,378,608	(400,570)	(1.6)	21,879,441
Local Assistance	65,210,864	65,467,847	(256,983)	(0.4)	62,671,017
Capital Outlay	843,089	974,989	(131,900)	(13.5)	(766,578)
Nongovernmental	10,761,263	7,689,439	3,071,824	39.9	3,164,023
Total Disbursements	100,793,254	98,510,883	2,282,371	2.3	86,947,903
Receipts Over / (Under) Disbursements	(17,219,980)	(13,614,702)	(3,605,278)	26.5	(4,879,126)
Net Increase / (Decrease) in Temporary Loans	11,679,453	8,074,175	3,605,278	44.7	4,879,126
GENERAL FUND ENDING CASH BALANCE	-	-	-		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	**$ -**	**$ -**	**$ -**		**$ -**
BORROWABLE RESOURCES					
Special Fund for Economic Uncertainties	$ 1,962,010	$ 1,962,010	$ -	-	$ 1,410,048
Budget Stabilization Account	11,157,422	11,152,422	5,000	0.0	8,486,422
Other Internal Sources (f)	43,792,570	40,792,356	3,000,214	7.4	36,595,653
Cash Balance from Borrowable Resources	56,912,002	53,906,788	3,005,214	5.6	46,492,123
Less:					
PMIA Loans (AB 55, GC 16312 and 16313)	822,977	800,000	22,977	2.9	693,260
SMIF Loans (SB 84, GC 20825)	5,759,740	5,795,000	(35,260)	(0.6)	4,000,000
Total Available Borrowable Resources (e)	50,329,285	47,311,788	3,017,497	6.4	41,798,863
Outstanding Loans to General Fund (b)	11,679,453	8,074,175	3,605,278	44.7	9,718,411
Outstanding Loans to the SFEU Fund (h)	-	-	-	-	-
Unused Borrowable Resources	$ 38,649,832	$ 39,237,613	$ (587,781)	(1.5)	$ 32,080,452

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2018-19 fiscal year was prepared by the Department of Finance for the 2019-20 Governor's Budget. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $11.68 billion is comprised of $11.68 billion of internal borrowing. Current balance is comprised of $0.00 carried forward from June 30, 2018, plus current year Net Increase/(Decrease) in Temporary Loans of $11.68 billion.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.
(e) Cash Balance from Borrowable Resources has been reduced by Pooled Money Investment Account (PMIA) loans pursuant to Assembly Bill (AB) 55 (Government Code (GC) sections 16312 and 16313) and Surplus Money Investment Fund (SMIF) loans pursuant to Senate Bill (SB) 84 (Chapter 50/17, GC section 20825).
(f) Other Internal Sources balance includes $200.0 million for the CalWORKs Subaccount, Safety Net Reserve Fund pursuant to AB 1830 (Chapter 42/18, Welfare and Institutions Code section 11011).
(g) A $3.15 billion transfer was made from the Special Fund for Economic Uncertainties for Disaster Response-Emergency Operations Account pursuant to GC section 8690.6(a) and Emergency Declarations issued by the Governor and for the California Student Aid Commission pursuant to Provision 3 of Item 6980-101-0001 of the Budget Act of 2017.
(h) $2.89 billion in payments for California wildfires were made from the Disaster Response-Emergency Account in December, pursuant to Government Code (GC) Section 8690.6. These payments were funded from the SFEU from $1.03 billion available cash and a $1.86 billion cash flow loan from Budget Stabilization Account pursuant to GC 16351. The loan was repaid in January 2019.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of February		July 1 through February 28				
			2019				2018
	2019	2018	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 18,344	$ 21,541	$ 233,399	$ 255,123	$ (21,724)	(8.5)	$ 265,915
Corporation Tax	258,447	164,288	5,055,152	4,612,462	442,690	9.6	4,971,631
Cigarette Tax	5,070	131	39,203	39,785	(582)	(1.5)	44,215
Estate, Inheritance, and Gift Tax	23	2	312	199	113	56.8	542
Insurance Companies Tax	1,614	28,381	1,269,927	1,297,434	(27,507)	(2.1)	1,271,017
Personal Income Tax	1,392,649	2,993,330	55,189,254	60,092,234	(4,902,980)	(8.2)	57,695,856
Retail Sales and Use Taxes	3,760,033	3,236,655	17,383,901	17,154,338	229,563	1.3	16,270,564
Vehicle License Fees	1	1	3	-	3	-	6
Pooled Money Investment Interest	22,734	8,147	315,898	313,521	2,377	0.8	92,760
Not Otherwise Classified	55,370	57,548	445,216	371,618	73,598	19.8	458,504
Total Revenues	**5,514,285**	**6,510,024**	**79,932,265**	**84,136,714**	**(4,204,449)**	**(5.0)**	**81,071,010**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	16,052	3,151,332	242,056	2,909,276 (g)	1,201.9	299,098
Transfers from Other Funds	9,260	7,510	275,494	291,308	(15,814)	(5.4)	428,780
Miscellaneous	7,712	28,736	214,183	226,103	(11,920)	(5.3)	269,889
Total Nonrevenues	**16,972**	**52,298**	**3,641,009**	**759,467**	**2,881,542**	**379.4**	**997,767**
Total Receipts	**$ 5,531,257**	**$ 6,562,322**	**$ 83,573,274**	**$ 84,896,181**	**$ (1,322,907)**	**(1.6)**	**$ 82,068,777**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of February		July 1 through February 28				
			2019				2018
	2019	2018	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 143,900	$ 150,656	$ 1,149,497	$ 1,151,958	$ (2,461)	(0.2)	$ 1,187,749
Business, Consumer Services and Housing	2,440	2,338	21,915	23,740	(1,825)	(7.7)	20,682
Transportation	-	(1)	3,414	1,464	1,950	133.2	1,751
Resources	139,196	91,749	1,829,007	1,784,983	44,024	2.5	1,503,560
Environmental Protection Agency	8,177	11,548	156,099	182,908	(26,809)	(14.7)	46,909
Health and Human Services:							
Health Care Services and Public Health	37,576	37,197	289,098	278,279	10,819	3.9	249,027
Department of State Hospitals	145,241	138,877	1,093,044	1,106,474	(13,430)	(1.2)	1,007,477
Other Health and Human Services	42,592	55,379	486,463	516,413	(29,950)	(5.8)	441,537
Education:							
University of California	307,568	256,871	2,517,487	2,496,724	20,763	0.8	2,377,660
State Universities and Colleges	300,023	268,893	2,513,247	2,547,328	(34,081)	(1.3)	2,287,033
Other Education	15,609	13,460	177,178	174,275	2,903	1.7	155,016
Dept. of Corrections and Rehabilitation	984,523	943,543	8,199,868	8,070,465	129,403	1.6	7,688,859
Governmental Operations	143,073	70,717	883,299	821,325	61,974	7.5	503,676
General Government	243,529	220,653	1,716,217	2,288,266	(572,049)	(25.0)	1,523,464
Public Employees Retirement System	(271,978)	(253,361)	223,466	216,628	6,838	3.2	190,447
Debt Service (d)	392,180	467,856	2,698,194	2,696,768	1,426	0.1	2,680,344
Interest on Loans	-	(184)	20,545	20,610	(65)	(0.3)	14,250
Total State Operations	**2,633,649**	**2,476,191**	**23,978,038**	**24,378,608**	**(400,570)**	**(1.6)**	**21,879,441**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	3,637,802	3,715,647	31,318,770	31,308,632	10,138	0.0	29,565,600
Community Colleges	577,505	562,498	4,176,362	4,115,371	60,991	1.5	3,814,643
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	2,129,142	2,129,142	-	-	1,919,042
Other Education	303,506	209,751	2,285,321	2,235,125	50,196	2.2	1,737,691
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	3,384	3,200	267,890	272,009	(4,119)	(1.5)	210,605
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	-
Health Care Services and Public Health:							
Medical Assistance Program	1,325,835	2,076,291	12,200,287	13,035,064	(834,777)	(6.4)	15,026,397
Other Health Care Services/Public Health	19,051	3,275	258,924	294,917	(35,993)	(12.2)	131,269
Developmental Services - Regional Centers	188,652	311,028	3,340,923	3,132,255	208,668	6.7	2,965,181
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	695,412	732,784	4,885,818	4,774,403	111,415	2.3	4,029,418
CalWORKs	43,975	73,560	668,129	569,807	98,322	17.3	505,176
Other Social Services	158,701	158,790	753,863	715,763	38,100	5.3	733,405
Tax Relief	-	-	208,373	214,184	(5,811)	(2.7)	205,199
Other Local Assistance	196,504	72,063	2,717,062	2,671,175	45,887	1.7	1,827,391
Total Local Assistance	**7,150,327**	**7,918,887**	**65,210,864**	**65,467,847**	**(256,983)**	**(0.4)**	**62,671,017**

See notes on page A1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of February		July 1 through February 28				
			2019				2018
	2019	2018	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**1,214**	**1,126**	**843,089**	**974,989**	**(131,900)**	**(13.5)**	**(766,578)**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	3,823,968	914,692	2,909,276	318.1	-
Transfer to Budget Stabilization Account	-	-	2,676,000	2,671,000	5,000	0.2	2,289,000
Transfer to Other Funds	442,213	254,380	4,590,281	4,447,484	142,797	3.2	1,111,091
Transfer to Revolving Fund	-	(2)	25,100	23,899	1,201	5.0	9,603
Advance:							
MediCal Provider Interim Payment	-	-	-	-	-	-	-
State-County Property Tax Administration Program	(27,026)	(11,091)	24,296	19,823	4,473	22.6	39,167
Social Welfare Federal Fund	(44,799)	-	(10,831)	(19,952)	9,121	(45.7)	18,170
Local Governmental Entities	(20)	-	(94)	(50)	(44)	88.0	(1,243)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	-	-	(367,457)	(367,457)	-	-	(301,765)
Total Nongovernmental	**370,368**	**243,287**	**10,761,263**	**7,689,439**	**3,071,824**	39.9	**3,164,023**
Total Disbursements	**$ 10,155,558**	**$ 10,639,491**	**$ 100,793,254**	**$ 98,510,883**	**$ 2,282,371**	**2.3**	**$ 86,947,903**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ -	$ (16,052)	$ 1,962,010	$ 1,962,011	$ (1)	(0.0)	$ (338,598)
Budget Stabilization Account	4,624,301	4,093,241	9,717,443	6,112,164	3,605,279	59.0	5,217,724
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	-	(20)	-	-	-	-	-
Revenue Anticipation Notes	-	-	-	-	-	-	-
Net Increase / (Decrease) Loans	**$ 4,624,301**	**$ 4,077,169**	**$ 11,679,453**	**$ 8,074,175**	**$ 3,605,278**	**44.7**	**$ 4,879,126**

See notes on page A1.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through February 28			
	General Fund		Special Funds	
	2019	2018	2019	2018
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 233,399	$ 265,915	$ -	$ -
Corporation Tax	5,055,152	4,971,631	503	-
Cigarette Tax	39,203	44,215	1,242,593	1,589,109
Cannabis Excise Taxes	-	-	102,795	553
Estate, Inheritance, and Gift Tax	312	542	-	-
Insurance Companies Tax	1,269,927	1,271,017	13,842	(1,652,091)
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	4,362,858	3,534,505
Diesel & Liquid Petroleum Gas	-	-	697,078	450,035
Jet Fuel Tax	-	-	2,275	2,227
Vehicle License Fees	3	6	1,967,346	1,891,664
Personal Income Tax	55,189,254	57,695,856	1,022,964	1,022,229
Retail Sales and Use Taxes	17,383,901	16,270,564	10,078,142	9,336,861
Pooled Money Investment Interest	315,898	92,760	557	4,488
Total Major Taxes, Licenses, and Investment Income	**79,487,049**	**80,612,506**	**19,490,953**	**16,179,580**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fees	1,311	1,032	41,327	36,998
Motor Vehicle Registration and Other Fees	(1)	-	4,581,703	3,614,198
Cannabis Licensing Fees	-	-	983	16
Electrical Energy Tax	-	-	422,793	455,189
Private Rail Car Tax	9,886	9,663	-	-
Penalties on Traffic Violations	-	-	121	554
Health Care Receipts	1,696	1,122	-	-
Revenues from State Lands	40,885	53,515	-	-
Abandoned Property	(10,615)	(56,180)	-	-
Trial Court Revenues	22,219	22,930	-	897,221
Horse Racing Fees	226	353	6,672	7,464
Cap and Trade	-	-	1,611,124	1,504,951
Miscellaneous Tax Revenue	-	-	1,788,234	3,496,268
Miscellaneous	379,609	426,069	9,148,571	8,853,831
Not Otherwise Classified	**445,216**	**458,504**	**17,601,528**	**18,866,690**
Total Revenues, All Governmental Cost Funds	**$ 79,932,265**	**$ 81,071,010**	**$ 37,092,481**	**$ 35,046,270**

See notes on page A1.

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2018-19 Budget Act
(Amounts in thousands)

	July 1 through February 28				
	2019				2018
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ 5,540,527**	**$ 5,540,527**	**$ -**	**-**	**$ -**
Add Receipts:					
Revenues	79,932,265	83,264,984	(3,332,719)	(4.0)	81,071,010
Nonrevenues	3,641,009	468,085	3,172,924 (g)	677.9	997,767
Total Receipts	83,573,274	83,733,069	(159,795)	(0.2)	82,068,777
Less Disbursements (c):					
State Operations	23,978,038	23,952,849	25,189	0.1	21,879,441
Local Assistance	65,210,864	70,186,516	(4,975,652) (i)	(7.1)	62,671,017
Capital Outlay	843,089	1,097,414	(254,325)	(23.2)	(766,578)
Nongovernmental	10,761,263	7,313,687	3,447,576	47.1	3,164,023
Total Disbursements	100,793,254	102,550,466	(1,757,212)	(1.7)	86,947,903
Receipts Over / (Under) Disbursements	(17,219,980)	(18,817,397)	1,597,417	(8.5)	(4,879,126)
Net Increase / (Decrease) in Temporary Loans	11,679,453	13,276,870	(1,597,417)	(12.0)	4,879,126
GENERAL FUND ENDING CASH BALANCE	-	-	-		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	**$ -**	**$ -**	**$ -**		**$ -**
BORROWABLE RESOURCES					
Special Fund for Economic Uncertainties	$ 1,962,010	$ 1,962,000	$ 10	0.0	$ 1,410,048
Budget Stabilization Account	11,157,422	11,157,422	-	-	8,486,422
Other Internal Sources (f)	43,792,570	40,551,000	3,241,570	8.0	36,595,653
Cash Balance from Borrowable Resources	56,912,002	53,670,422	3,241,580	6.0	46,492,123
Less:					
PMIA Loans (AB 55, GC 16312 and 16313)	822,977	700,000	122,977	17.6	693,260
SMIF Loans (SB 84, GC 20825)	5,759,740	5,795,000	(35,260)	(0.6)	4,000,000
Total Available Borrowable Resources (e)	50,329,285	47,175,422	3,153,863	6.7	41,798,863
Outstanding Loans to General Fund (b)	11,679,453	13,276,870	(1,597,417)	(12.0)	9,718,411
Outstanding Loans to the SFEU Fund (h)	-	-	-	-	-
Unused Borrowable Resources	$ 38,649,832	$ 33,898,552	$ 4,751,280	14.0	$ 32,080,452

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2018-19 fiscal year was prepared by the Department of Finance for the 2018-19 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $11.68 billion is comprised of $11.68 billion of internal borrowing. Current balance is comprised of $0.00 carried forward from June 30, 2018, plus current year Net Increase/(Decrease) in Temporary Loans of $11.68 billion.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.
(e) Cash Balance from Borrowable Resources has been reduced by Pooled Money Investment Account (PMIA) loans pursuant to Assembly Bill (AB) 55 (Government Code (GC) sections 16312 and 16313) and Surplus Money Investment Fund (SMIF) loans pursuant to Senate Bill (SB) 84 (Chapter 50/17, GC section 20825).
(f) Other Internal Sources balance includes $200.0 million for the CalWORKs Subaccount, Safety Net Reserve Fund pursuant to AB 1830 (Chapter 42/18, Welfare and Institutions Code section 11011).
(g) A $3.15 billion transfer was made from the Special Fund for Economic Uncertainties for Disaster Response-Emergency Operations Account pursuant to GC section 8690.6(a) and Emergency Declarations issued by the Governor and for the California Student Aid Commission pursuant to Provision 3 of Item 6980-101-0001 of the Budget Act of 2017.
(h) $2.89 billion in payments for California wildfires were made from the Disaster Response-Emergency Account in December, pursuant to Government Code (GC) Section 8690.6. These payments were funded from the SFEU from $1.03 billion available cash and a $1.86 billion cash flow loan from the Budget Stabilization Account pursuant to GC 16351. The loan was repaid in January 2019.
(i) Medical Assistance Program disbursements were lower than anticipated in the 2018-19 Budget Act due to delay in Managed Care payments.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of February		July 1 through February 28				
			2019				2018
	2019	2018	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 18,344	$ 21,541	$ 233,399	$ 260,947	$ (27,548)	(10.6)	$ 265,915
Corporation Tax	258,447	164,288	5,055,152	4,951,181	103,971	2.1	4,971,631
Cigarette Tax	5,070	131	39,203	41,375	(2,172)	(5.2)	44,215
Estate, Inheritance, and Gift Tax	23	2	312	-	312	-	542
Insurance Companies Tax	1,614	28,381	1,269,927	1,300,211	(30,284)	(2.3)	1,271,017
Personal Income Tax	1,392,649	2,993,330	55,189,254	58,695,896	(3,506,642)	(6.0)	57,695,856
Retail Sales and Use Taxes	3,760,033	3,236,655	17,383,901	17,447,106	(63,205)	(0.4)	16,270,564
Vehicle License Fees	1	1	3	-	3	-	6
Pooled Money Investment Interest	22,734	8,147	315,898	188,548	127,350	67.5	92,760
Not Otherwise Classified	55,370	57,548	445,216	379,720	65,496	17.2	458,504
Total Revenues	**5,514,285**	**6,510,024**	**79,932,265**	**83,264,984**	**(3,332,719)**	**(4.0)**	**81,071,010**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	16,052	3,151,332	-	3,151,332 (g)	-	299,098
Transfers from Other Funds	9,260	7,510	275,494	343,119	(67,625)	(19.7)	428,780
Miscellaneous	7,712	28,736	214,183	124,966	89,217	71.4	269,889
Total Nonrevenues	**16,972**	**52,298**	**3,641,009**	**468,085**	**3,172,924**	**677.9**	**997,767**
Total Receipts	**$ 5,531,257**	**$ 6,562,322**	**$ 83,573,274**	**$ 83,733,069**	**$ (159,795)**	**(0.2)**	**$ 82,068,777**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of February		July 1 through February 28				
			2019				2018
	2019	2018	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 143,900	$ 150,656	$ 1,149,497	$ 1,310,766	$ (161,269)	(12.3)	$ 1,187,749
Business, Consumer Services and Housing	2,440	2,338	21,915	27,900	(5,985)	(21.5)	20,682
Transportation	-	(1)	3,414	2,272	1,142	50.3	1,751
Resources	139,196	91,749	1,829,007	2,022,563	(193,556)	(9.6)	1,503,560
Environmental Protection Agency	8,177	11,548	156,099	48,490	107,609	221.9	46,909
Health and Human Services:							
Health Care Services and Public Health	37,576	37,197	289,098	277,316	11,782	4.2	249,027
Department of State Hospitals	145,241	138,877	1,093,044	1,113,204	(20,160)	(1.8)	1,007,477
Other Health and Human Services	42,592	55,379	486,463	500,957	(14,494)	(2.9)	441,537
Education:							
University of California	307,568	256,871	2,517,487	2,548,292	(30,805)	(1.2)	2,377,660
State Universities and Colleges	300,023	268,893	2,513,247	2,569,928	(56,681)	(2.2)	2,287,033
Other Education	15,609	13,460	177,178	173,774	3,404	2.0	155,016
Dept. of Corrections and Rehabilitation	984,523	943,543	8,199,868	7,590,611	609,257	8.0	7,688,859
Governmental Operations	143,073	70,717	883,299	690,379	192,920	27.9	503,676
General Government	243,529	220,653	1,716,217	2,135,410	(419,193)	(19.6)	1,523,464
Public Employees Retirement System	(271,978)	(253,361)	223,466	282,228	(58,762)	(20.8)	190,447
Debt Service (d)	392,180	467,856	2,698,194	2,634,764	63,430	2.4	2,680,344
Interest on Loans	-	(184)	20,545	23,995	(3,450)	(14.4)	14,250
Total State Operations	**2,633,649**	**2,476,191**	**23,978,038**	**23,952,849**	**25,189**	**0.1**	**21,879,441**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	3,637,802	3,715,647	31,318,770	32,220,034	(901,264)	(2.8)	29,565,600
Community Colleges	577,505	562,498	4,176,362	4,074,775	101,587	2.5	3,814,643
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	2,129,142	2,129,142	-	-	1,919,042
Other Education	303,506	209,751	2,285,321	2,222,447	62,874	2.8	1,737,691
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	3,384	3,200	267,890	251,764	16,126	6.4	210,605
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	-
Health Care Services and Public Health:							
Medical Assistance Program	1,325,835	2,076,291	12,200,287	16,697,827	(4,497,540) (i)	(26.9)	15,026,397
Other Health Care Services/Public Health	19,051	3,275	258,924	300,885	(41,961)	(13.9)	131,269
Developmental Services - Regional Centers	188,652	311,028	3,340,923	2,953,427	387,496	13.1	2,965,181
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	695,412	732,784	4,885,818	4,612,825	272,993	5.9	4,029,418
CalWORKs	43,975	73,560	668,129	786,477	(118,348)	(15.0)	505,176
Other Social Services	158,701	158,790	753,863	824,675	(70,812)	(8.6)	733,405
Tax Relief	-	-	208,373	210,000	(1,627)	(0.8)	205,199
Other Local Assistance	196,504	72,063	2,717,062	2,902,238	(185,176)	(6.4)	1,827,391
Total Local Assistance	**7,150,327**	**7,918,887**	**65,210,864**	**70,186,516**	**(4,975,652)**	**(7.1)**	**62,671,017**

See notes on page A1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of February		July 1 through February 28				
			2019				2018
	2019	2018	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**1,214**	**1,126**	**843,089**	**1,097,414**	**(254,325)**	**(23.2)**	**(766,578)**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	3,823,968	710,871	3,113,097	437.9	-
Transfer to Budget Stabilization Account	-	-	2,676,000	2,671,000	5,000	0.2	2,289,000
Transfer to Other Funds	442,213	254,380	4,590,281	4,299,273	291,008	6.8	1,111,091
Transfer to Revolving Fund	-	(2)	25,100	-	25,100	-	9,603
Advance:							
MediCal Provider Interim Payment	-	-	-	-	-	-	-
State-County Property Tax Administration Program	(27,026)	(11,091)	24,296	-	24,296	-	39,167
Social Welfare Federal Fund	(44,799)	-	(10,831)	-	(10,831)	-	18,170
Local Governmental Entities	(20)	-	(94)	-	(94)	-	(1,243)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	-	-	(367,457)	(367,457)	-	-	(301,765)
Total Nongovernmental	**370,368**	**243,287**	**10,761,263**	**7,313,687**	**3,447,576**	47.1	**3,164,023**
Total Disbursements	**$ 10,155,558**	**$ 10,639,491**	**$ 100,793,254**	**$ 102,550,466**	**$ (1,757,212)**	**(1.7)**	**$ 86,947,903**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ -	$ (16,052)	$ 1,962,010	$ 1,962,000	$ 10	0.0	$ (338,598)
Budget Stabilization Account	4,624,301	4,093,241	9,717,443	11,157,422	(1,439,979)	(12.9)	5,217,724
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	-	(20)	-	157,448	(157,448)	(100.0)	-
Revenue Anticipation Notes	-	-	-	-	-	-	-
Net Increase / (Decrease) Loans	**$ 4,624,301**	**$ 4,077,169**	**$ 11,679,453**	**$ 13,276,870**	**$ (1,597,417)**	**(12.0)**	**$ 4,879,126**

See notes on page A1.

(Concluded)