SUPPLEMENT TO PRELIMINARY OFFICIAL STATEMENT
AND
MODIFICATION OF NOTICE OF SALE

$101,755,000*
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CS (Non-AMT)

April 2, 2019

NOTICE IS HEREBY GIVEN that the Honorable Fiona Ma, Treasurer of the State of California ("State Treasurer") and the Department of Veterans Affairs of the State of California hereby supplement the Preliminary Official Statement dated March 26, 2019 relating to the above-captioned bonds (the "Original Preliminary Official Statement") and, pursuant to the provisions of the Notice of Sale included as Appendix K to the Original Preliminary Official Statement (the "Original Notice of Sale"), hereby modify the Original Notice of Sale. Capitalized terms used and not defined in this supplement and modification (this "Supplement") have the meanings set forth in the Original Preliminary Official Statement. The Original Preliminary Official Statement, as supplemented by this Supplement, is referred to in this Supplement as the "Preliminary Official Statement" and the Original Notice of Sale, as modified by this Supplement, is referred to in this Supplement as the "Notice of Sale." The information set forth in the Original Preliminary Official Statement and Original Notice of Sale referred to in the attachment to this Supplement is hereby supplemented or modified as specifically provided in such attachment to this Supplement.

Statements and information contained in, or incorporated by, this Supplement will be deemed to modify and supplement any comparable information in the Original Preliminary Official Statement and Original Notice of Sale, as applicable. Any such statement or information in the Original Preliminary Official Statement or Original Notice of Sale that is so modified or supplemented will not be deemed, except as so modified or supplemented in this Supplement, to constitute a part of the Preliminary Official Statement or the Notice of Sale, respectively. Investors must read this Supplement and the accompanying Original Preliminary Official Statement and Original Notice of Sale in their entirety to obtain information essential to the making of an informed investment decision.

References to the "Preliminary Official Statement" and the "Notice of Sale" contained in the Original Preliminary Official Statement and in the Original Notice of Sale are deemed to mean the Preliminary Official Statement and the Notice of Sale, respectively.

Subject to the conditions set forth in the Notice of Sale, the State Treasurer hereby recertifies the certifications made by the State Treasurer under the caption "PRELIMINARY OFFICIAL STATEMENT/OFFICIAL STATEMENT" in the Original Notice of Sale.

STATE OF CALIFORNIA
FIONA MA
Treasurer of the State of California

[Attachment appears on the following pages]

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* Preliminary, subject to change.

ATTACHMENT TO
SUPPLEMENT TO PRELIMINARY OFFICIAL STATEMENT
AND
MODIFICATION OF NOTICE OF SALE

1. The information on the page immediately following the cover page of the Original Preliminary Official Statement is deleted in its entirety and replaced with the following:

PRINCIPAL PAYMENT DATES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES OR YIELDS AND CUSIPS†

$101,755,000*
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CS (Non-AMT)

Principal Payment Date (December 1)*	Principal Amount*	Interest Rate	Price/Yield	CUSIP†
2019	$ 425,000	%	%	
2020	1,750,000			
2021	1,840,000			
2022	1,920,000			
2023	2,005,000			
2024	2,090,000			
2025	2,180,000			
2026	2,280,000			
2027	2,375,000			
2028	2,480,000			
2029	2,590,000			
2030	2,700,000			
2031	2,820,000			
2032	2,940,000			
2033	3,070,000			
2034	3,205,000			
2035	3,340,000			
2036	3,490,000			
2037	3,645,000			
2038	3,800,000			
2039	3,965,000			
2040	4,140,000			
2041	4,320,000			
2042	4,505,000			
2043	920,000			

$32,960,000** Series CS (PAC) Term Bonds Due December 1, 2049, at 4.000%, Price/Yield ___%, CUSIP† ________

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* Preliminary, subject to change. Principal payment dates will be designated as maturity dates of serial bonds or as sinking fund payment dates of term bonds by the successful bidder, subject to the terms of the Notice of Sale (as defined in this Official Statement). See APPENDIX K – "NOTICE OF SALE."

** Preliminary, subject to change. These bonds are the PAC Bonds as defined herein. See "THE OFFERED VETERANS G.O. BONDS – Redemption – Special Mandatory Redemption of PAC Bonds."

† Copyright © 2019 CUSIP Global Services. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Global Services (CGS), which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers have been assigned by an independent company not affiliated with the State or the Department and are included solely for the convenience of the registered owners of the Offered Veterans G.O. Bonds. The State and the Department are not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Offered Veterans G.O. Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Offered Veterans G.O. Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Offered Veterans G.O. Bonds.

* Preliminary, subject to change.

2. All references to the aggregate principal amount of the PAC Bonds in the forepart of the Original Preliminary Official Statement are revised to be $32,960,000.* All references in the Notice of Sale to the aggregate principal amount of Bid Group A are revised to be $32,960,000* and all references in the Notice of Sale to Bid Group B are revised to be $68,795,000.*

3. The table under the caption "THE OFFERED VETERANS G.O. BONDS – Redemption – Sinking Fund Redemption" in the forepart of the Original Preliminary Official Statement and the table under the caption "REDEMPTION – Sinking Fund Redemption" in the Original Notice of Sale are each revised to read as follows (**changes in bold and underlined**):

Mandatory Sinking Fund Payment Dates (December 1)	**Principal Amount Redeemed**
2043	$ **3,785,000**
2044	**4,910,000**
2045	**5,125,000**
2046	**5,345,000**
2047	**5,580,000**
2048	**5,825,000**
2049†	**2,390,000**

† Stated Maturity

4. The first table under the caption "THE OFFERED VETERANS G.O. BONDS – Redemption – Special Mandatory Redemption of PAC Bonds" in the forepart of the Original Preliminary Official Statement and the first table under the caption "REDEMPTION – Projected Weighted Average Lives of PAC Bonds" in the Original Notice of Sale are each revised to read as follows (**changes in bold and underlined**):

PAC BONDS OUTSTANDING AMOUNTS

Semiannual Period Ending	PAC Bonds Outstanding Amounts
April 11, 2019	**$32,960,000**†
December 1, 2019	**32,870,000**
June 1, 2020	**32,315,000**
December 1, 2020	**31,155,000**
June 1, 2021	**29,410,000**
December 1, 2021	**27,120,000**
June 1, 2022	**24,415,000**
December 1, 2022	**21,670,000**
June 1, 2023	**19,035,000**
December 1, 2023	**16,505,000**
June 1, 2024	**14,080,000**
December 1, 2024	**11,755,000**
June 1, 2025	**9,525,000**
December 1, 2025	**7,390,000**
June 1, 2026	**5,345,000**
December 1, 2026	**3,385,000**
June 1, 2027	**1,510,000**
December 1, 2027 and each December 1 and June 1 thereafter	0

† Principal amount at issuance.

5. The first table under the caption "THE OFFERED VETERANS G.O. BONDS – Redemption – Special Mandatory Redemption of PAC Bonds – Projected Weighted Average Lives of PAC Bonds" in the forepart of the Original Preliminary Official Statement and the first table under the caption "REDEMPTION – Projected Weighted Average Lives of PAC Bonds" in the Original Notice of Sale are each revised to read as follows (**changes in bold and underlined**):

* Preliminary, subject to change.

PAC Bonds Projected Weighted Average Life

Prepayment Speed (expressed as a percentage of PSA)	PAC Bonds Projected Weighted Average Life (in years)	
	Optional Redemption[1] Not Exercised	Optional Redemption[1] Exercised on First Eligible Date
0%	**26.7**	9.6
25%	**16.0**	8.4
50%	8.7	7.2
75%	6.2	6.0
100%	5.0	5.0
200%	5.0	5.0
300%	5.0	5.0
400%	5.0	5.0
500%	5.0	5.0

[1] See "—Redemption – Optional Redemption." The first eligible optional redemption date is December 1, 2028.

6. The following information is added to follow the table entitled "Interest Rates for New Contracts of Purchase" under APPENDIX B "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – Contracts of Purchase – Interest Rates – Post-December 2010 Contracts of Purchase":

Beginning April 1, 2019, the Department expects to change the interest rates for new Contracts of Purchase as follows:

Interest Rates for New Contracts of Purchase

Interest Rate	Funding Source
3.990% (30 year term)	QMB Proceeds
3.450% (20 year term)	QVMB Proceeds
4.250% (30 year term)	QVMB Proceeds
5.990% (30 year term)	Pre-Ullman Moneys(1)

(1) Until February 28, 2019 the Department has made and may continue to make available not more than a total of $10 million of Pre-Ullman moneys to fund Contracts of Purchase, subject to certain qualifications, at an interest rate of 4.625%.

Source: Department of Veterans Affairs.

7. Bid Form A attached to the Original Notice of Sale is deleted in its entirety and replaced with the attached Bid Form A.

8. Bid Form B attached to the Original Notice of Sale is deleted in its entirety and replaced with the attached Bid Form B.

BID FORM A

BID FOR THE PURCHASE OF BID GROUP A

$32,960,000*
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CS (Non-AMT)

The Honorable Fiona Ma
Treasurer of the State of California

We offer to purchase the $32,960,000* aggregate principal amount of State of California Veterans General Obligation Bonds, Series CS (Non-AMT), expected to be dated and delivered April 11, 2019 ("Bid Group A"), for a purchase price of $_________ (representing the principal amount of Bid Group A plus a net premium of $_______), with the following terms.

Maturity Date (December 1)	Principal Amount	Interest Rate (%)
2049	$ 32,960,000	4.00

____
Account Manager

By: ________________________________
Contact: ________________________________
Telephone No.: ________________________________
Fax No.: ________________________________
Email Address: ________________________________

* Subject to change by amendment, modification or adjustment as described in the Notice of Sale.

BID FORM B

BID FOR THE PURCHASE OF BID GROUP B

$68,795,000*
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CS (Non-AMT)

The Honorable Fiona Ma
Treasurer of the State of California

We offer to purchase the $68,795,000* aggregate principal amount of State of California Veterans General Obligation Bonds, Series CS (Non-AMT), expected to be dated and delivered April 11, 2019 ("Bid Group B"), for a purchase price of $__________ (representing the aggregate principal amount of Bid Group B minus an underwriter's discount of $__________), with the following terms.

Principal Payment Date (December 1)	Maturing Principal Amount[1]	Interest Rate (%)	Price (%)	Serial Maturity[2]	Sinking Fund Payment[2]	Maturity Date of Term Bond[2]
2019	$ 425,000	________	100			
2020	1,750,000	____	100			
2021	1,840,000	____	100			
2022	1,920,000	____	100			
2023	2,005,000	____	100			
2024	2,090,000	____	100			
2025	2,180,000	____	100			
2026	2,280,000	____	100			
2027	2,375,000	____	100			
2028	2,480,000	____	100			
2029	2,590,000	____	100	____	____	____
2030	2,700,000	____	100	____	____	____
2031	2,820,000	____	100	____	____	____
2032	2,940,000	____	100	____	____	____
2033	3,070,000	____	100	____	____	____
2034	3,205,000	____	100	____	____	____
2035	3,340,000	____	100	____	____	____
2036	3,490,000	____	100	____	____	____
2037	3,645,000	____	100	____	____	____
2038	3,800,000	____	100	____	____	____
2039	3,965,000	____	100	____	____	____
2040	4,140,000	____	100	____	____	____
2041	4,320,000	____	100	____	____	____
2042	4,505,000	____	100	____	____	____
2043	920,000	____	100	____	____	____

* Subject to change by amendment, modification or adjustment as described in the Notice of Sale.

1 Principal amounts must be adjusted and inserted by the bidder based upon the designated maturity schedule, if any, announced via MuniOS in accordance with the notice of sale related to the Offered Veterans G.O. Bonds (the "Notice of Sale").

2 For the Offered Veterans G.O. Bonds in Bid Group B maturing from December 1, 2029 through December 1, 2043, each bid must specify whether the principal amount of the Offered Veterans G.O. Bonds in Bid Group B to be paid on each applicable date will be a payment at maturity of serial bonds or a mandatory sinking fund payment on term bonds. The mandatory sinking fund payments for each term bond in Bid Group B must be on consecutive principal payment dates immediately preceding the maturity date of that term bond, provided that no term bond may have a mandatory sinking fund payment on or prior to the first optional redemption date. See the Notice of Sale – "REDEMPTION – Optional Redemption."

____

Account Manager

By: ______________________________________
Contact: ___________________________________
Telephone No.: ______________________________
Fax No.: ___________________________________
Email Address: ______________________________

PRELIMINARY OFFICIAL STATEMENT DATED MARCH 26, 2019

NEW ISSUE - BOOK-ENTRY ONLY

RATINGS: Moody's: "Aa2"
S&P: "AA"
Fitch: "AA-"
(See "RATINGS" herein)

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State of California (the "State"), under existing statutes and court decisions and assuming continuing compliance with certain tax covenants, interest on the Offered Veterans G.O. Bonds (as defined below) is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Federal Tax Code") and is not treated as a preference item in calculating the alternative minimum tax under the Federal Tax Code. In the opinion of Bond Counsel to the State, under State law, interest on the Offered Veterans G.O. Bonds is exempt from State personal income taxes. See "TAX MATTERS."

$101,755,000*
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CS (Non-AMT)

Dated: Date of Delivery **Due: As shown on the next page**

This offering consists of the State of California Veterans General Obligation Bonds, Series CS (the "Offered Veterans G.O. Bonds") authorized by the voters of the State. The Offered Veterans G.O. Bonds will mature in the years and bear interest at the rates set forth on the next page.

The Offered Veterans G.O. Bonds are general obligations of the State to which the full faith and credit of the State is pledged. Debt service on the Offered Veterans G.O. Bonds is payable first from the moneys required under the California Military and Veterans Code (the "Veterans Code") to be transferred from the Veterans' Farm and Home Building Fund of 1943 (the "1943 Fund") to the Veterans' Bonds Payment Fund (as defined herein) and second, if the moneys transferred from the 1943 Fund to the Veterans' Bonds Payment Fund are less than debt service then due and payable, the balance is payable from the General Fund of the State (the "General Fund"). The principal of and interest on all State general obligation bonds, including the Offered Veterans G.O. Bonds (as described above), are payable from the moneys in the General Fund, subject under State law only to the prior application of such moneys to the support of the public school system and public institutions of higher education. The 1943 Fund is required to transfer to the General Fund, as soon as it becomes available, an amount equal to the amount paid by the General Fund, if any, together with interest thereon from the remittance date until paid, at the same rate of interest as borne by the applicable Veterans G.O. Bonds (as defined herein), compounded semiannually. The Veterans Code does not grant any lien on the 1943 Fund or the moneys therein to the holders of any Veterans G.O. Bonds (including the Offered Veterans G.O. Bonds). See "AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS."

Interest is payable on June 1 and December 1 of each year, commencing December 1, 2019. The Offered Veterans G.O. Bonds may be purchased in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. See APPENDIX E – "DTC AND THE BOOK-ENTRY SYSTEM." The Offered Veterans G.O. Bonds are subject to redemption prior to maturity. See "THE OFFERED VETERANS G.O. BONDS – Redemption."

This cover page contains certain information for general reference only. It is not a summary of the security or terms of the Offered Veterans G.O. Bonds. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES,
PRICES OR YIELDS AND CUSIPS
(See next page)

The Offered Veterans G.O. Bonds are offered when, as and if issued and received by the initial Purchaser(s), subject to certain conditions, including the approval of validity by the Honorable Xavier Becerra, Attorney General of the State of California, and by Hawkins Delafield & Wood LLP, Bond Counsel to the State. In connection with the issuance of the Offered Veterans G.O. Bonds, Polsinelli LLP is serving as Disclosure Counsel to the State, and Orrick, Herrington & Sutcliffe LLP and Stradling Yocca Carlson & Rauth, a Professional Corporation, are serving as Co-Disclosure Counsel to the State regarding Appendix A. Montague DeRose and Associates, LLC is serving as the Municipal Advisor to the State with respect to the Offered Veterans G.O. Bonds. The Offered Veterans G.O. Bonds are expected to be available for delivery through the facilities of The Depository Trust Company on or about April 11, 2019.

Honorable Fiona Ma
Treasurer of the State of California

BIDS TO BE RECEIVED ON APRIL 4, 2019.
SEE APPENDIX K – "NOTICE OF SALE."

Official Statement Dated: ____________, 2019.

* Preliminary, subject to change.

PRINCIPAL PAYMENT DATES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES OR YIELDS AND CUSIPS†

$101,755,000*

STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CS (Non-AMT)

Principal Payment Date (December 1)*	Principal Amount*	Interest Rate	Price/Yield	CUSIP†
2019	$ 415,000	%	%	
2020	1,700,000			
2021	1,790,000			
2022	1,875,000			
2023	1,955,000			
2024	2,045,000			
2025	2,135,000			
2026	2,230,000			
2027	2,335,000			
2028	2,435,000			
2029	2,550,000			
2030	2,660,000			
2031	2,785,000			
2032	2,905,000			
2033	3,035,000			
2034	3,175,000			
2035	3,320,000			
2036	3,465,000			
2037	3,625,000			
2038	3,785,000			
2039	3,955,000			
2040	4,135,000			
2041	4,320,000			
2042	4,515,000			
2043	1,755,000			

$32,855,000** Series CS (PAC) Term Bonds Due December 1, 2049, at 4.000%, Price/Yield ___%, CUSIP† ________

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* Preliminary, subject to change. Principal payment dates will be designated as maturity dates of serial bonds or as sinking fund payment dates of term bonds by the successful bidder, subject to the terms of the Notice of Sale (as defined in this Official Statement). See APPENDIX K – "NOTICE OF SALE."

** Preliminary, subject to change. These bonds are the PAC Bonds, as defined herein. See "THE OFFERED VETERANS G.O. BONDS – Redemption – Special Mandatory Redemption of PAC Bonds."

† CUSIP data herein is provided by the CUSIP Global Services (CGS), which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers have been assigned by an independent company not affiliated with the State or the Department and are included solely for the convenience of the registered owners of the Offered Veterans G.O. Bonds. The State and the Department are not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Offered Veterans G.O. Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Offered Veterans G.O. Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Offered Veterans G.O. Bonds.

No dealer, broker, salesperson or other person has been authorized by the State or the Department to give any information or to make any representations with respect to the State or the Department or the Offered Veterans G.O. Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

This Official Statement, including any supplement or amendment of this Official Statement, is intended to be deposited with, and may be obtained from, the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access ("EMMA") website of the MSRB, currently located at http://emma.msrb.org. The information contained on such website is not part of this Official Statement and is not incorporated in this Official Statement.

This Official Statement is not to be construed as a contract with the purchasers of the Offered Veterans G.O. Bonds.

The Notice of Sale provides that each Initial Purchaser will certify as to the following: The Initial Purchaser has not undertaken any responsibility for the contents of the Official Statement, provided, however, that in accordance with and as part of its responsibilities under Federal securities laws, such Initial Purchaser has reviewed the information in the Official Statement and has not notified the State Treasurer of the need to modify or supplement the Official Statement. See APPENDIX K – "NOTICE OF SALE."

IN CONNECTION WITH THIS OFFERING, AN INITIAL PURCHASER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE OFFERED VETERANS G.O. BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. AN INITIAL PURCHASER MAY OFFER AND SELL THE OFFERED VETERANS G.O. BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES OR YIELDS STATED ON THE PAGE IMMEDIATELY FOLLOWING THE COVER PAGE OF THIS OFFICIAL STATEMENT, AND SAID PUBLIC OFFERING PRICES OR YIELDS MAY BE CHANGED FROM TIME TO TIME BY AN INITIAL PURCHASER.

THE OFFERED VETERANS G.O. BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE OFFERED VETERANS G.O. BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE OFFERED VETERANS G.O. BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY, AND THE FOREGOING AUTHORITIES HAVE NEITHER REVIEWED NOR CONFIRMED THE ACCURACY OF THIS OFFICIAL STATEMENT.

This Preliminary Official Statement is available as public information on the State Treasurer's investor relations website at http://www.buycaliforniabonds.com

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PRELIMINARY OFFICIAL STATEMENT

$101,755,000*
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CS (Non-AMT)

INTRODUCTION

This Introduction contains only a brief summary of the terms of the State of California Veterans General Obligation Bonds, Series CS (the "Offered Veterans G.O. Bonds") and a brief description of this Official Statement. A full review should be made of the entire Official Statement, including Appendices. Summaries of provisions of the Constitution and laws of the State of California (the "State") or any other documents referred to in this Official Statement do not purport to be complete and such summaries are qualified in their entirety by references to the respective complete provisions.

Description of the Offered Veterans G.O. Bonds

The issuance of veterans general obligation bonds and commercial paper notes ("Veterans G.O. Bonds") is authorized by various general obligation bond acts, as amended (collectively, the "Bond Acts") approved by the voters of the State and by resolutions of the Veterans' Finance Committee of 1943 (the "Veterans' Finance Committee"). The Offered Veterans G.O. Bonds are authorized under the Veterans' Bond Act of 2008, the Veterans and Affordable Housing Bond Act of 2018 (the "2018 Bond Act") and by resolutions adopted by the Veterans' Finance Committee under such Bond Acts (each a "Series CS Resolution" and, collectively, the "Series CS Resolutions" and together with resolutions of the Veterans' Finance Committee authorizing other Veterans G.O. Bonds, the "Resolutions") to, among other things, authorize the issuance of obligations to provide funds for the financing of contracts ("Contracts of Purchase") for the purchase of homes and farms for California military veterans under the Farm and Home Purchase Program (the "Program") of the Department of Veterans Affairs of the State (the "Department"). See "—Plan of Finance" below.

The Offered Veterans G.O. Bonds will be registered in the name of a nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Offered Veterans G.O. Bonds. Beneficial interests in the Offered Veterans G.O. Bonds may be purchased in book-entry form only, in denominations of $5,000 or any integral multiple thereof.

The Offered Veterans G.O. Bonds will be dated the date of their delivery (the "Dated Date") and will mature on the respective dates and in the respective amounts set forth on the page immediately following the cover page of this Official Statement. Interest on the Offered Veterans G.O. Bonds will accrue from the Dated Date at the respective rates shown on the page immediately following the cover page of this Official Statement, will be payable on June 1 and December 1 in each year (each, an "Interest Payment Date") commencing December 1, 2019,

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* Preliminary, subject to change.

and will be calculated on the basis of a 360-day year comprised of twelve 30-day months. See APPENDIX E – "DTC AND THE BOOK-ENTRY SYSTEM."

Security for and Sources of Payment for Veterans G.O. Bonds

The Offered Veterans G.O. Bonds are general obligations of the State to which the full faith and credit of the State is pledged. The California Military and Veterans Code (the "Veterans Code") requires that, with respect to Veterans G.O. Bonds, on the dates when funds are to be remitted to bondholders for the payment of debt service on such Veterans G.O. Bonds, there shall be transferred to a revolving special fund in the State Treasury (the "Veterans' Bonds Payment Fund") to pay the debt service on such Veterans G.O. Bonds, all of the money in the Veterans' Farm and Home Building Fund of 1943 (the "1943 Fund") (but not in excess of the amount of debt service then due and payable). Debt service on the Offered Veterans G.O. Bonds is payable first from the moneys required under the Veterans Code to be transferred from the 1943 Fund to the Veterans' Bonds Payment Fund and second, if the moneys transferred from the 1943 Fund to the Veterans' Bonds Payment Fund are less than debt service then due and payable, the balance is payable from the General Fund of the State (the "General Fund"). The principal of and interest on all State general obligation bonds, including the Offered Veterans G.O. Bonds (as described above), are payable from the moneys in the General Fund, subject under State law only to the prior application of such moneys to the support of the public school system and public institutions of higher education. The 1943 Fund is required to transfer to the General Fund, as soon as it becomes available, an amount equal to the amount paid by the General Fund, if any, together with interest thereon from the remittance date until paid, at the same rate of interest as borne by the applicable Veterans G.O. Bonds, compounded semiannually. The Veterans Code does not grant any lien on the 1943 Fund or the moneys therein to the holders of any Veterans G.O. Bonds (including the Offered Veterans G.O. Bonds). Each of the Bond Acts authorizing the Offered Veterans G.O. Bonds provides that the State shall collect annually, in the same manner and at the same time as it collects other State revenues, a sum of money, in addition to the ordinary revenues of the State, sufficient to pay the principal of and interest on the Veterans G.O. Bonds (including the Offered Veterans G.O. Bonds) authorized under such Bond Act. See "AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS," APPENDIX A – "THE STATE OF CALIFORNIA – STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES – The General Fund" and "— STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – General Obligation Bonds." See also APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND" for a discussion of the Department, the Program and the 1943 Fund.

Redemption*

The Offered Veterans G.O. Bonds are subject to special redemption from unexpended proceeds (see "THE OFFERED VETERANS G.O. BONDS – Redemption – Special Redemption from Unexpected Proceeds" below) and special redemption from Excess Revenues (as defined below) prior to maturity, as described below. In addition, certain Offered Veterans G.O. Bonds are subject to optional redemption, sinking fund redemption, and special mandatory redemption, prior to maturity, as described below. See "THE OFFERED VETERANS G.O. BONDS – Redemption."

Financial Condition of the State General Fund

The following paragraphs present an extremely abbreviated summary of certain fiscal issues relating to the State, all of which are described in more detail in APPENDIX A. All cross references under this heading are to sections of APPENDIX A—"THE STATE OF CALIFORNIA." Capitalized terms used under "—Financial Condition of the State General Fund" and not defined in the forepart of this Official Statement have the meanings ascribed to them in APPENDIX A. Investors should review the entirety of APPENDIX A.

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

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* Preliminary, subject to change.

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 "–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.

Information Related to the Official Statement

The information set forth in this Official Statement has been obtained from official sources that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions and such summaries are qualified by references to the entire contents of the summarized documents. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the State or the Department since the date of this Official Statement.

All financial and other information presented or incorporated by reference in this Official Statement has been provided from its records by, respectively, the State or the Department, except for information expressly attributed to other sources. The presentation of historical information, including tables of receipts from taxes and other revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of, respectively, the State or the Department. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements attained to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Any statements made in this Official Statement involving matters of opinion, whether expressly stated or not, are set forth as such and not as representations of fact.

A wide variety of other information, including financial information, concerning the State and the Department is available from State agencies, State agency publications and State agency websites. Such information includes websites operated by the Department, the State Department of Finance, the State Controller's Office and the State Treasurer's Office. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement, except as expressly noted.

The information in APPENDIX E – "DTC AND THE BOOK-ENTRY SYSTEM" regarding DTC and its book-entry system has been furnished by DTC and no representation is made by the State or the Department as to the accuracy or completeness of such information.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Offered Veterans G.O. Bonds, by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction.

Plan of Finance

Offered Veterans G.O. Bonds

Under the Program, the Department acquires residential property to be sold to eligible veterans under Contracts of Purchase between the Department and such veterans. Such acquisition is financed principally with the proceeds of Veterans G.O. Bonds and Revenue Bonds (as defined below) and from other moneys available in the 1943 Fund. The Offered Veterans G.O. Bonds are being issued for the purposes of (i) reimbursing the Department for existing Contracts of Purchase previously funded by the 1943 Fund, (ii) funding Contracts of Purchase to be originated in the future, and (iii) paying certain costs of issuance of the Offered Veterans G.O. Bonds. The Contracts of Purchase financed (or for which the Department is to be reimbursed) with proceeds of the Offered Veterans G.O. Bonds (including any original issue premium) are collectively referred to herein as the "Offered Veterans G.O. Bonds Contracts of Purchase." See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments" for information regarding the amount of money currently available and also expected to be made available to finance new Contracts of Purchase following the issuance of the Offered Veterans G.O. Bonds.

2019 Revenue Bonds

The Department has entered into a contract for the sale of $78,155,000 Department of Veterans Affairs of the State of California Home Purchase Revenue Bonds, 2019 Series A (the "2019 Revenue Bonds"), the proceeds of which will be used to, among other things, fund Contracts of Purchase to be originated in the future. The Department expects to issue the 2019 Revenue Bonds on or about April 11, 2019. The Offered Veterans G.O. Bonds and the 2019 Revenue Bonds, if issued, are separate and independent bond issues, although if, as anticipated, the respective sales of the Offered Veterans G.O. Bonds and the 2019 Revenue Bonds occur within 15 days of each other, the Offered Veterans G.O. Bonds and the 2019 Revenue Bonds will be treated as a single issue for certain Federal tax purposes. The 2019 Revenue Bonds are not offered pursuant to this Official Statement and are described pursuant to a separate official statement. The issuance of the Offered Veterans G.O. Bonds is not dependent on the issuance of the 2019 Revenue Bonds. See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments" for information regarding the amount of money expected to become available to finance Contracts of Purchase upon the issuance of the 2019 Revenue Bonds.

The 2019 Revenue Bonds will not be issued under and will not constitute Veterans G.O. Bonds. Contracts of Purchase purchased with the proceeds of the 2019 Revenue Bonds will not constitute Offered Veterans G.O. Bonds Contracts of Purchase. The 2019 Revenue Bonds will constitute Revenue Bonds (as defined below). See "AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS."

Plan of Sale

Bids will be received by the Honorable Fiona Ma, CPA, Treasurer of the State of California (the "State Treasurer"), for the purchase of the Offered Veterans G.O. Bonds on April 4, 2019. See APPENDIX K – "NOTICE OF SALE." The State Treasurer reserves the right, prior to the date of the sale, to modify the Notice of Sale (the "Notice of Sale"), including (but not limited to) changing the principal amounts, maturity schedule or the requirements relating to the interest rates on or purchase price for the Offered Veterans G.O. Bonds, as more particularly described in APPENDIX K – "NOTICE OF SALE." Any such modifications will be disseminated via MuniOS (www.munios.com) and posted on the Bid Service (as defined in the Notice of Sale) not later than April 3, 2019 at 1:00 p.m. California time. Any delay in making such modification will not affect the validity of the sale of the Offered Veterans G.O. Bonds. Bidders are required to bid upon the Offered Veterans G.O. Bonds as so modified. Any modifications will also be available at the State Treasurer's investor relations website at www.buycaliforniabonds.com. The State Treasurer reserves the right to postpone or cancel the sale of each or all of the bid groups (described in the Notice of Sale) of the Offered Veterans G.O. Bonds at any time.

Continuing Disclosure

The State Treasurer will agree on behalf of the State to provide annually certain financial information and operating data relating to the State by not later than April 1 of each year in which any Offered Veterans G.O. Bonds are outstanding (the "State's Annual Report"), commencing with the report to be filed on or before April 1, 2020, containing Fiscal Year 2018-2019 financial information, and to provide notice of the occurrence of certain enumerated events.

The Secretary of Veterans Affairs of the Department will agree to provide annually certain financial information and operating data relating to the Program by not later than April 1 of each year in which any Offered Veterans G.O. Bonds are outstanding (the "Department's Annual Report"), commencing with the report to be filed on or before April 1, 2020, containing the 2018-2019 fiscal year financial information, and to provide notice of the occurrence of certain enumerated events.

The specific nature of the information to be contained in the State's Annual Report, the Department's Annual Report and the notices of events and certain other terms of the continuing disclosure obligations are set forth in APPENDIX F—"FORMS OF CONTINUING DISCLOSURE CERTIFICATES." The State Treasurer has adopted policies and procedures designed to ensure compliance with its continuing disclosure undertakings. The Department has policies and procedures designed to ensure compliance with its continuing disclosure undertakings.

The State Treasurer's Office expects to file unaudited financial statements for fiscal year 2017-18 as part of the State's annual report to be filed on the EMMA (defined below) website on or before April 1, 2019, as a result of an anticipated delay in the release of the State's audited financial statements for fiscal year ended June 30, 2018. The State Treasurer will agree in the Continuing Disclosure Certificate delivered concurrently with the issuance of the Offered Veterans G.O. Bonds to promptly file the audited financial statements for fiscal year 2017-18 on the EMMA website when available. See "FINANCIAL STATEMENTS OF THE STATE" below and APPENDIX F—"FORMS OF CONTINUING DISCLOSURE CERTIFICATES."

In May 2016, S&P Global Ratings ("S&P") lowered the ratings on certain letter of credit backed variable rate general obligation bonds issued by the State in 2003, 2004 and 2005 following application of S&P's updated Methodology and Assumptions for Rating Jointly Supported Financial Obligations criteria. In July 2016, the State, acting through the State Treasurer, filed an event notice on EMMA.

Certain prior annual reports of the State Treasurer, certain prior reports of financial information and operating data relating to the Program, and other reports and notices are available from the EMMA website (www.emma.msrb.org) operated by the MSRB or on such other website as may be designated by the MSRB or the Securities and Exchange Commission. The information contained on any such website is not part of this Official Statement and is not incorporated in this Official Statement.

AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS

Authorization

The issuance of Veterans G.O. Bonds is authorized by the Bond Acts approved by the voters of the State and by the Series CS Resolutions of the Veterans' Finance Committee. The State General Obligation Bond Law (the "Law"), which is set forth in Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the California Government Code as incorporated by reference into each Bond Act, provides for the authorization, sale, issuance, use of proceeds, repayment and refunding of State general obligation bonds, including Veterans G.O. Bonds. The Offered Veterans G.O. Bonds also are authorized by the Series CS Resolutions.

As of the date of this Official Statement, $1,001,755,000 of Veterans G.O. Bonds are authorized but not issued, there are outstanding approximately $719,160,000 aggregate principal amount of Veterans G.O. Bonds, and there are no outstanding commercial paper notes. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND," and APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Veterans G.O. Bonds and Revenue Bonds."

Security for and Sources of Payment for Veterans G.O. Bonds

Veterans G.O. Bonds are general obligations of the State. The Veterans Code establishes in the State Treasury the Veterans' Bonds Payment Fund, a revolving special fund, and requires that on the dates when funds are to be remitted to bondholders for the payment of debt service on Veterans G.O. Bonds, there shall be transferred to the Veterans' Bonds Payment Fund to pay the debt service on such Veterans G.O. Bonds all of the money in the 1943 Fund (but not in excess of the amount of debt service then due and payable). Debt service on Veterans G.O. Bonds is payable first from the moneys required under the Veterans Code to be transferred from the 1943 Fund to the Veterans' Bonds Payment Fund and second, if the moneys transferred from the 1943 Fund to the Veterans' Bonds Payment Fund are less than debt service then due and payable, the balance is payable from the General Fund. The principal of and interest on all State general obligation bonds, including Veterans G.O. Bonds (as described above), are payable from the moneys in the General Fund, 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. The 1943 Fund is required to transfer to the General Fund, as soon as it becomes available, an amount equal to the amount paid by the General Fund, if any, together with interest thereon from the remittance date until paid at the same rate of interest as borne by the applicable Veterans G.O. Bonds, compounded semiannually. The Veterans Code does not grant any lien on the 1943 Fund or the moneys therein to the holders of any Veterans G.O. Bonds. The 1943 Fund has always made its payments in a timely manner and in an amount sufficient such that the required debt service payments on Veterans G.O. Bonds have been paid.

The Veterans Code states that moneys in the Veterans' Bonds Payment Fund are (i) required to be used solely to pay debt service when due on Veterans G.O. Bonds, (ii) not considered "surplus money" for the purposes of the California Government Code and (iii) prohibited from being borrowed by, or transferred to, the General Fund or to the General Cash Revolving Fund.

Each of the Bond Acts provide that the State will collect annually in the same manner and at the same time as it collects other State revenue, an amount sufficient to pay principal of and interest on the Veterans G.O. Bonds authorized under such Bond Act in that year. Each of the Bond Acts also contains a continuing appropriation from the General Fund of the sum annually necessary to pay the principal of and interest on the Veterans G.O. Bonds authorized under such Bond Act as they become due and payable. No further appropriation by the State Legislature is required to pay the principal of and interest on Veterans G.O. Bonds. Under the State Constitution, the appropriation from the General Fund to pay the principal of and interest on Veterans G.O. Bonds as set forth in the related Bond Act cannot be repealed until the principal of and interest on such Veterans G.O. Bonds are paid and discharged.

The Bond Acts each provide that the Veterans G.O. Bonds issued thereunder constitute valid and binding obligations of the State, and the full faith and credit of the State is pledged for the punctual payment of the principal of, and interest on, the Veterans G.O. Bonds, as the principal and interest become due and payable. The pledge of the full faith and credit of the State alone does not create a lien on any particular moneys in the General Fund or any other assets of the State, but is an undertaking by the State to be irrevocably obligated in good faith to use its taxing powers as may be required for the full and prompt payment of the principal of and interest on all State general obligation bonds as they become due and payable, including the Veterans G.O. Bonds to the extent that the moneys transferred from the 1943 Fund to the Veterans' Bonds Payment Fund are less than debt service then due and payable. The only provision of the State Constitution that creates a higher priority for any State fiscal obligation is a provision directing that from all State revenues, there will first be set apart the moneys to be applied by the State for the support of the public school system and public institutions of higher education. In the past when cash resources in the General Fund have been constrained, State officials have worked within their powers granted by State law to manage cash resources to ensure that payments to schools and universities and for general obligation debt service would be made. On any debt service payment date, all State general obligation bonds, including the Veterans G.O. Bonds, have an equal claim on moneys then in the General Fund on that date for payment of debt service. See APPENDIX A – "THE STATE OF CALIFORNIA – STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – General Obligation Bonds" and "CASH MANAGEMENT."

The 1943 Fund

The Department's primary fund for the Program is the 1943 Fund. As more particularly described herein, the moneys in the 1943 Fund are used to pay the amount of required debt service to the Veterans' Bonds Payment Fund, for payment of principal and interest on Veterans G.O. Bonds, and if necessary, are used to reimburse the General Fund for any amounts paid from the General Fund for debt service on the Veterans G.O. Bonds, including to pay interest thereon to the General Fund from the date of remittance from the General Fund until paid at the same rate of interest as borne by the applicable Veterans G.O. Bonds, compounded semiannually.

The Department also issues Home Purchase Revenue Bonds (the "Revenue Bonds") the debt service on which is payable from the 1943 Fund, pursuant to the Veterans' Revenue Debenture Act of 1970, as amended (the "Act"), a Resolution of Issuance for Department of Veterans Affairs of the State of California Home Purchase Revenue Bonds, adopted March 19, 1980, as amended and supplemented (the "Revenue Bond Resolution"), and separate authorizing resolutions. Revenue Bonds issued by the Department are special obligations of the Department payable solely from, and secured by a pledge of, an undivided interest in the assets of the 1943 Fund (other than proceeds of Veterans G.O. Bonds or any amounts in any rebate account) and any reserve accounts established for the benefit of Revenue Bonds. The Act provides that this undivided interest in the assets of the 1943 Fund of holders of the Revenue Bonds is secondary and subordinate to any interest or right in the assets of the 1943 Fund of the people of the State and of the holders of the Veterans G.O. Bonds. If the transfers required to be made to the Veterans' Bonds Payment Fund for payment of debt service on Veterans G.O. Bonds have been made, no holder or beneficial owner of Veterans G.O. Bonds has any right to restrict disbursements by the Department from the 1943 Fund for any lawful purpose, including payment of debt service on or redemptions and purchases of Revenue Bonds. The 1943 Fund is required to reimburse the General Fund for any debt service payments on the Veterans G.O. Bonds paid by the General Fund to the extent of any shortfalls in transfers from the 1943 Fund to the Veterans' Bonds Payment Fund, including to pay interest thereon to the General Fund as described herein, before the 1943 Fund may make payments on Revenue Bonds (although payments on Revenue Bonds may be made from amounts on deposit in any reserve accounts established for the benefit of Revenue Bonds and, if any, in the loan loss account held in the Veterans Debenture Revenue Fund).As of the date of this Official Statement, there are approximately $315,665,000 aggregate principal amount of Revenue Bonds outstanding.

For additional information, see APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE 1943 FUND."

Remedies

Under each of the Series CS Resolutions it is an event of default if the State shall fail to pay or cause to be paid, when due, principal or purchase price of or interest or premium on any Offered Veterans G.O. Bond issued thereunder or shall have declared a moratorium on such payment, or repudiated any Offered Veterans G.O. Bond issued thereunder.

The Series CS Resolutions do not contain any provision providing for the acceleration of the Offered Veterans G.O. Bonds. Each Series CS Resolution states with regard to the Offered Veterans G.O. Bonds authorized thereunder that in the case that one or more events of default occurs, then, and in every such case, the registered Bondholder of the affected Offered Veterans G.O. Bonds is entitled to proceed to protect and enforce such registered Bondholder's rights by such appropriate judicial proceeding as such registered Bondholder deems most effectual to protect and enforce any such right, whether by mandamus or other suit or proceeding at law or in equity, for the specific performance of any covenant or agreement contained in such Series CS Resolution, or in aid of the exercise of any power granted in the Resolution, or to enforce any other legal or equitable right vested in the registered Bondholders by such Series CS Resolution or by law, as more specifically set forth in such Series CS Resolution. Beneficial owners of the Offered Veterans G.O. Bonds (the "Beneficial Owners") cannot protect and enforce such rights except through the registered Bondholder. See "THE OFFERED VETERANS G.O. BONDS – General" and APPENDIX E – "DTC AND THE BOOK–ENTRY SYSTEM."

Since the State has never failed to make a debt service payment on any general obligation bond, including any Veterans G.O. Bonds, when due, the exact steps which would be taken, or the remedies available to registered Bondholders and Beneficial Owners, have never been tested. There are no cross-default provisions among general obligation bonds of the State, including Veterans G.O. Bonds. Therefore, any default with respect to any particular issue of bonds would not provide any remedy to holders of other bonds which are not affected. Neither the State nor the Department is eligible to file for protection under the Federal bankruptcy laws.

THE OFFERED VETERANS G.O. BONDS

General

The Offered Veterans G.O. Bonds will be registered in the name of the nominee of DTC, which will act as securities depository for the Offered Veterans G.O. Bonds. Beneficial interests in the Offered Veterans G.O. Bonds may be purchased in book-entry form only, in denominations of $5,000 or any integral multiple thereof. See APPENDIX E – "DTC AND THE BOOK-ENTRY SYSTEM."

The Offered Veterans G.O. Bonds will be dated the Dated Date and will mature on the respective dates and in the respective amounts set forth on the page immediately following the cover page of this Official Statement. Interest on the Offered Veterans G.O. Bonds will accrue from the Dated Date at the respective rates shown on the page immediately following the cover page of this Official Statement. Interest on the Offered Veterans G.O. Bonds is payable on each Interest Payment Date commencing December 1, 2019 and shall be calculated on the basis of a 360-day year comprised of twelve 30-day months. The record date for the payment of interest on the Offered Veterans G.O. Bonds is the close of business on the 15th day of the month immediately preceding an Interest Payment Date, whether or not the record date falls on a business day. If any payment on the Offered Veterans G.O. Bonds is due on a day other than a business day, such payment shall be made on the next succeeding business day, and no interest will accrue as a result. "Business day" means any day other than a Saturday, a Sunday, a State holiday or any other date specifically designated not to be a business day pursuant to the Series CS Resolutions. Certain State holidays may fall on days that are not banking holidays, and can vary from year to year.

Principal and interest (including the redemption price, if any) are payable directly to DTC by the State Treasurer. Upon receipt of payments of principal and interest, DTC is to in turn remit such principal and interest to the Direct Participants in DTC for disbursement by the Participants to the Beneficial Owners of the Offered Veterans G.O. Bonds. Neither the State Treasurer nor the Department can give any assurances that DTC will distribute to Direct Participants, or that Participants or others will distribute to the Beneficial Owners, payment of principal of and interest on the Offered Veterans G.O. Bonds or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the State Treasurer nor the Department is responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or to give any notice to a Beneficial Owner with respect to the Offered Veterans G.O. Bonds or for any error or delay relating thereto.

The information in APPENDIX E—"DTC AND THE BOOK-ENTRY SYSTEM" regarding DTC and its book-entry system has been furnished by DTC and no representation is made by the State or the Department as to the accuracy or completeness of such information.

Redemption*

Optional Redemption

The Offered Veterans G.O. Bonds maturing on or before December 1, 2028 are not subject to optional redemption prior to their respective stated maturity dates. The Offered Veterans G.O. Bonds maturing on or after December 1, 2029 are subject to optional redemption prior to their respective stated maturity dates, at the option of the State upon request of the Department, in whole or in part by lot within each maturity, on any date on or after December 1, 2028 from any moneys made available for such purpose, at a redemption price equal to 100% of the principal amount of the Offered Veterans G.O. Bonds to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption.

Sinking Fund Redemption

The Offered Veterans G.O. Bonds maturing on December 1, 2049 (the "PAC Bonds" or the "Term Bonds"), are subject to redemption prior to their stated maturity date, in part, by lot, from sinking fund payments, at a redemption price of 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption, without premium, on the respective dates and in the respective amounts shown below.

Mandatory Sinking Fund Payment Dates (December 1)	Principal Amount Redeemed
2043	$ 2,960,000
2044	4,935,000
2045	5,150,000
2046	5,385,000
2047	5,625,000
2048	5,880,000
2049†	2,920,000

† Stated Maturity

If less than all of the Term Bonds of a maturity are purchased or called for redemption (other than in satisfaction of sinking fund payments), the State Treasurer will credit the principal amount of such Term Bonds that are so purchased or redeemed against the remaining sinking fund payments relating to such Term Bonds (including the principal amounts due on the respective maturity dates, as shown above), as requested by the Department; *provided, however*, with respect to the PAC Bonds the State Treasurer will credit the principal amount of the PAC Bonds so purchased or redeemed on a pro rata basis (as nearly as practicable) against the remaining sinking fund payments for the PAC Bonds.

* Preliminary, subject to change.

Special Redemption from Unexpended Proceeds

The Offered Veterans G.O. Bonds are subject to special redemption on any date prior to their respective stated maturity dates at the option of the State upon request of the Department, from the moneys deposited in the GO Bond Series Proceeds Subaccount with respect to the Offered Veterans G.O. Bonds that have not been applied to finance Contracts of Purchase (a "Special Redemption from Unexpended Proceeds").

Any such Special Redemption from Unexpended Proceeds will be pro rata among outstanding maturities of the Offered Veterans G.O. Bonds and by lot within such maturity, at the principal amount thereof to be redeemed plus accrued interest to the date fixed for redemption, without premium (except that the PAC Bonds will be redeemed at the principal amount thereof to be redeemed plus accrued interest to the date fixed for redemption, plus a premium that maintains the same yield* to the unexpended proceeds redemption date as the initial reoffering price thereof established by the initial purchaser). See "—Special Mandatory Redemption of PAC Bonds."

Factors which may affect the demand for Contracts of Purchase and consequently the Department's ability to use all of the proceeds of the Offered Veterans G.O. Bonds for the financing of Contracts of Purchase include not only general economic conditions, but also (among other factors) the relationship between alternative mortgage loan interest rates (including rates on mortgage loans insured or guaranteed by agencies of the Federal government, rates on conventional mortgage loans and the rates on other Contracts of Purchase available from the Department), the interest rates being charged on Contracts of Purchase by the Department, the general level of home purchase and construction activity in the State and the demographics of the eligible veterans population. These factors could cause a lack of demand for Contracts of Purchase financed by the Offered Veterans G.O. Bonds and could necessitate the exercise by the Department of its right to apply the unexpended proceeds to redeem the Offered Veterans G.O. Bonds. See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience" for information regarding the recent rate of originations of Contracts of Purchase, and "—Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds" for the interest rates on Contracts of Purchase originated since January 1, 1990. For additional information, see APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Interest Rates."

From time to time moneys may be or become available through the issuance of Veterans G.O. Bonds (such as the Offered Veterans G.O. Bonds) and Revenue Bonds (such as the 2019 Revenue Bonds) and from other moneys available in the 1943 Fund to finance Contracts of Purchase. Since the Department has full discretion, subject to eligibility requirements and the requirements of the Federal Tax Code, in applying the proceeds of all of these bonds and other available moneys in the 1943 Fund to finance the Program, the proceeds of prior and future, if any, Veterans G.O. Bonds and Revenue Bonds and other available moneys in the 1943 Fund may

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* Calculated based on the assumption that the PAC Bonds are redeemed in each semiannual period such that the amount outstanding following each such redemption equals the related PAC Bonds Outstanding Amounts as set forth in the PAC Bonds Outstanding Amounts Table in "—Special Mandatory Redemption of PAC Bonds" below.

be used to finance Contracts of Purchase before proceeds of the Offered Veterans G.O. Bonds are so used. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Certain Statutory Requirements" for information regarding eligibility requirements for different moneys made available by the Department and APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments" for information regarding the amount of money currently available and expected to become available to finance Contracts of Purchase upon the issuance of the Offered Veterans G.O. Bonds.

Special Redemption from Excess Revenues

The Offered Veterans G.O. Bonds are subject to special redemption on any date prior to their respective stated maturity dates, at the option of the State upon request of the Department, from Excess Revenues (as defined below) derived from any Veterans G.O. Bonds or any Revenue Bonds, except that, as described below under "—Special Mandatory Redemption of PAC Bonds," Directed Prepayments (as defined below) must be applied to redeem the PAC Bonds, and the principal amount of the PAC Bonds redeemed from Directed Prepayments and other Excess Revenues is limited. Any such special redemption from Excess Revenues (other than Directed Prepayments that must be applied to redeem PAC Bonds) may be in whole or in part and of any maturity at the option of the State upon a request of the Department and by lot within such maturity, at the principal amount thereof to be redeemed plus accrued interest to the date fixed for redemption, without premium.

"Directed Prepayments" means, with respect to any semiannual period, an amount equal to all Prepayments on Offered Veterans G.O. Bonds Contracts of Purchase, provided, however, that such Prepayments are actually received by the Department and are not otherwise required by law or under the applicable bond resolutions to pay debt service on Veterans G.O. Bonds or Revenue Bonds.

"Prepayments" means all moneys received in connection with Contracts of Purchase other than interest and scheduled repayments of principal. Prepayments on Contracts of Purchase include, but are not limited to, principal prepayments, prepayment premiums or prepayment penalties, hazard insurance payments, payments in respect of partial or complete condemnation and recoveries on defaulted Contracts of Purchase.

"Excess Revenues" means, as of any date of calculation, the amount of all Revenues (as defined below) held in the revenue account established under the Revenue Bond Resolution in excess of Accrued Debt Service (as defined below).

"Revenues" means all moneys received by or on behalf of the Department representing (i) principal and interest payments on the Contracts of Purchase including all prepayments representing the same and all prepayment premiums or penalties received by or on behalf of the Department with respect to the Contracts of Purchase, (ii) interest earnings received on the investment of amounts to the extent deposited in the revenue account established under the Revenue Bond Resolution, (iii) amounts transferred to the revenue account from the bond reserve account or the loan loss account established under the Revenue Bond Resolution, and

(iv) any other amounts payable by parties executing Contracts of Purchase or private participants in the Program or related to recoveries on defaulted Contracts of Purchase, including origination and commitment fees, servicing acquisition fees, liquidation proceeds, and insurance proceeds, *except* to the extent not included as "Revenues" pursuant to the provisions of any resolution authorizing the issuance of a series of Revenue Bonds.

"Accrued Debt Service" means, as of any date of determination and, as the context requires, with respect to all Revenue Bonds and Veterans G.O. Bonds (including the Offered Veterans G.O. Bonds), the sum of: (i) the aggregate amount of scheduled interest and principal (except to the extent principal is otherwise to be redeemed pursuant to clause (ii) or (iii) below) to become due after such date but on or before the end of the current debt service year, *less* the product of (x) the number of whole months remaining in the current debt service year and (y) the Monthly Debt Service Requirement; (ii) the redemption price of bonds for which notice of redemption has been issued, provided such redemption price is to be paid from amounts on deposit in the revenue account established under the Revenue Bond Resolution; and (iii) the redemption price of bonds that the Department will be obligated to redeem prior to the end of the next succeeding debt service year under the terms of any resolution governing Revenue Bonds or Veterans G.O. Bonds, to the extent that such obligation arises on account of amounts on deposit in the revenue account established under the Revenue Bond Resolution.

"Monthly Debt Service Requirement" means, as of any date of determination, one-twelfth of the aggregate amount of scheduled interest and principal to become due during the debt service year in which such date falls, as computed on the first day of such debt service year.

Excess Revenues can include Prepayments and repayments on Contracts of Purchase funded by Revenue Bonds and Veterans G.O. Bonds, investment earnings and insurance receipts and Revenues which had been set aside to be recycled into new Contracts of Purchase. All payments on Contracts of Purchase are deposited in the 1943 Fund and applied to pay debt service on the Veterans G.O. Bonds and Revenue Bonds (including mandatory redemptions of Veterans G.O. Bonds and Revenue Bonds), to finance Contracts of Purchase, to pay Program and Department expenses, and to pay certain insurance claims. The Department, subject to applicable bond authorizing resolutions, may apply Excess Revenues to redeem any Veterans G.O. Bonds or Revenue Bonds eligible for redemption. The Department's decision to apply Excess Revenues to redeem bonds, to finance Contracts of Purchase, or for any other permitted purpose depends on many factors, including but not limited to applicable bond authorizing resolution requirements, demand for Contracts of Purchase, debt service cost savings, investment earnings, and Federal Tax Code requirements. See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Veterans G.O. Bonds and Revenue Bonds – Selected Information With Respect to Veterans G.O. Bonds and Revenue Bonds." The Department also collects certain premiums from veterans in respect of the Fire and Hazard Insurance Program and Disaster Indemnity Program. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Property Insurance."

The Department's actual past prepayment experience for existing Contracts of Purchase is set forth in APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION

AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience."

Special Mandatory Redemption of PAC Bonds

The PAC Bonds are subject to special mandatory redemption from Directed Prepayments at a redemption price of 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption. Such mandatory redemptions may occur on any date but, to the extent that there are Directed Prepayments, must occur at least once during each semiannual period ending on a June 1 or December 1, commencing with the period ending December 1, 2019. Such redemptions may be made, at the option of the State as requested by the Department, from sources other than Directed Prepayments, to the extent Directed Prepayments are not sufficient to satisfy the mandatory redemption. Any such redemption from Directed Prepayments or other sources must not result in the aggregate principal amount of the PAC Bonds outstanding following such redemption to be less than the related PAC Bonds Outstanding Amount for the related semiannual period as set forth in the table immediately following this paragraph (the "PAC Bonds Outstanding Amounts Table"). The PAC Bonds Outstanding Amounts set forth in the PAC Bonds Outstanding Amounts Table may be recalculated as described below due to a redemption of Offered Veterans G.O. Bonds from unexpended proceeds as described under "—Special Redemption from Unexpended Proceeds" above (as so recalculated, the "Applicable Outstanding Amount").

PAC BONDS OUTSTANDING AMOUNTS

Semiannual Period Ending	PAC Bonds Outstanding Amounts
April 11, 2019	$32,855,000†
December 1, 2019	32,765,000
June 1, 2020	32,210,000
December 1, 2020	31,055,000
June 1, 2021	29,320,000
December 1, 2021	27,035,000
June 1, 2022	24,340,000
December 1, 2022	21,605,000
June 1, 2023	18,980,000
December 1, 2023	16,460,000
June 1, 2024	14,040,000
December 1, 2024	11,720,000
June 1, 2025	9,495,000
December 1, 2025	7,365,000
June 1, 2026	5,325,000
December 1, 2026	3,370,000
June 1, 2027	1,500,000
December 1, 2027 and each December 1 and June 1 thereafter	0

† Principal amount at issuance.

If the Offered Veterans G.O. Bonds are redeemed from unexpended proceeds as described in "—Special Redemption from Unexpended Proceeds" above, then each PAC Bonds Outstanding Amount within each applicable semiannual period will be recalculated to reflect revised assumptions regarding the Offered Veterans G.O. Bonds Contracts of Purchase due to the reduction in the amount of proceeds that will finance such Offered Veterans G.O. Bonds Contracts of Purchase. The revised assumptions include a reduction in the aggregate principal amount of Offered Veterans G.O. Bonds Contracts of Purchase, the timing of their acquisition and their interest rates. In the event the PAC Bonds Outstanding Amounts are recalculated as a result of special redemption(s) of the Offered Veterans G.O. Bonds from unexpended proceeds, the resulting weighted average life structure of the PAC Bonds may differ from the original weighted average life structure of the PAC Bonds, which is based on the factors and assumptions described under "—Projected Weighted Average Lives of PAC Bonds" below. Neither the State nor the Department provides any assurances that any such recalculation will not be materially adverse to holders of the PAC Bonds.

Directed Prepayments in excess of the amount of such payments that must be applied in any semiannual period to redeem PAC Bonds, or that are received after the payment in full of the PAC Bonds, may be applied for any authorized purpose under the Series CS Resolutions authorizing Veterans G.O. Bonds or the resolutions authorizing Revenue Bonds, including the redemption of other Offered Veterans G.O. Bonds, Veterans G.O. Bonds and Revenue Bonds.

Assumptions Used in Calculating the PAC Bonds Outstanding Amounts; PSA Model

The PAC Bonds Outstanding Amounts set forth in the PAC Bonds Outstanding Amounts Table (subject to adjustment as described above) have been calculated based upon assumptions (the "PAC Bonds Assumptions") that include, among other assumptions, that all proceeds of the Offered Veterans G.O. Bonds available to purchase Contracts of Purchase are utilized for such purchases (as described further below), and that the Directed Prepayments are received at a rate equal to 100% of Securities Industry and Financial Markets Association ("SIFMA") (formerly the Public Securities Association) standard prepayment model for 30-year mortgage loans ("PSA"), as further described below. Since Prepayments on Contracts of Purchase cannot be predicted, the actual principal amount of and characteristics of the Offered Veterans G.O. Bonds Contracts of Purchase may differ from such assumptions.

The PAC Bonds Assumptions, including those regarding the expected rate of receipt of Directed Prepayments, may differ from the assumptions contained in the Cash Flow Statement required under the Revenue Bond Resolution to be delivered in connection with the issuance of the Offered Veterans G.O. Bonds. The State and the Department make no representation that actual experience will conform to the PAC Bonds Assumptions. Age and interest rates of Contracts of Purchase are factors that can affect the speeds at which Contracts of Purchase are prepaid.

Prepayments on mortgage loans, including obligations such as the Contracts of Purchase, are commonly measured relative to a prepayment standard or model. The model represents an assumed monthly rate of prepayment of the then-outstanding principal balance of a pool of new 30-year mortgage loans, and does not purport to be either a historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Offered Veterans G.O. Bonds Contracts of Purchase.

One hundred percent PSA assumes prepayment rates of 0.2% per year of the then-unpaid principal balance of such pool of mortgage loans in the first month of the life of such mortgage loans and an additional 0.2% per year in each month thereafter (for example, 0.4% per year in the second month) until the 30th month. Beginning in the 30th month and in each month thereafter during the life of the mortgage loans in such pool, 100% PSA assumes a constant prepayment rate of the mortgage loans in such pool of 6% per year. Multiples will be calculated from this prepayment rate sequence; e.g., 200% PSA assumes prepayment rates will be 0.4% per year in month one, 0.8% per year in month two, reaching 12% per year in the 30th month and remaining constant at 12% per year thereafter.

Projected Weighted Average Lives of PAC Bonds

The weighted average life of a bond refers to the average of the length of time that will elapse from the date of issuance of such bond to the date each installment of principal is paid, weighted by the amount of such installment. The weighted average life of the PAC Bonds will be influenced by, among other factors, the rate at which Prepayments on Offered Veterans G.O. Bonds Contracts of Purchase are received.

Set forth in the following table (the "PAC Bonds Projected Weighted Average Life Table") are the projected weighted average lives (in years) of the PAC Bonds based upon various rates of receipt of Directed Prepayments expressed as percentages of PSA. The State and the Department have made no projections as to the weighted average lives of the PAC Bonds at rates of receipt of Directed Prepayments exceeding 500% of PSA. The PAC Bonds Projected Weighted Average Life Table assumes for each rate of receipt of Directed Prepayments that, among other things:

(i) approximately $14,320,000 of Offered Veterans G.O. Bonds Contracts of Purchase will be acquired on or before April 11, 2019,

(ii) approximately $89,700,000 of Offered Veterans G.O. Bonds Contracts of Purchase will be acquired on or before December 1, 2019,

(iii) all Offered Veterans G.O. Bonds Contracts of Purchase will be prepaid at the percentage of PSA indicated in the PAC Bonds Projected Weighted Average Life Table,

(iv) all scheduled principal repayments and scheduled interest payments on the Offered Veterans G.O. Bonds Contracts of Purchase will be timely received and the Department will experience no foreclosure losses on the Offered Veterans G.O. Bonds Contracts of Purchase,

(v) if Directed Prepayments are not sufficient to redeem the PAC Bonds up to the PAC Bonds Outstanding Amount for the applicable semiannual period described above, there will be no redemption of the PAC Bonds from other sources as described above under "—Special Mandatory Redemption of PAC Bonds,"

(vi) there will be no special redemption of the Offered Veterans G.O. Bonds from unexpended proceeds as described above under "—Special Redemption from Unexpended Proceeds,"

(vii) there will be no redemption of the PAC Bonds required for compliance with the Department's tax covenants that will reduce the principal amount of PAC Bonds Outstanding to an amount less than the Applicable Outstanding Amount, and,

(viii) the PAC Bonds will be redeemed, semi-annually on the last day of each semi-annual period.

Notwithstanding such assumptions, the State (upon request of the Department) may redeem the PAC Bonds pursuant to the provisions described under "—Special Mandatory Redemption of PAC Bonds" from sources other than Directed Prepayments, including as described under "—Optional Redemption" and "– Sinking Fund Redemption", and to redeem PAC Bonds more frequently than semi-annually and on days other than the last day of a semi-annual period. Some or all of the assumptions used in preparing the PAC Bonds Projected Weighted Average Life Table are unlikely to reflect actual experience.

PAC Bonds Projected Weighted Average Life

Prepayment Speed (expressed as a percentage of PSA)	PAC Bonds Projected Weighted Average Life (in years)	
	Optional Redemption[1] Not Exercised	Optional Redemption[1] Exercised on First Eligible Date
0%	26.9	9.6
25%	16.1	8.4
50%	8.7	7.2
75%	6.2	6.0
100%	5.0	5.0
200%	5.0	5.0
300%	5.0	5.0
400%	5.0	5.0
500%	5.0	5.0

[1] See "—Redemption – Optional Redemption." The first eligible optional redemption date is December 1, 2028.

PSA does not purport to be a prediction of the anticipated rate of receipt of Directed Prepayments, and there is no assurance that such Directed Prepayments will conform to any of the assumed rates of receipt. The State and the Department make no representation as to the percentage of the principal balance of the Offered Veterans G.O. Bonds Contracts of Purchase that will be paid or prepaid as of any date or as to the overall rate of receipt of Directed Prepayments.

The projected weighted average lives reflect a projected average of the periods of time for which the PAC Bonds are outstanding. They do not reflect the period of time that any particular Beneficial Owner's PAC Bonds will remain outstanding. At each prepayment speed, some Beneficial Owners' PAC Bonds will remain outstanding for periods of time shorter than the projected weighted average life, while some Beneficial Owners' PAC Bonds will remain outstanding for longer periods of time.

In addition, see the second paragraph under "—Special Mandatory Redemption of PAC Bonds" for a discussion of factors that could affect the weighted average lives shown above.

Notice of Redemption

While the Offered Veterans G.O. Bonds are in book-entry form, the State Treasurer is to give notice of redemption by sending copies of such notice only to DTC (not to the Beneficial Owners of the Offered Veterans G.O. Bonds) not less than thirty days nor more than sixty days prior to the date fixed for redemption and in accordance with DTC's operational arrangements. DTC, in turn, is to send the notice of redemption to its Participants for distribution to the Beneficial Owners of the Offered Veterans G.O. Bonds. See APPENDIX E – "DTC AND THE BOOK-ENTRY SYSTEM." A notice of redemption of Offered Veterans G.O. Bonds will state, among other things, the redemption date, the principal amount, dated date, maturity date and CUSIP numbers of the Offered Veterans G.O. Bonds to be redeemed, and that interest on the Offered Veterans G.O. Bonds will cease to accrue from and after the redemption date. If DTC is no longer acting as securities depository for the Offered Veterans G.O. Bonds, the State Treasurer is required to give notice pursuant to the operational arrangements of the substitute Securities Depository or, if there is no substitute Securities Depository, by mail to each registered owner at his/her address appearing on the books of registration in the office of the State Treasurer not less than thirty or more than sixty days prior to the redemption date. Upon surrender of any Offered Veterans G.O. Bond redeemed in part only, the State Treasurer is required to execute and deliver to the registered owner thereof a new Offered Veterans G.O. Bond of the same Series, interest rate and maturity in aggregate principal amount equal to the unredeemed portion of the Offered Veterans G.O. Bond so surrendered.

TAX MATTERS

Federal Tax Matters

If as anticipated, the respective sales of the Offered Veterans G.O. Bonds and the 2019 Revenue Bonds occur within 15 days of each other, the Offered Veterans G.O. Bonds and the 2019 Revenue Bonds will be treated as a single issue for certain Federal income tax purposes. As a single issue for Federal tax purposes, the requirements of applicable Federal tax law must be satisfied with respect to the Offered Veterans G.O. Bonds and the 2019 Revenue Bonds in order that interest on the Offered Veterans G.O. Bonds not be included in gross income for Federal income tax purposes retroactive to the date of issuance thereof, irrespective of the date on which such noncompliance occurs or is discovered. Certain respective loan eligibility requirements that will apply to the Contracts of Purchase to be financed with proceeds of the Offered Veterans G.O. Bonds and the 2019 Revenue Bonds are described in APPENDIX G – "CERTAIN FEDERAL TAX CODE REQUIREMENTS." The Federal Tax Code establishes other requirements described below which will apply to the Offered Veterans G.O. Bonds. Failure to so use all of such proceeds and to comply with other requirements of the Federal Tax Code with respect to either the Offered Veterans G.O. Bonds or the 2019 Revenue Bonds could cause interest on the Offered Veterans G.O. Bonds to be included in gross income for Federal income tax purposes retroactive to their date of issuance.

Requirements Imposed on the Offered Veterans G.O. Bonds by the Federal Tax Code

The Federal Tax Code contains the following requirements which are applicable (with certain exceptions), in whole or in part, to Contracts of Purchase (or portions of Contracts of Purchase) entered into with qualifying veterans with respect to properties acquired with amounts allocable to qualified veterans' mortgage bonds. The Offered Veterans G.O. Bonds are qualified veterans' mortgage bonds and not qualified mortgage bonds (as such term is defined in APPENDIX G). The moneys which will be made available from the issuance of the Offered Veterans G.O. Bonds to finance Contracts of Purchase will be QVMB Proceeds (as such term is defined in APPENDIX B). The qualified mortgage bond loan eligibility requirements described in APPENDIX G do not apply to Contracts of Purchase financed by Pre-Ullman Moneys (as defined in APPENDIX G) or Contracts of Purchase financed by moneys derived exclusively from proceeds of Veterans G.O. Bonds. Certain loan eligibility requirements apply to qualified veterans' mortgage bonds, such as the Offered Veterans G.O. Bonds, as described in the third succeeding paragraph. See APPENDIX G – "CERTAIN FEDERAL TAX CODE REQUIREMENTS" for further requirements with respect to qualified veterans' mortgage bonds. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Certain Statutory Requirements – Federal Tax Code."

The first general requirement of the Federal Tax Code applicable to qualified veterans' mortgage bonds is that the aggregate amount that may be issued must not exceed the volume limit based upon statutory formula. The Offered Veterans G.O. Bonds are in compliance with such requirement.

The Federal Tax Code requires that the effective interest rate on Contracts of Purchase financed with the lendable proceeds of qualified veterans' mortgage bonds (such as the Offered Veterans G.O. Bonds) may not exceed the yield on the issue by more than 1.125% (see "– Other Requirements Imposed by the Federal Tax Code – Yield Limitations and Rebate" in APPENDIX G), and that certain investment earnings on non-mortgage investments, calculated based upon the extent such investment earnings exceed the amount that would have been earned on such investments if the investments were invested at a yield equal to the yield on the issue, be rebated to the United States or to veterans. The Department has covenanted to comply with these requirements and has established procedures to determine the amount of excess earnings, if any, that must be rebated to the United States or to veterans. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Contracts of Purchase" for discussions of provisions of the Veterans Code which affect the Department's ability to establish and to change interest rates on Contracts of Purchase.

Federal Tax Code requirements specific to qualified veterans' mortgage bonds (such as the Offered Veterans G.O. Bonds) include the requirements that the veteran has served on active duty and applied for financing before the day 25 years after the last date on which such veteran left active service. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Certain Statutory Requirements – Federal Tax Code." See also APPENDIX G – "CERTAIN FEDERAL TAX CODE REQUIREMENTS."

Opinion of Bond Counsel to the State

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State (expected to be delivered in substantially the form set forth in APPENDIX I), under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described in such opinion, interest on the Offered Veterans G.O. Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Federal Tax Code and is not treated as a preference item in calculating the alternative minimum tax under the Federal Tax Code.

In rendering the foregoing opinions, Bond Counsel to the State has assumed compliance by the State and the Department with and enforcement by the State and the Department of the documents authorizing the issuance of the Offered Veterans G.O. Bonds and the Program Documents (as such term is defined in APPENDIX G), including certain covenants to comply with applicable requirements of the Federal Tax Code to assure the exclusion of interest on the Offered Veterans G.O. Bonds from gross income under Section 103 of the Federal Tax Code.

In rendering its opinion, except as stated above, Bond Counsel to the State expresses no opinion as to any other Federal or, except as stated below under "State Tax Matters," state or local tax consequences arising with respect to the Offered Veterans G.O. Bonds, or the ownership or disposition thereof. Bond Counsel to the State renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, any fact or circumstance that may thereafter come to its attention, any change in law or interpretation thereof that may thereafter occur, or for any other reason. Bond Counsel to the State expresses no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Bond Counsel to the State expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding Federal, state or local tax matters, including, without limitation, exclusion from gross income for Federal income tax purposes of interest on the Offered Veterans G.O. Bonds.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Offered Veterans G.O. Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of an Offered Veterans G.O. Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Offered Veterans G.O. Bonds.

Prospective owners of Offered Veterans G.O. Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Offered Veterans G.O. Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Federal Tax Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of an Offered Veterans G.O. Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Offered Veterans G.O. Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Offered Veterans G.O. Bonds is expected to be the initial public offering price set forth on the page immediately following the cover page of this Official Statement. Bond Counsel to the State further is of the opinion that, for any Offered Veterans G.O. Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Federal Tax Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Offered Veterans G.O. Bonds.

In general, under Section 1288 of the Federal Tax Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires an Offered Veterans G.O. Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Offered Veterans G.O. Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Offered Veterans G.O. Bond (a "Premium Bond"). In general, under Section 171 of the Federal Tax Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Offered Veterans G.O. Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Federal Tax Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing an Offered Veterans G.O. Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Offered Veterans G.O. Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

State Tax Matters

In the opinion of Bond Counsel to the State to be rendered with respect to the Offered Veterans G.O. Bonds on the date of delivery thereof, interest on the Offered Veterans G.O. Bonds is exempt from personal income taxes of the State of California under State law in effect on the date of such opinion. A complete copy of the proposed form of opinion to be rendered with respect to the Offered Veterans G.O. Bonds is contained in APPENDIX I.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Offered Veterans G.O. Bonds under Federal or state law or otherwise prevent beneficial owners of the Offered Veterans G.O. Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Offered Veterans G.O. Bonds.

Prospective purchasers of the Offered Veterans G.O. Bonds should consult their own tax advisors regarding the foregoing matters.

LEGAL MATTERS

The opinion of the Honorable Xavier Becerra, Attorney General of the State of California (the "Attorney General"), approving the validity of the Offered Veterans G.O. Bonds, will be delivered concurrently with the issuance of the Offered Veterans G.O. Bonds. The opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State ("Bond Counsel to the State"), approving the validity of the Offered Veterans G.O. Bonds and addressing certain tax matters will be delivered concurrently with the issuance of the Offered Veterans G.O. Bonds. The proposed forms of the legal opinions of the Attorney General and Bond Counsel to the State are set forth in APPENDIX H and APPENDIX I, respectively. Polsinelli LLP is serving as Disclosure Counsel with respect to the Offered Veterans G.O. Bonds ("Disclosure Counsel"). Orrick, Herrington & Sutcliffe LLP and Stradling Yocca Carlson & Rauth, a Professional Corporation, are serving as Co-Disclosure Counsel to the State regarding APPENDIX A ("Appendix A Co-Disclosure Counsel").

The Attorney General, Bond Counsel to the State, Disclosure Counsel and Appendix A Co-Disclosure Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

LITIGATION

There is not now pending (with service of process on the State or the Department having been accomplished) or threatened any litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Offered Veterans G.O. Bonds or challenging the validity of the Offered Veterans G.O. Bonds or any proceedings of the State or of the Department taken with respect to the foregoing.

There are numerous litigation matters pending against the State, which could, if determined adversely to the State, affect the State's expenditures and, in some cases, its revenues and cash flow. While there can be no assurances as to the ultimate resolution and fiscal impact of such litigation, the State believes that the resolutions of such litigation are unlikely to adversely affect the ability of the State to pay the principal of and interest on the Offered

Veterans G.O. Bonds when due. See APPENDIX A – "THE STATE OF CALIFORNIA – LITIGATION."

From time to time there are also litigation matters against the Department, which could, if determined adversely to the Department, affect the Department's expenditures and, in some cases, its revenues and cash flow, including litigation affecting the Department that does not directly relate to the Veterans G.O. Bonds which, nonetheless, may relate to the 1943 Fund. While there can be no assurances as to the ultimate resolution and fiscal impact of such litigation, the Department believes that the resolutions of such litigation are unlikely to materially adversely affect the 1943 Fund or the payment of principal of and interest on the Offered Veterans G.O. Bonds when due.

PURCHASE AND REOFFERING

The Notice of Sale attached as APPENDIX K hereto provides that bids will be received for the purchase of the Offered Veterans G.O. Bonds in separate Bid Groups, as provided in the Notice of Sale, as may be amended in accordance with the Notice of Sale.

The Offered Veterans G.O. Bonds in Bid Group A (comprised of the PAC Bonds) ("Bid Group A") in the aggregate principal amount of $__________ were sold at a competitive sale on April 4, 2019, and awarded to ________________________ (the "Bid Group A Initial Purchaser"). The Bid Group A Initial Purchaser has agreed to purchase the Offered Veterans G.O. Bonds in Bid Group A, at a purchase price of $____________, representing the principal amount of the Offered Veterans G.O. Bonds in Bid Group A, plus/minus a net original issue premium/discount of $____________, less a Bid Group A Initial Purchaser's underwriting discount of $________.

Offered Veterans G.O. Bonds in Bid Group B (comprised of the Offered Veterans G.O. Bonds that are not included in Bid Group A) ("Bid Group B") in the aggregate principal amount of $__________ were sold at a competitive sale on April 4, 2019, and awarded to ___________________ (the "Bid Group B Initial Purchaser," and together with the Bid Group A Initial Purchaser, the "Initial Purchasers"). The Bid Group B Initial Purchaser has agreed to purchase the Offered Veterans G.O. Bonds in Bid Group B, at a purchase price of $______________, representing the aggregate principal amount of the Offered Veterans G.O. Bonds in Bid Group B, less a Bid Group B Initial Purchaser's underwriting discount of $_________.

The Notice of Sale provides, among other things, that (i) each bid group will be sold separately, each on an all-or-none basis, (ii) the sale and delivery of Bid Group A is dependent upon the sale and delivery of Bid Group B, (iii) the sale and delivery of Bid Group B is not dependent upon the sale and delivery of Bid Group A, and (iv) if the Offered Veterans G.O. Bonds in Bid Group B are not delivered on the closing date, the award of the Offered Veterans G.O. Bonds in Bid Group A will be rescinded and the State will have no obligation to deliver the Offered Veterans G.O. Bonds in Bid Group A. The obligations of the Initial Purchasers to purchase the Offered Veterans G.O. Bonds are subject to certain terms and conditions set forth in the Notice of Sale, the approval of certain legal matters by counsel and certain other conditions.

Prior to the delivery of the Offered Veterans G.O. Bonds in a Bid Group, each Initial Purchaser will execute and deliver to the State Treasurer a certificate to the effect that such Initial Purchaser of the applicable Offered Veterans G.O. Bonds in the applicable Bid Group has provided to the State Treasurer the initial reoffering prices or yields on such Offered Veterans G.O. Bonds in the applicable Bid Group as set forth on the page immediately following the cover page of this Official Statement or purchased for its own account and not with a view to distribution or resale and not in the capacity of a bond house, broker or other intermediary. Subject to the conditions set forth in the Notice of Sale, (i) each Initial Purchaser may offer and sell such Offered Veterans G.O. Bonds to certain dealers and others at prices lower than the offering prices stated on the page immediately following the cover page of this Official Statement and (ii) the public offering prices stated may be changed from time to time by such Initial Purchaser.

FINANCIAL STATEMENTS OF THE STATE

The State of California Annual Financial Report for the Fiscal Year Ended June 30, 2017 (the "Financial Statements") is included as APPENDIX J to this Official Statement. These Financial Statements have been examined by the State Auditor to the extent indicated in the State Auditor's report. The State's Comprehensive Annual Financial Report for each fiscal year is typically released by April 1 of the succeeding fiscal year.

The State Controller's Office does not expect the State's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, to be released on or before April 1, 2019. The State Treasurer expects to file unaudited financial statements for fiscal year 2017-18 as part of the State's annual report to be filed on EMMA on or before April 1, 2019 for such fiscal year. When the State's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, is released it will be available on the website of the State Controller and will be promptly filed by the State Treasurer on the EMMA website.

The State Controller's unaudited reports of the 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 to this Official Statement. See APPENDIX A—"THE STATE OF CALIFORNIA—FINANCIAL STATEMENTS."

REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS OF THE PROGRAM

The Report of Independent Auditors and Financial Statements of the Veterans' Farm and Home Purchase Program of the Department of Veterans Affairs, State of California (Veterans Farm and Home Building Fund of 1943, Veterans Debenture Revenue Fund and Pooled Self-Insurance Fund) as of and for the years ended June 30, 2018 and 2017 are attached as APPENDIX C to this Official Statement. Those financial statements have been audited by Moss Adams LLP, independent auditors, as stated in their report appearing therein. Moss Adams LLP has not been engaged to perform, and has not performed since the date of the report included in APPENDIX C, any procedures on the financial statements addressed in that report.

RATINGS

The Offered Veterans G.O. Bonds have received ratings of "Aa2" by Moody's Investors Service, "AA" by S&P and "AA-" by Fitch Ratings. An explanation of the significance and status of such credit ratings may be obtained from the rating agencies furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised, qualified or withdrawn entirely by any such rating agencies if, in their respective judgments, circumstances so warrant. Any revision or withdrawal of a credit rating could have an effect on the market prices and marketability of the Offered Veterans G.O. Bonds. Neither the State nor the Department can predict the timing or impact of future actions by the rating agencies.

MUNICIPAL ADVISOR

Montague DeRose and Associates, LLC is serving as the municipal advisor (the "Municipal Advisor") to the State in connection with the issuance of the Offered Veterans G.O. Bonds. The Municipal Advisor has not been engaged, nor has it undertaken, to make an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to prospective buyers of the Offered Veterans G.O. Bonds. Quotations from and summaries and explanations of the Offered Veterans G.O. Bonds and of statutes or documents are brief summaries thereof which do not purport to be complete or definitive, and reference is made to such statutes or documents for full and complete statements of the contents thereof.

Any statements in this Official Statement involving estimates, forecasts or matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract with the purchasers of the Offered Veterans G.O. Bonds.

Questions regarding this Official Statement and the issuance of these securities may be addressed to the Office of the Honorable Fiona Ma, CPA, Treasurer of the State of California, 915 Capitol Mall, Room 110, Sacramento, California 95814, telephone (800) 900-3873.

Questions regarding the Program may be addressed to the Bond Finance Division of the Department of Veterans Affairs, P.O. Box 942895, Sacramento, California 94295-0001, telephone (916) 503-8012.

STATE OF CALIFORNIA
FIONA MA, CPA
Treasurer of the State of California

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.

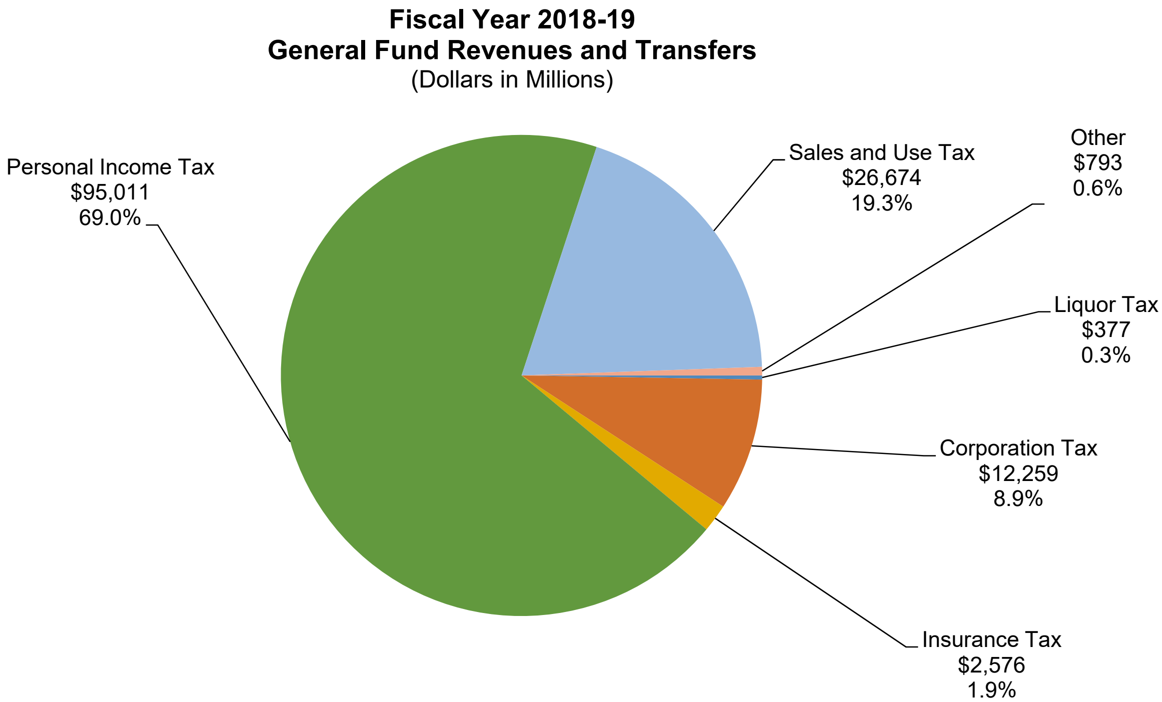
The 2018 Budget Act assumed continued expansion of the economy during fiscal year 2018-19 and included the following major components:

- 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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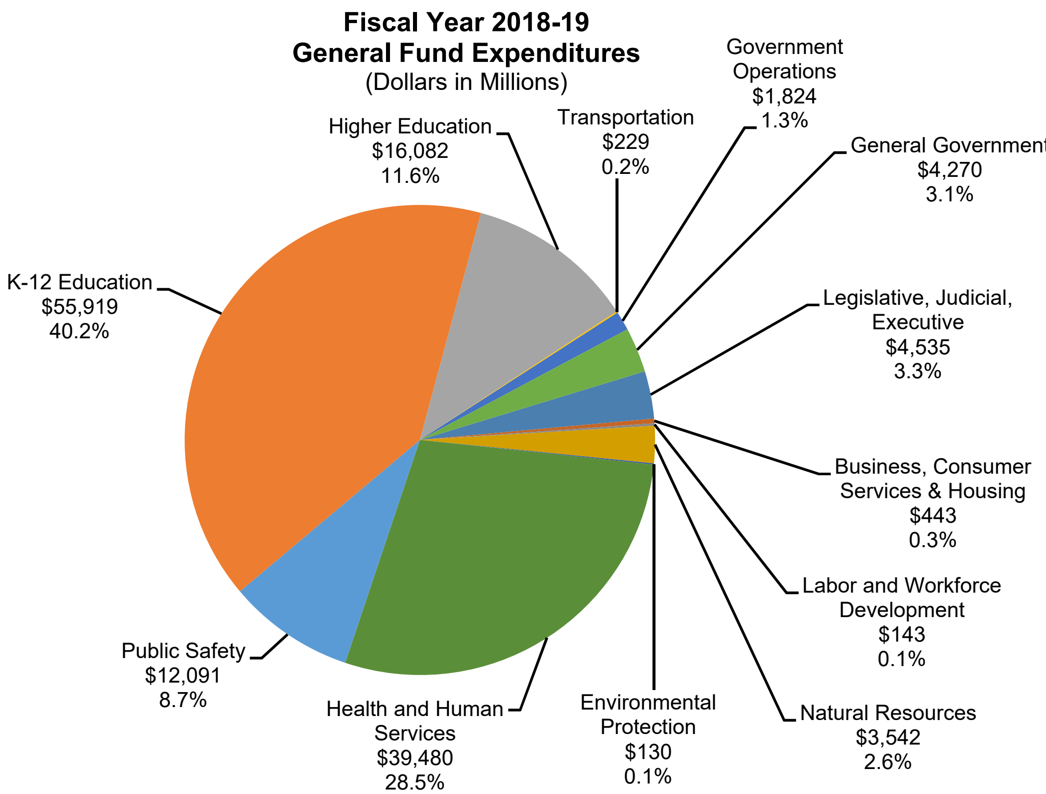

Note: Total amount reflected in chart is $138.7 billion and includes agency costs for pension and debt service expenditures.

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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. <u>*Action Challenging School Financing*</u>

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. <u>*Actions Challenging Statutes That Reformed California Redevelopment Law*</u>

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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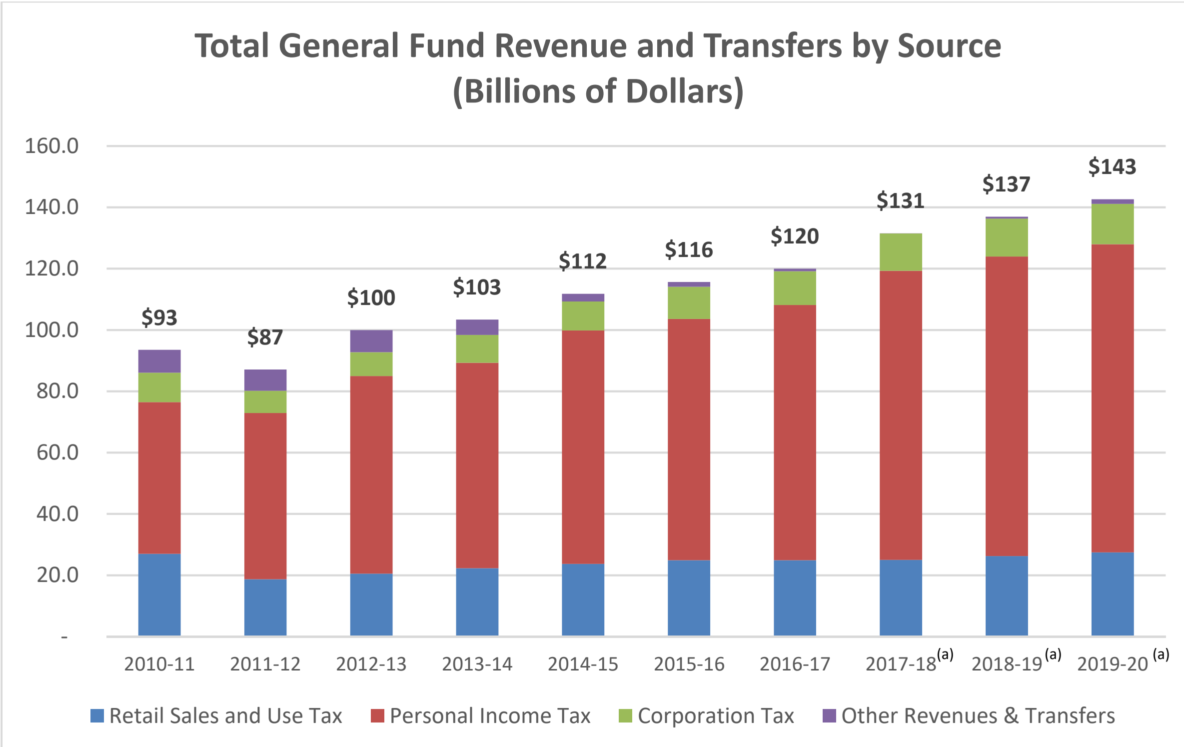

(a) Projected.

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. *<u>Corporation Tax</u>*

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.

<u>Health Care Reform</u>. 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.

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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. *<u>Reimbursement Warrants</u>*

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.

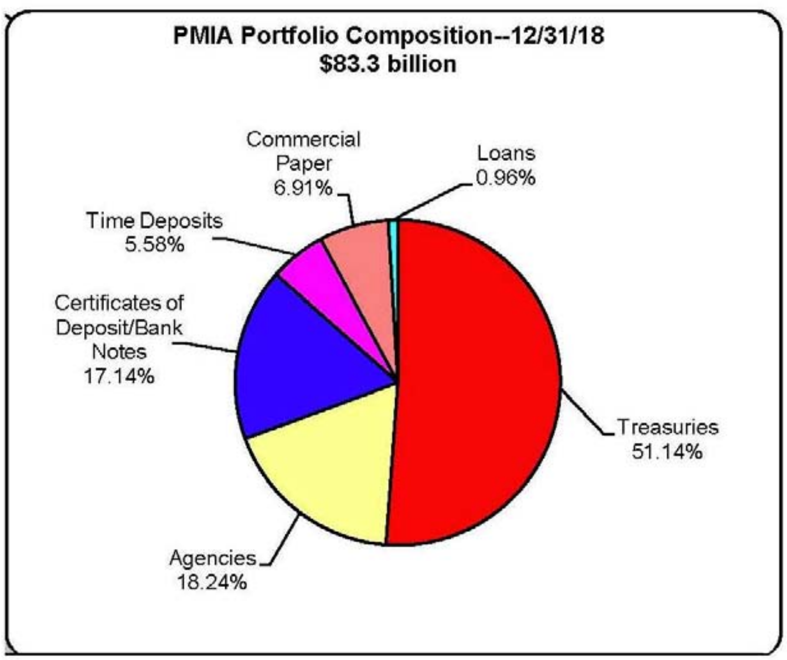
State law established the Health Facility Construction Loan Insurance Fund (the "Fund") as a trust fund which is continuously appropriated and may only be used for purposes of this program. The Fund is used as a depository of fees and insurance premiums and any recoveries and is the initial source of 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)

			Unemployment Rate	
Year	**Labor Force**	**Employment**	**California**	**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)

	Employment		Distribution of Employment	
Industry Sector	**2008**	**2018[P/]**	**2008**	**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.

GO CP [a]	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
	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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TABLES

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. <u>Retirement Benefits</u>

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
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
					Actual Over or (Under) Estimate		
	2018	2017	Actual	Estimate (a)	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

	2019 Actual	Estimate (a)	Amount	%	2018 Actual
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
					Actual Over or (Under) Estimate		
	2019	2018	Actual	Estimate (a)	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				2018
			2019				
	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

	Actual 2019	Estimate (a)	Amount	%	Actual 2018
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				2018
			2019				
	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)

APPENDIX B[†]

THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND

INTRODUCTION

This APPENDIX B includes information about the Department, the Program, the 1943 Fund and the Department's allocation of receipts from Contracts of Purchase, including Excess Revenues. APPENDIX C includes the Report of Independent Auditors and Financial Statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund (as defined below). Capitalized terms not defined in this APPENDIX B shall have the meanings ascribed to them in the forepart of or elsewhere in this Official Statement.

Forward-Looking Statements

The presentation of historical information in this APPENDIX B is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Department, the Program or the 1943 Fund. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. Certain statements included or incorporated by reference in this APPENDIX B constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements attained to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Any statements made in this APPENDIX B involving matters of opinion, whether expressly stated or not, are set forth as such and not as representations of fact.

THE DEPARTMENT

General

In 1921, the California Legislature (the "State Legislature") created the Veterans' Welfare Board and the Program. The Department became the successor to the Veterans' Welfare Board under the Veterans' Farm and Home Purchase Act of 1943 (the "1943 Act"). The Department is a subdivision of the State and constitutes a public corporation. One of the Department's basic objectives is to provide eligible veterans the opportunity to acquire homes with long-term financing provided under the Program. See "THE PROGRAM."

Governance of the Department

The California Veterans Board (the "Board") advises the Department and the Secretary of Veterans Affairs of the Department (the "Department Secretary") on policies for operations of the Department. The Board is composed of seven members appointed by the Governor and subject to confirmation by the State Senate. Each member of the Board must be a veteran and a member in good standing with a congressionally chartered veteran service organization. In

† Source: Department of Veterans Affairs.

addition, one member must be retired from the active or reserve forces of the United States military service. One member must have substantial training, professional knowledge or experience in the issues faced by female veterans which may include, but are not limited to, the following issues: combat-related disorders, sexual trauma and homelessness. Six of the members serve four-year terms. Finally, one member must be a resident of one of the State veterans homes run by the Department which were established for qualified aged and disabled veterans and their spouses. This member serves only a two-year term. Members of the Board sit on various committees of the Department including policy and procedures, legislative, communication, administrative, home and veterans services.

Certain actions of the Department (for example, certain actions relating to interest rates on Contracts of Purchase) require the approval of the Board and the Veterans' Finance Committee of 1943, which is comprised of the Governor, the State Treasurer, the State Controller, the State Director of Finance and the Department Secretary. See "THE PROGRAM – Contracts of Purchase – Interest Rates." Certain actions of the Department require the approval of the Veterans' Debenture Finance Committee comprised of the Governor, the State Treasurer, the State Controller, the State Director of Finance and the Department Secretary.

Additionally, as the Department expands its housing options the Department has identified that property insurance coverage may be expanded to mitigate increased geographic concentration risks of its Contracts of Purchase. The Department plans to review risk-based pricing for high-density geographic concentration exposures and ways to keep insurance rates low and explore cost savings measures for the veteran, such as higher deductible options and group pricing based on geographic concentration risks. See "THE PROGRAM – Construction Contracts of Purchase," "—Property Insurance – Concerns Regarding Geographic Concentration Risk" and APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Geographic Distribution of Contracts of Purchase."

Administration of the Department

There are four principal divisions within the Department: the Division of Veterans Services, the Division of Administration, the Veterans' Home Division and the Division of Farm and Home Purchases. The Program, the 1943 Fund and the issuance and administration of Veterans G.O. Bonds and Revenue Bonds are administered by the Division of Farm and Home Purchases with support from the Division of Administration and other Department support units. General administration, including fiscal, legal, personnel and other administrative functions, is performed at the Department's headquarters in Sacramento, California. See "THE PROGRAM."

The Department Secretary, who is the head of the Department, is appointed by the Governor, serves at the pleasure of the Governor and must be a veteran. The Department Secretary and other senior staff personnel of the Department principally responsible for the administration of the Program are listed below. As of December 31, 2018, the Department employed approximately 68 people in support of the Program.

Vito Imbasciani, PhD M.D.
Secretary of Veterans Affairs since September 2015

Vito D. Imbasciani PhD M.D., was appointed Department Secretary by Governor Brown in September 2015. Dr. Imbasciani completed medical school at the University of Vermont College of Medicine, and his surgical and urologic residencies at Yale-New Haven Hospital and the West Haven VA Hospital (Connecticut). He earned MA and PhD degrees from Cornell University, and was a Fulbright Scholar to Rome, Italy. He held academic teaching positions at the University of Florida, Cornell University and Middlebury College (VT). Dr. Imbasciani was commissioned in the Medical Corps of the United States Army in December, 1986 and retired after 27 years in 2014 with the rank of colonel. He has deployed four times in support of the wars in the Gulf, and received the Meritorious Service Award, the Combat Medic badge, the Army Commendation Medal (four times) and California Order of Merit. Campaign ribbons include Operation Desert Storm; the Liberation of Kuwait; and Global War against Terrorism (both expeditionary and service). Dr. Imbasciani has practiced urologic surgery in Los Angeles since 1991, and with Kaiser Permanente since 1997. He is the Past President of the Los Angeles County Medical Association and the past President of the California Urologic Association. He was a member of the California Medical Association's Board of Trustees for ten years. He also served on the Board of the Southern California Permanente Medical Group (Kaiser Permanente) from 2003-2013, and was its Director of Government Relations from 2007-2015. A member of the Governor's Cabinet, he also serves on the Board of the California Housing Finance Agency, the Vietnam Veterans Memorial Honor Committee, and the Governor's Military Council.

Russell Atterberry
Undersecretary of Veterans Affairs since December 2015

Mr. Atterberry was appointed Department Undersecretary by Governor Brown in December 2015. Mr. Atterberry joined the Department after retiring from a 21 year career with the U.S. Navy where he served, among other positions, as an engineer on the USS La Jolla; in the quality assurance and maintenance division at the Nuclear Power Training Unit in Charleston, South Carolina; as air defense commander for Operations Enduring Freedom, Iraqi Freedom, and Sea Dragon; as the Command Control Center Officer and Assistant Operations Officer on the USS New Orleans and in other positions including Operations and Training Officer at Cruiser Class Squadron in San Diego. His final active duty assignment was as the Executive Officer at Navy Operational Support Center, Sacramento. Mr. Atterberry received his commission from the University of Washington's Naval Reserve Officer Training Corps with an undergraduate degree in Economics. He attended the Navy Postgraduate School in Monterey for a program in National Security Affairs, and he served at the Surface Warfare Officer School in Newport, Rhode Island.

Matthew L. Dana
Deputy Secretary and Chief Counsel of Legal Affairs since March 2017

Matthew L. Dana was appointed by Governor Brown to serve as Deputy Secretary and Chief Counsel at the Department in March 2017. Mr. Dana most recently served as Senior Legal Advisor and General Counsel at the California Military Department since 2012. Previously, he served with the U.S. Army and California Army National Guard as a judge advocate in a career spanning nearly 30 years. His assignments included the United States Army Europe in Nuremburg, Germany, deployment to Saudi Arabia for Operations Desert Shield and Desert Storm with the 2nd Armored Cavalry Regiment, Judge Advocate General's School, Charlottesville, Virginia and the Army Litigation Division in Washington D.C. Mr. Dana was assigned full time with California Army National Guard in 1997. He held positions of increasing responsibility culminating in his assignment as the State Staff Judge Advocate in 2008. Mr. Dana retired from active duty in 2012. He is a life member of the Veterans of Foreign Wars, the Marine's Memorial of San Francisco, and the Society of the Cincinnati. Mr. Dana earned his

Juris Doctorate from the University of California, Hasting College of the Law and his Masters of Law from the Judge Advocate General's School, Charlottesville, Virginia.

Theresa Gunn
Deputy Secretary, CalVet Home Loans, since April 2013

Ms. Gunn has over 23 years of financial experience. She has managed the Program for 6 years, overseeing the growth in Contracts of Purchase origination from $8 million annually to nearly $200 million annually. Ms. Gunn's experience includes 12 years at the California Department of Finance where she was responsible, as an Assistant Administrative Secretary to the State Public Works Board, for the issuance of more than $5 billion State Public Works Board Lease Revenue Bonds. Ms. Gunn is instrumental in the Department's bond program, and in the acquisition and construction of Veterans Homes of California, the Northern California Veterans' Cemetery and a variety of other capital projects. Ms. Gunn's education includes a Master of Science in Administration and Bachelor of Arts degrees in Business Administration and Psychology.

Sherri Gastinell
Deputy Secretary, Administrative Services, since January 2016

Ms. Gastinell was appointed by Governor Brown as Deputy Secretary of Administrative Services at the Department in January 2016. Ms. Gastinell oversees many services at the Department, including Information Technology, Human Resources, Fiscal Services, Budgets, Facilities and Business Services, and Strategic Planning functions. Ms. Gastinell has served the State for more than 25 years. In 2015, Ms. Gastinell served as the Assistant Personnel Officer at the Department of Consumer Affairs ("DCA"). Before DCA, Ms. Gastinell served from 2008 – 2015 at the California Department of Transportation ("Caltrans") as an Office Chief within the Office of Business and Economic Opportunity, with a focus on Administrative Services, Budgets, Contract Evaluation, Contractor Compliance, Title VI, and the Federal Highway Administration External Equal Opportunity program. Prior to Caltrans, Ms. Gastinell was DCA's Office Chief for the Office of Professional Examination Services, oversaw Labor Relations and personnel matters at the Bureau of Automotive Repair, and served in DCA's Office of Administrative Services in various capacities. Ms. Gastinell's State service also includes working at the Department of General Services, the Office of the Secretary of State, and the California Department of Business Oversight.

Eric Tiche
Assistant Deputy Secretary, Bond Finance and Investments, since January 2010

Mr. Tiche is responsible for the management and oversight of the Department's debt portfolio, investments and cash management section and has been with the Department for more than 20 years. Mr. Tiche's experience includes: Acting Assistant Deputy Secretary, Bond Finance and Investments for two years and Manager of the Bond Finance Unit for over two years. Mr. Tiche graduated from California State University, Sacramento with a Bachelor of Science degree in Business Administration (Strategic Management).

Mark Walbert
Assistant Deputy Secretary, Program Servicing Operations, since July 2016

Mr. Walbert is responsible for the management and oversight of Loan Origination, Loan Processing, Loan Closing, Loan Servicing and Default Servicing. He has been with the

Department for six years and Mr. Walbert's experience includes over 21 years of executive management in the lending industry. This experience includes positions with VITEK Real Estate Industries Group, Accredited Home Lenders, HomeEq Loan Servicing and Wachovia National Bank (now Wells Fargo). Mr. Walbert earned a Master of Business Administration degree in Finance from Golden Gate University and a Bachelor of Science degree in Professional Aeronautics from Embry Riddle Aeronautical University. He was previously certified as a Senior Professional in Human Resources (SPHR) from the Society for Human Resource Management and holds an active California Real Estate Broker's License from the California Bureau of Real Estate. Prior to his work in the lending industry, Mr. Walbert retired from the United States Air Force after a 16 year career.

Gary Bonin
Loan Production Operations Manager since September 2009

Mr. Bonin is the Loan Production Operations Manager for the Department, responsible for the management and oversight of the Department's loan sales, origination, processing, underwriting and closing. Mr. Bonin has over 30 years of experience in real estate and the home loan industry. Prior to joining the Department, Mr. Bonin held numerous management and senior management positions with both regional mortgage banks and large nationwide banking institutions, including First Union National Bank and IndyMac Bank. Prior to mortgage banking, Mr. Bonin was a licensed real estate broker who marketed and sold homes in Southern California and also underwrote home loans. Mr. Bonin earned a Bachelor of Science degree in Business Administration from California State University, Long Beach.

Linda Rose Gullion
Default Servicing Operations Manager since October 2012

Ms. Gullion is the Loan and Default Servicing Operations Manager for the Department, responsible for the management and oversight of the Department's customer support, payment processing, and escrow administration, contract and property modification, collection, loss mitigation, and cancellation, REO asset liquidation and ALLL activities. She has over 35 years of residential real estate lending experience which includes 18 years with the Department. Ms. Gullion has served as the Department's Loan Closing Unit Manager and as the Department's Collection, Cancellation and REO Unit Manager. Prior to joining the Department, Ms. Gullion held various positions with mortgage bankers, such as Weyerhaeuser Mortgage Company in their nationwide division and Norwest Mortgage, Inc. regional office, directing government and conventional loan processing, closing, and underwriting operations. Ms. Gullion has announced her retirement, which is expected to begin prior to June 30, 2019.

THE PROGRAM

History

The Department began making low interest rate farm and home financing available to veterans after World War I, following the enactment by the State Legislature of the California Veterans Welfare Bond Act of 1921. In 1943, the State Legislature enacted the 1943 Act which modified the Program to meet the needs of veterans. The 1943 Act was superseded by the Veterans' Farm and Home Purchase Act of 1974 (the "1974 Act") which again modified the Program. The 1943 Act established the 1943 Fund in the State Treasury, which is the principal fund utilized by the Program.

General

Under the Program, the Department acquires residential property to be sold to eligible veterans under Contracts of Purchase. Generally, a Contract of Purchase creates a land sale contract which is analogous to a loan from the Department to the veteran. See "—Contracts of Purchase – General." In the discussions pertaining to the Program, Contracts of Purchase and Federal Tax Code requirements which follow, these Contracts of Purchase or land sale arrangements may be referred to as loans.

The description of the Program hereunder is a description of the Program as it currently exists under the Veterans Code and the Department's implementation thereof, both of which are subject to change. The Program is also subject to the Federal Tax Code, as noted below. Further, the Program comprises Contracts of Purchase that may be financed by Veterans G.O. Bonds and Revenue Bonds, payments for which Contracts of Purchase are made to the 1943 Fund, which is the first source of payment for Veterans G.O. Bonds, as described in the forepart of this Official Statement.

Program Financing

Since its inception, the Program has been financed through the issuance of Revenue Bonds and Veterans G.O. Bonds, from time to time, as well as surplus revenues under the Program not needed at any given time to meet the then-current debt service schedules of Veterans G.O. Bonds and Revenue Bonds and operating costs of the Program. As of December 31, 2018, there were approximately 5,413 Contracts of Purchase outstanding with a remaining principal balance of approximately \$1 billion.[†] As of December 31, 2018, the Department had approximately 87 pending applications for Contracts of Purchase in the total principal amount of approximately \$23 million. See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase – Existing Contracts of Purchase" and "—Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments."

Certain Statutory Requirements

Certain requirements of the Veterans Code and the Federal Tax Code are discussed below.

Veterans Code

To participate in the Program, an applicant must meet qualifications established under the Veterans Code relating to status as a veteran. The Veterans Code currently allows the Department to finance Contracts of Purchase for:

(a) veterans who have served, generally, at least ninety consecutive days on active duty in the military, naval or air service of the United States (unless sooner discharged because of a service-connected disability), have received an honorable discharge or been released from active duty under honorable conditions, and have performed any portion of such service during one of the following periods:

† Generally, in this APPENDIX B, references to the principal balance of Contracts of Purchase include the principal balance of deferred payment assistance loans, delinquent Contracts of Purchase, cancelled or foreclosed upon Contracts of Purchase and REO in inventory represented at fair market value.

(i) April 6, 1917 through November 11, 1918; December 7, 1941 through December 31, 1946; or June 27, 1950 through January 31, 1955 (all veterans referred to in this clause (i) are "Earlier War Veterans");

(ii) February 28, 1961 through August 4, 1964 if the veteran served in the Republic of Vietnam during that period; or August 5, 1964 through May 7, 1975 (all veterans referred to in this clause (ii) are "Vietnam Era Veterans"); or

(iii) on or after August 2, 1990, through a date as yet to be determined by the President of the United States on which the territories in and around the Arabian Peninsula cease to be designated as a place where the armed forces of the United States are engaged in combat; at any time in Somalia, or in direct support of the troops in Somalia, during Operation Restore Hope, regardless of the number of days served; or at any time (regardless of the number of days served on active duty) in a campaign or expedition for service in which a medal was authorized by the United States Government (all veterans referred to in this clause (iii) are "Recent War Veterans");

(b) any member of the reserves or National Guard who (i) is called to, and released from, active duty or active service, regardless of the number of days served, (ii) is called during any period when a presidential executive order specifies the United States is engaged in combat or homeland defense and (iii) has received an honorable discharge or was released from active duty or active service under honorable conditions;

(c) any person who has served in the Merchant Marine Service of the United States and has been granted veteran status by the United States Secretary of Defense under Title IV of the GI Improvement Act of 1977 (Public Law 95-202, as amended);

(d) any person who qualifies under the Federal Tax Code for financing from Revenue Bonds or Pre-Ullman Moneys of the Department and who served in the active military, naval or air service of the United States for a period of not less than ninety consecutive days and who received an honorable discharge or was released from active duty or active service under honorable conditions (such veterans are referred to as "Peacetime Veterans"); and

(e) any person who qualifies under the Federal Tax Code for financing from Revenue Bonds or Pre-Ullman Moneys of the Department and is at the time of application for Department benefits a member of the California National Guard or a reserve component of any branch of the United States armed forces who has enlisted or been commissioned in that service for a period of not less than six years and has completed a minimum of one year of satisfactory service.

Certain veterans who have served in the recent conflicts in Iraq and Afghanistan qualify for participation in the Program under the Veterans Code. The qualifications specified in the Veterans Code are subject to change by the State Legislature.

Federal Tax Code

The Federal Tax Code prescribes limitations on the use of moneys from certain sources for the financing of Contracts of Purchase. Such Federal Tax Code limitations reduce the pool of veterans eligible to receive Contracts of Purchase financed from certain sources. See APPENDIX G– "CERTAIN FEDERAL TAX CODE REQUIREMENTS." Based on the current Federal Tax Code, the moneys that may be available to finance Contracts of Purchase from time to time are separated into three classes:

(a) "Pre-Ullman Moneys" (derived from certain moneys in the 1943 Fund, certain proceeds of Pre-Ullman (as defined below) Revenue Bonds and Veterans G.O. Bonds, and certain future issues of taxable bonds, if any), which can finance Contracts of Purchase for those veterans who qualify under the applicable provisions of the Veterans Code. ("Pre-Ullman" refers to the period prior to enactment of Federal Tax Code programmatic restrictions on the use of proceeds of tax-exempt bonds to finance mortgage loans.) The QMB Loan Eligibility Requirements (as defined below) do not apply to Contracts of Purchase financed by Pre-Ullman Moneys. The Department has implemented a policy (which is subject to change) to make Pre-Ullman Moneys available for Earlier War Veterans, Vietnam Era Veterans, Recent War Veterans and Peacetime Veterans;

(b) "Qualified Veterans' Mortgage Bond Proceeds" or "QVMB Proceeds" (derived exclusively from proceeds of Veterans G.O. Bonds), which can finance Contracts of Purchase for any veteran who (i) qualifies under the Veterans Code; (ii) served on active duty; and (iii) applied for financing before the day 25 years after the last date on which such veteran left active service. The QMB Loan Eligibility Requirements (as defined below) do not apply to Contracts of Purchase financed by moneys derived exclusively from proceeds of Veterans G.O. Bonds. These proceeds can finance Contracts of Purchase for any qualifying veterans; and

(c) "Qualified Mortgage Bond Proceeds" or "QMB Proceeds" (derived principally from Revenue Bond proceeds other than Pre-Ullman Revenue Bond proceeds), which can finance Contracts of Purchase for any veteran who (i) qualifies under the Veterans Code and (ii) meets the QMB Loan Eligibility Requirements. "QMB Loan Eligibility Requirements" include, among other things, and subject to certain exceptions contained in the Federal Tax Code, that (i) either (y) borrowers not have had a present ownership interest in their principal residence during the three-year period preceding the date of financing or (z) have not previously received financing of their Contracts of Purchase from the proceeds of Qualified Mortgage Bonds or Qualified Veterans' Mortgage Bonds or a Mortgage Credit Certificate issued in accordance with the Federal Tax Code in connection with its Contract of Purchase pursuant to an exception for veterans to the requirement described in (y) (the "First Time Home Buyer Requirement") or meet certain waiver conditions to the First Time Home Buyer Requirement, (ii) the residence being financed has a purchase price not in excess of limits stated in the Federal Tax Code, (iii) the family income of the borrower is not in excess of limits stated in the Federal Tax Code, (iv) the proceeds of the financing are not being used to refinance an existing mortgage loan and (v) the proceeds of the financing are used solely for the purpose of financing one-family or one-to-four family dwelling units meeting certain criteria.

All financing with respect to targeted area residences and residences on land possessed under certain contract for deed agreements is treated as satisfying the First Time Home Buyer Requirement.

Limits on Purchase Price

Veterans Code

The amount the Department finances for the purchase of farms and homes under the Program is reflected in the Contract of Purchase as the "purchase price." Pursuant to the Veterans Code, the maximum purchase price to the Department of an existing home or the sum to be expended by the Department pursuant to a Contract of Purchase for a home to be constructed may not exceed 125% of the then-current maximum loan limit, set annually, for a single-family home acquired by Fannie Mae (formerly named the Federal National Mortgage Association) ("Fannie Mae"). As of January 1, 2019, the Fannie Mae general loan limit in the State for a single-family home ranges between $484,350 and $931,600 depending on the county. Current Department policy also limits the maximum purchase price to the Department of an existing home or for a home to be constructed to be 125% of the Fannie Mae conforming limits (resulting in maximum purchase prices of homes ranging from $605,437 to $1,164,500 depending on the county). Under the Veterans Code, the maximum sum to be expended by the Department pursuant to a Contract of Purchase for a farm may not exceed 150% of the then-current maximum loan limit set by Fannie Mae. Current Department policy also limits the maximum purchase price to the Department of a farm to be 150% of the Fannie Mae conforming limits (resulting in maximum purchase prices of farms ranging from $726,525 to $1,397,400 depending on the county). Under the Veterans Code (as well as current Department policy), the maximum purchase price to the Department of a mobile home located on or to be located on a leased or rented site in a mobile home park is $175,000. The maximum purchase price for any home may be increased by an additional $5,000 for solar energy heating devices.

As of June 30, 2018, the average outstanding principal balance of the Contracts of Purchase financed through the Program was approximately $181,989. As of June 30, 2018, the average outstanding principal balance of the Contracts of Purchase originated in the last five calendar years was approximately $287,244. As of December 31, 2018, the average outstanding principal balance of the Contracts of Purchase financed through the Program was approximately $188,944. As of December 31, 2018, the average outstanding principal balance of the Contracts of Purchase originated in the last five calendar years was approximately $292,153.

Federal Tax Code

The Federal Tax Code imposes maximum purchase prices on properties that are the subject of Contracts of Purchase financed by QMB Proceeds which are periodically adjusted when required by the Federal Tax Code. No Federal Tax Code purchase price limits apply to Contracts of Purchase financed from Pre-Ullman Moneys or QVMB Proceeds. These Federal Tax Code requirements vary depending upon where the property is located, if it is in a targeted or non-targeted area and whether it is a new or existing home.

The maximum purchase price under the Program is, therefore, the maximum amount permitted under the Veterans Code or, if the Contract of Purchase is being financed by QMB Proceeds, the lesser of the maximum amount permitted under the Veterans Code or the maximum amount permitted under the Federal Tax Code.

Income Limits

Although the Veterans Code does not impose maximum income limits, the Federal Tax Code imposes maximum income limits applicable only to veterans obtaining Contracts of Purchase financed by QMB Proceeds. The income limits vary by statistical area, targeted and non-targeted areas and family size. No maximum income limits apply to veterans obtaining Contracts of Purchase financed by Pre-Ullman Moneys or QVMB Proceeds.

Allocation of Lendable Moneys

For veterans who qualify for Contracts of Purchase from two or more of the financing sources described under "—Certain Statutory Requirements – Federal Tax Code," above, the Department may select the source of funds to be used in its sole discretion. As of the date of this Official Statement Pre-Ullman Moneys are available through the prior issuance of Veterans G.O. Bonds to finance Contracts of Purchase, QVMB Proceeds are available through the prior issuance of Veterans G.O. Bonds to finance Contracts of Purchase, and QMB Proceeds are available through the prior issuance of Revenue Bonds to finance Contracts of Purchase. The Offered Veterans G.O. Bonds are expected to provide approximately $104* million to finance new and/or existing Contracts of Purchase. In addition, the Department expects that approximately $77.2 million will be made available to finance new and/or existing Contracts of Purchase following the expected issuance of the 2019 Revenue Bonds.

Recently, the Department has used Excess Revenues to finance Contracts of Purchase. The Department's current policy is as follows:

- Contracts of Purchase for all veterans who qualify for financing with QMB Proceeds are funded from QMB Proceeds, when available.
- Contracts of Purchase for all veterans who qualify for financing with QMB Proceeds and QVMB Proceeds will be funded with the lowest rate fund, when available.
- Contracts of Purchase for all other eligible veterans are funded first from QVMB Proceeds and then Pre-Ullman Moneys, when available.
- Available QMB Proceeds are used to fund Contracts of Purchase for National Guard or reserves members who are only eligible for those funds under State law. See "—Certain Statutory Requirements – Veterans Code."

The Federal Tax Code includes certain procedures that an issuer of Qualified Mortgage Bonds may undertake to satisfy QMB Loan Eligibility Requirements, but requires that 95% or more of the proceeds of each bond issue be used in full compliance with the loan eligibility restrictions.

Administration of the Program

General

Through the Program, the Department finances the purchase of new and existing single-family homes, condominiums, cooperative dwelling units, farms and mobile homes, the construction of dwellings, and the making of home improvements with respect to properties

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* Preliminary, subject to change.

covered by existing Contracts of Purchase, subject to applicable restrictions. See "—Certain Statutory Requirements."

Origination

The Department originates Contracts of Purchase through Department staff at its headquarters and, from time to time, in coordination with mortgage brokers approved by the Department. The Department uses Calyx, a loan origination software platform, for origination and Mitas, an integrated loan processing and financial information system, for loan processing, closing and servicing of all Contracts of Purchase. All Contracts of Purchase are serviced by the Department. See "—Contracts of Purchase – Delinquencies and Cancellations." The Department also uses the Calyx and Mitas systems to provide workflow management, document imaging and use of online account information. An origination begins with a loan application and purchase sales agreement with the collection and evaluation of data regarding the veteran and the property to be acquired under the Contract of Purchase. This evaluation includes an examination of the qualifications of the veteran applying for participation in the Program, a credit analysis of the veteran and the receipt of an appraisal for the applicable property. The appraisals reflect the market conditions at the time the appraisals were conducted, may not reflect current values, are not guarantees and may not be fully indicative of present or future values.

The history of the Department's originations of Contracts of Purchase is set forth in APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience."

Underwriting Credit Analysis

The Department limits availability of financing to veterans on the basis of their personal credit status. The Department's underwriting process is centralized at the Department's headquarters and is comprised of the following tasks: (i) reviewing credit history, (ii) verifying liabilities, (iii) identifying and establishing sources of verifiable income, (iv) determining housing expenses, including assessments, maintenance, utilities and taxes, (v) determining debt-to-income ratio, (vi) determining amount and source of down payment, (vii) verifying assets required for costs to complete the transaction and (viii) verifying that the collateral is acceptable. In evaluating these factors, it is the Department's policy to decide in favor of the veteran applicant if the Department determines that there is adequate security for and ability of the veteran to pay on the Contract of Purchase. See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience."

Contracts of Purchase with United States Department of Veterans Affairs ("USDVA") guarantees require additional documentation specific to USDVA entitlement and indebtedness that are in addition to the documents required for other Contracts of Purchase transactions. See "—USDVA Guaranty Program; Other Loan Insurance."

The Department's underwriting requirements have resulted in average borrower Fair Isaac Corporation ("FICO") credit scores at the time of origination in excess of approximately 710 for transactions originated between January 1, 2005 and December 31, 2018.

Subordinate Lending

The Veterans Code permits the Department to finance permanent home and property improvements for veterans with no existing financing or subordinate to existing financing (provided by lenders other than the Department) through the use of a deed of trust, promissory note or other security interest as the financing instrument. However, at present the Department does not provide financing for permanent home and property improvements for veterans that is subordinate to existing financing provided by lenders other than the Department. The Department permits the financing of down payments with subordinate financing by lenders other than the Department.

Contracts of Purchase

General

Under a Contract of Purchase, the veteran has the benefits of ownership as the equitable owner of the property, but title to the property and improvements thereon is held by the Department as the legal owner until the final principal payment is made on the Contract of Purchase. Property subject to a Contract of Purchase may not be transferred, assigned, encumbered, leased, let or sublet in whole or in part without the written consent of the Department. Any such permitted encumbrance must be junior or secondary to the Department's interest in the property.

Variation in the Terms of Contracts of Purchase

The terms of the Contracts of Purchase funded by Pre-Ullman Moneys, QVMB Proceeds or QMB Proceeds are substantially identical except as follows:

- Interest rates on Contracts of Purchase originated after January 1, 2011 have been and are expected to be fixed for the entire term of the loan. Interest rates on Contracts of Purchase originated prior to January 1, 2011 are fixed, subject to periodic adjustment as described in "—Interest Rates" below.
- The Federal Tax Code requires that Contracts of Purchase financed with QMB Proceeds (and Excess Revenues related to such proceeds) include (a) more restrictions imposed on the right of a purchaser to assume the obligations under a Contract of Purchase than a Contract of Purchase financed by Pre-Ullman Moneys or QVMB Proceeds (and Excess Revenues related to such proceeds) and (b) certain Federal Tax Code recapture provisions not included in Contracts of Purchase funded from other sources.

See also QMB Loan Eligibility Requirements under "—Certain Statutory Requirements – Federal Tax Code."

Down Payment Requirements – Term of Contracts of Purchase

General

The Veterans Code, in certain cases, requires a veteran obtaining a Contract of Purchase to make an initial payment of at least 2% of the purchase price or a higher amount determined based upon the creditworthiness of the veteran and with consideration of his or her military record, employment record, financial condition and other similar factors as determined by the Department. Department policy generally requires a veteran obtaining a Contract of Purchase to make an initial payment of at least 3% of the purchase price, unless the veteran obtains a full USDVA Guaranty. In either case, the Veterans Code permits the balance of the purchase price to be amortized over a period fixed by the Department not exceeding 40 years (30 years for mobile homes, including cooperative housing stock related to mobile homes located in mobile home parks). However, pursuant to Department policy, the Department issues all new Contracts of Purchase for a term of 30 years unless a shorter term is requested and except that certain Contracts of Purchase for mobile homes have shorter terms. See "—Mobile Homes Contracts of Purchase."

The Veterans Code provides to the Department the option of postponing at the time of initial purchase the commencement of payment of the principal balance of a Contract of Purchase for a period not to exceed five years if the veteran's current income meets the standards for purchase and if the Department determines that the veteran's income can reasonably be expected to increase sufficiently within the five-year period to make the transition to fully amortized payments (so long as the total term of the Contract of Purchase does not exceed the above-described limits). The Department has never exercised the option described in the preceding sentence and has no present intent to do so.

See also "—Deferred Payment Assistance Loans."

USDVA Guaranteed Contracts of Purchase

If a veteran obtains a USDVA Guaranty, subject to the Department's underwriting criteria, the Veterans Code permits such veteran to obtain a Contract of Purchase which does not require a down payment. In such cases the purchase price, including USDVA Guaranty fees, may be amortized over a period fixed by the Department, not exceeding 30 years and 32 days.

Interest Rates

The Veterans Code provides that the Department shall establish the interest rates payable under Contracts of Purchase, as described herein. The Department does not enter into Contracts of Purchase with low, adjustable introductory interest rates designed to attract potential borrowers (sometimes known as "teaser rates") or with balloon payments. All outstanding Contracts of Purchase have been entered into with interest rates as follows:

Pre-January 1999 Contracts of Purchase

Contracts of Purchase originated prior to January 1, 1999 ("pre-1999 Contracts of Purchase") bear interest at a rate which is set by the Department and may be changed with the approval of the Board and the Veterans' Finance Committee. Most pre-1999 Contracts of Purchase currently bear interest at a rate of 6.95%. The Veterans Code requires that, generally, all pre-1999 Contracts of Purchase bear the same interest rate and that such interest rate can be changed annually as deemed necessary. The effective date of a higher rate of interest on pre-1999 Contracts of Purchase may occur only once in any calendar year unless a finding is made by the Board and the Veterans' Finance Committee that such additional action is necessary to maintain the financial solvency of the 1943 Fund.

January 1, 1999 – December 2010 Contracts of Purchase

Contracts of Purchase originated on or after January 1, 1999 and prior to January 1, 2011 ("post-1998 Contracts of Purchase") are not required to be uniform with respect to interest rates and the Department may modify interest rates applicable to post-1998 Contracts of Purchase, which may be fixed or variable, and the methodology and timing for determining or modifying interest rates applicable to post-1998 Contracts of Purchase, from time to time, subject to the approval of the Board and the Veterans' Finance Committee. Pursuant to Department policy, the interest rates on post-1998 Contracts of Purchase may be adjusted by the Department up to 0.5% over the term of the post-1998 Contracts of Purchase. See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds – Reservation Rates on Contracts of Purchase" for historical interest rates applicable to post-1998 Contracts of Purchase.

Post-December 2010 Contracts of Purchase

Pursuant to Department policy all Contracts of Purchase entered into by the Department on or after January 1, 2011, have fixed interest rates which may not be adjusted by the Department over the term of such Contracts of Purchase.

As of January 1, 2019, interest rates for new Contracts of Purchase are as follows:

Interest Rates for New Contracts of Purchase

Interest Rate	Funding Source
4.250% (30 year term)	QMB Proceeds
3.750% (20 year term)	QVMB Proceeds
4.375% (30 year term)	QVMB Proceeds
5.990% (30 year term)	Pre-Ullman Moneys[(1)]

(1) Until February 28, 2019 the Department has made and may continue to make available not more than a total of $10 million of Pre-Ullman moneys to fund Contracts of Purchase, subject to certain qualifications, at an interest rate of 4.625%.
Source: Department of Veterans Affairs.

The foregoing mortgage rates for new Contracts of Purchase are subject to change as described above and may change based on the pricing of the Offered Veterans G.O. Bonds.

Funding sources noted above include related Excess Revenues. See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds – Reservation Rates on Contracts of Purchase" for historical interest rates for Contracts of Purchase originated during the applicable stated period.

Interest Rate Setting

Interest rates on Contracts of Purchase are expected to be established, from time to time, based on various factors deemed appropriate by the Department, subject in all cases to the requirements of the Veterans Code and the Revenue Bond Resolution, to the filing of a Cash Flow Statement and conformity with Program Operating Procedures. See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds." See also "AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS" in the forepart of the Official Statement.

Origination Fees for Contracts of Purchase

The Department collects an origination fee equal to 1% of the purchase price of the property in addition to any down payment which may be required in connection with a Contract of Purchase. The origination fee is collected at close of escrow on all new Contracts of Purchase and must be paid in escrow. If the Contract of Purchase is originated through an approved mortgage broker, the origination fee is paid to the mortgage broker through the escrow. If the Contract of Purchase is originated through the Department, the origination fee is retained by the Department.

No Prepayment Penalties

There are no prepayment penalties on any Contracts of Purchase. The Department's actual past prepayment experience for existing Contracts of Purchase is set forth in APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience."

Delinquencies and Cancellations

Economic Considerations

The mortgage and residential real estate markets periodically face uncertainties that create risk for market participants, including the Department. General market uncertainties that exist from time to time include interest rate volatility, changes in tolerance for credit risk, unavailability of certain mortgage products, decline or instability in residential real estate values, unemployment levels, concerns about the financial health and market involvement of secondary mortgage market participants, changes in legislative requirements relating to mortgage lending and servicing, and the exercise of mortgage remedies, the health of various financial institutions, insurance companies and other market participants and the health of the residential construction industry.

Prior events in the national and global economy and financial markets, including falling home prices, limited credit availability, financial instability, failures of banks and other major financial institutions, a downturn in consumer spending, declining real property and investment values and increased job losses, among other factors, weighed heavily on the global, national and State economies, particularly in the State housing market. Declines in residential real estate values result in reduced home equity and higher loan-to-value ratios. Higher loan-to-value ratios generally result in lower recoveries on foreclosure, and an increase in losses above those that would have been realized had property values remained stable or continued to increase after origination. Generally, the Department does not track the amount of home equity or loan-to-value ratio for a home under a Contract of Purchase. A reduction in home equity or loan-to-value ratio may result in an increase in losses after the cancellation of a Contract of Purchase.

State and national economies are recovering from the prior downturns. Availability of credit has improved, job growth continues, and a sustained decline in unemployment rates have affected the overall economy in ways that result in decreased delinquencies, cancellations (foreclosures) of Contracts of Purchase, and real estate owned ("REO") in inventory by the Department as a result of cancellation (foreclosures) of Contracts of Purchase.

Past increases in delinquencies and foreclosures were not limited to so-called "subprime" mortgage loans, which are generally made to borrowers with impaired credit often with limited documentation, but had also affected mortgage loans generally and so-called "prime" mortgage loans, which are typically made to borrowers with relatively higher credit who often provided full documentation. Recently, sectors of the State residential real estate market have, to varying degrees, experienced decreases in mortgage loan delinquency and foreclosure rates and increases in the market value of residences.

Economic growth within the State and national economies and low interest rates for residential mortgages have fueled increases in housing prices, improving the market value of residences, and spurred job creation resulting in decreased delinquencies and cancellations of Contracts of Purchase and REO. Delinquencies and cancellations related to Contracts of Purchase originated in the real estate "bubble" years of 2005 through 2008 have stabilized. Although the stability of the housing market has improved, the economic recovery continues as shifts in housing market demographics, interest rate uncertainty and negative equity, among other factors, persist.

Significant principal amounts of Contracts of Purchase are not covered by a USDVA Guaranty or primary mortgage insurance. See "—USDVA Guaranty Program; Other Loan Insurance" and APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of December 31, 2018."

Delinquency and Cancellation Data

As of June 30, 2018 (i) approximately 2.77% of the outstanding number of the Department's Contracts of Purchase were 30 to 60 days delinquent (or approximately 3.12% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 1.66% of the outstanding number of the Department's Contracts of Purchase were 60 days or more delinquent (or approximately 1.82% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.15% of the outstanding number of the Department's Contracts of Purchase had been cancelled or foreclosed upon (or approximately 0.08% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) approximately 0.23% of the outstanding number of the Department's Contracts of Purchase were REO in inventory (or approximately 0.15% of the then outstanding principal amount of the Department's Contracts of Purchase).

As of December 31, 2018 (i) approximately 2.88% of the outstanding number of the Department's Contracts of Purchase were 30 to 60 days delinquent (or approximately 3.22% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 2.14% of the outstanding number of the Department's Contracts of Purchase were 60 days or more delinquent (or approximately 2.54% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.20% of the outstanding number of the Department's Contracts of Purchase had been cancelled or foreclosed upon (or approximately 0.11% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) approximately 0.09% of the outstanding number of the Department's Contracts of Purchase were REO in inventory (or approximately 0.05% of the then outstanding principal amount of the Department's Contracts of Purchase).

Contracts of Purchase which had been cancelled (foreclosed upon) include those Contracts of Purchase where the Department has not yet obtained merchantable title to the subject property and/or possession of the property (i.e., the prior holder of the Contract of Purchase and all occupants have not vacated the subject property). Contracts of Purchase in REO inventory include those Contracts of Purchase where the Department has obtained merchantable title to the subject property and possession of the property (i.e., the prior holder of the Contract of Purchase and all occupants have vacated the subject property). The Department's delinquency statistics referred to above include Contracts of Purchase subject to Repayment Agreements and hardship deferrals. "Repayment Agreements" means agreements between the Department and a veteran that are used to implement a short-term restructuring of the payments under the Contract of Purchase to accommodate temporary financial difficulties of the veteran. See "—Contracts of Purchase – Department Procedures for Addressing Delinquencies and Cancellations" and APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Cancellations and Delinquencies."

With respect to USDVA guaranteed Contracts of Purchase, as of June 30, 2018 (i) approximately 3.25% of the outstanding number of the Department's Contracts of Purchase guaranteed by the USDVA were 30 to 60 days delinquent (or approximately 3.08% of the then outstanding principal amount of the Department's Contracts of Purchase guaranteed by the USDVA and approximately 2.09% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 2.06% of the outstanding number of the Department's Contracts of Purchase guaranteed by the USDVA were 60 days or more delinquent (or approximately 1.80% of the then outstanding principal amount of the Department's Contracts of Purchase guaranteed by the USDVA and approximately 1.22% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.14% of the outstanding number of the Department's Contracts of Purchase guaranteed by the USDVA had been cancelled, transferred and purchased by the USDVA (or approximately 0.10% of the then outstanding principal amount of the Department's Contracts of Purchase guaranteed by the USDVA and approximately 0.06% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) none of the Department's Contracts of Purchase guaranteed by the USDVA were REO in inventory.

With respect to USDVA guaranteed Contracts of Purchase, as of December 31, 2018 (i) approximately 3.51% of the outstanding number of the Department's Contracts of Purchase guaranteed by the USDVA were 30 to 60 days delinquent (or approximately 3.38% of the then outstanding principal amount of the Department's Contracts of Purchase guaranteed by the USDVA and approximately 2.41% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 2.79% of the outstanding number of the Department's Contracts of Purchase guaranteed by the USDVA were 60 days or more delinquent (or approximately 2.63% of the then outstanding principal amount of the Department's Contracts of Purchase guaranteed by the USDVA and approximately 1.87% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.13% of the outstanding number of the Department's Contracts of Purchase guaranteed by the USDVA had been cancelled, transferred and purchased by the USDVA (or approximately 0.10% of the then outstanding principal amount of the Department's Contracts of Purchase guaranteed by the USDVA and approximately 0.07% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) none of the Department's Contracts of Purchase guaranteed by the USDVA were REO in inventory.

The delinquency rates noted in the preceding paragraphs exceed the delinquency rates as reported in the June 30, 2018 and December 31, 2018 National Delinquency Survey published by the Mortgage Bankers Association of America (the "Survey") for USDVA guaranteed and conventional loans and are below Federal Housing Administration ("FHA") loans in California and nationally for the same period. Pursuant to the Survey, with respect to USDVA guaranteed loans as of June 30, 2018 (i) approximately 1.59% of the outstanding number of loans in California and 2.11% nationally were 30 to 60 days delinquent (the Survey does not report outstanding principal amounts), (ii) approximately 0.96% of the outstanding number of loans in California and 1.80% nationally were 60 days or more delinquent; and (iii) approximately 0.36% of the outstanding number of loans in California and 0.87% nationally were cancelled or foreclosed upon, transferred and purchased by the USDVA. The Survey does not report REO in inventory. Pursuant to the Survey, with respect to conventional loans as of June 30, 2018 (i) approximately 1.35% of the outstanding number of loans in California and 1.80% nationally were 30 to 60 days delinquent, (ii) approximately 0.96% of the outstanding number of loans in California and 1.64% nationally were 60 days or more delinquent; and (iii) approximately 0.37% of the outstanding number of loans in California and 0.94% nationally were foreclosures in inventory. Pursuant to the Survey, with respect to FHA loans as of June 30, 2018 (i) approximately 4.08% of the outstanding number of loans in California and 4.95% nationally were 30 to 60 days delinquent, (ii) approximately 2.32% of the outstanding number of loans in California and 3.73% nationally were 60 days or more delinquent; and (iii) approximately 0.77% of the outstanding number of loans in California and 1.66% nationally were foreclosures in inventory. In comparison, the outstanding total number of the Department's Contracts of Purchase that had been cancelled or foreclosed upon were substantially lower at 0.15% as of June 30, 2018 compared to USDVA guaranteed, conventional and FHA loans in California and nationally. In the Survey, loans are categorized as conventional loans or otherwise based upon the Survey respondents' internal classifications.

Pursuant to the Survey, with respect to USDVA guaranteed loans as of December 31, 2018 (i) approximately 1.69% of the outstanding number of loans in California and 2.24% nationally were 30 to 60 days delinquent (the Survey does not report outstanding principal amounts), (ii) approximately 1.16% of the outstanding number of loans in California and 1.81% nationally were 60 days or more delinquent; and (iii) approximately 0.39% of the outstanding number of loans in California and 0.87% nationally were cancelled or foreclosed upon, transferred and purchased by the USDVA. The Survey does not report REO in inventory. Pursuant to the Survey, with respect to conventional loans as of December 31, 2018 (i) approximately 1.37% of the outstanding number of loans in California and 1.84% nationally were 30 to 60 days delinquent, (ii) approximately 0.93% of the outstanding number of loans in California and 1.52% nationally were 60 days or more delinquent; and (iii) approximately 0.31% of the outstanding number of loans in California and 0.81% nationally were foreclosures in inventory. Pursuant to the Survey, with respect to FHA loans as of December 31, 2018 (i) approximately 4.46% of the outstanding number of loans in California and 5.29% nationally were 30 to 60 days delinquent, (ii) approximately 2.70% of the outstanding number of loans in California and 3.86% nationally were 60 days or more delinquent; and (iii) approximately 0.80% of the outstanding number of loans in California and 1.64% nationally were foreclosures in inventory. In comparison, the outstanding total number of the Department's Contracts of Purchase that had been cancelled or foreclosed upon were substantially lower at 0.09% as of December 31, 2018 compared to USDVA guaranteed, conventional and FHA loans in California and nationally. In the Survey, loans are categorized as conventional loans or otherwise based upon the Survey respondents' internal classifications.

With respect to Contracts of Purchase insured under the Original Radian Policy (Groups 1-3 as shown in APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase – Primary Mortgage

Insurance Coverage") (a) as of June 30, 2018: (i) approximately 2.18% of the outstanding number of the Department's Contracts of Purchase insured under the Original Radian Policy were 30 to 60 days delinquent (or approximately 1.86% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Original Radian Policy and approximately 0.03% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 1.24% of the outstanding number of the Department's Contracts of Purchase insured under the Original Radian Policy were 60 days or more delinquent (or approximately 1.32% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Original Radian Policy and approximately 0.02% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) none of the Department's Contracts of Purchase insured under the Original Radian Policy had been cancelled or foreclosed upon; and (iv) approximately 0.62% of the outstanding number of the Department's Contracts of Purchase insured under the Original Radian Policy were REO in inventory (or approximately 1.53% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Original Radian Policy and approximately 0.02% of the then outstanding principal amount of the Department's Contracts of Purchase); and (b) as of December 31, 2018 (i) approximately 1.34% of the outstanding number of the Department's Contracts of Purchase insured under the Original Radian Policy were 30 to 60 days delinquent (or approximately 0.91% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Original Radian Policy and approximately 0.01% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 3.02% of the outstanding number of the Department's Contracts of Purchase insured under the Original Radian Policy were 60 days or more delinquent (or approximately 2.93% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Original Radian Policy and approximately 0.03% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) none of the Department's Contracts of Purchase insured under the Original Radian Policy had been cancelled or foreclosed upon; and (iv) approximately 0.34% of the outstanding number of the Department's Contracts of Purchase insured under the Original Radian Policy were REO in inventory (or approximately 0.63% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Original Radian Policy and approximately 0.01% of the then outstanding principal amount of the Department's Contracts of Purchase).

The Department has ceased entering into Contracts of Purchase to be insured by Radian Guaranty Inc. ("Radian"). See "—USDVA Guaranty Program; Other Loan Insurance – Primary Mortgage Insurance."

With respect to Contracts of Purchase insured under the Additional Radian Policy Group 4 (as shown in APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase – Primary Mortgage Insurance Coverage") (a) as of June 30, 2018: (i) approximately 4.31% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy were 30 to 60 days delinquent (or approximately 5.62% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Additional Radian Policy and approximately 0.58% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 2.78% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy were 60 days or more delinquent (or approximately 3.86% of the then outstanding principal amount of the Department's Contracts of

Purchase insured under the Additional Radian Policy and approximately 0.40% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.38% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy had been cancelled or foreclosed upon (or approximately 0.15% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Additional Radian Policy and approximately 0.02% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) approximately 0.76% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy were REO in inventory (or approximately 0.86% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Additional Radian Policy and approximately 0.09% of the then outstanding principal amount of the Department's Contracts of Purchase); and (b) as of December 31, 2018: (i) approximately 4.03% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy were 30 to 60 days delinquent (or approximately 4.56% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Additional Radian Policy and approximately 0.41% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 3.08% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy were 60 days or more delinquent (or approximately 4.68% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Additional Radian Policy and approximately 0.42% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.54% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy had been cancelled or foreclosed upon (or approximately 0.15% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Additional Radian Policy and approximately 0.01% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) approximately 0.40% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy were REO in inventory (or approximately 0.41% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Additional Radian Policy and approximately 0.04% of the then outstanding principal amount of the Department's Contracts of Purchase). See "—USDVA Guaranty Program; Other Loan Insurance – Primary Mortgage Insurance."

As of June 30, 2018, (i) approximately 1.10% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park were 30 to 60 days delinquent (or approximately 1.47% of the then outstanding principal amount of the Department's Contracts of Purchase financing such mobile homes and approximately 0.03% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 2.49% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park were more than 60 days delinquent (or approximately 2.22% of the then outstanding principal amount of the Department's Contracts of Purchase financing such mobile homes and approximately 0.04% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 1.10% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park had been canceled or foreclosed upon (or approximately 0.56% of the then outstanding principal amount of the Department's Contracts of Purchase financing mobile homes in a mobile home park and approximately 0.01% of the then outstanding principal amount of the

Department's Contracts of Purchase); and (iv) none of the Department's Contracts of Purchase financing mobile homes in a mobile home park were REO in inventory. As of December 31, 2018, (i) approximately 0.85% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park were 30 to 60 days delinquent (or approximately 0.70% of the then outstanding principal amount of the Department's Contracts of Purchase financing such mobile homes and approximately 0.01% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 1.42% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park were more than 60 days delinquent (or approximately 1.29% of the then outstanding principal amount of the Department's Contracts of Purchase financing such mobile homes and approximately 0.02% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 1.70% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park had been canceled or foreclosed upon (or approximately 1.03% of the then outstanding principal amount of the Department's Contracts of Purchase financing mobile homes in a mobile home park and approximately 0.02% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) approximately 0.28% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park were REO in inventory (or approximately 0.44% of the then outstanding principal amount of the Department's contracts of Purchase financing such mobile homes and approximately 0.01% of the then outstanding principal amount of the Department's Contracts of Purchase). For additional information regarding mobile homes Contracts of Purchase, see "—Mobile Homes Contracts of Purchase."

With respect to Contracts of Purchase financing permanent home and property improvements as of June 30, 2018: (i) approximately 4.55% of the outstanding number of the Department's Contracts of Purchase financing permanent home and property improvements were 30 to 60 days delinquent (or approximately 9.14% of the then outstanding principal amount of the Department's Contracts of Purchase financing permanent home and property improvements and approximately 0.04% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) none of the outstanding number of the Department's Contracts of Purchase financing permanent home and property improvements were more than 60 days delinquent; (iii) none of the Department's Contracts of Purchase financing permanent home and property improvements had been canceled or foreclosed upon; and (iv) none of the Department's Contracts of Purchase financing permanent home and property improvements were REO in inventory. With respect to Contracts of Purchase financing permanent home and property improvements as of December 31, 2018: (i) approximately 3.05% of the outstanding number of the Department's Contracts of Purchase financing permanent home and property improvements were 30 to 60 days delinquent (or approximately 4.43% of the then outstanding principal amount of the Department's Contracts of Purchase financing permanent home and property improvements and approximately 0.02% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 0.61% of the outstanding number of the Department's Contracts of Purchase financing permanent home and property improvements were more than 60 days delinquent (or approximately 1.86% of the then outstanding principal amount of the Department's Contracts of Purchase financing permanent home and property improvements and approximately 0.01% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) none of the Department's Contracts of Purchase financing permanent home and property improvements had been canceled or foreclosed upon;

and (iv) none of the Department's Contracts of Purchase financing permanent home and property improvements were REO in inventory. For additional information regarding home improvement Contracts of Purchase, see "—Home Improvement Contracts of Purchase."

With respect to Contracts of Purchase financing the purchase of a building site and construction of a home, as of June 30, 2018: (i) none of the outstanding number of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home were 30 to 60 days delinquent; (ii) none of the outstanding number of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home were 60 days or more delinquent; (iii) none of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home had been cancelled or foreclosed upon; and (iv) none of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home were REO in inventory. With respect to Contracts of Purchase financing the purchase of a building site and construction of a home, as of December 31, 2018: (i) none of the outstanding number of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home were 30 to 60 days delinquent; (ii) none of the outstanding number of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home were 60 days or more delinquent; (iii) none of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home had been cancelled or foreclosed upon; and (iv) none of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home were REO in inventory. For additional information regarding Contracts of Purchase financing the purchase of a building site and construction of a home, see "—Construction Contracts of Purchase."

For the fiscal year ended June 30, 2018, the Department experienced approximately $254,713 in gains resulting from REO sales and approximately $163,346 in charge offs resulting from short sales. For the fiscal year ended December 31, 2018, the Department experienced approximately $34,715 in gains resulting from REO sales and approximately $1,378 in gains resulting from short sales. Gains or losses on REO sales, short sales and USDVA Guaranty claims with losses can be expected to fluctuate based on the market and other considerations during the period that the Offered Veterans G.O. Bonds are outstanding. See "—USDVA Guaranty Program; Other Loan Insurance – USDVA Guaranty Program" regarding limitations of USDVA Guaranties and factors which may cause a lender to incur a loss on a Contract of Purchase guaranteed by the USDVA.

The audited financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund attached hereto reflect an allowance for uncollectible Contracts of Purchase established through a provision charged to operations. The allowance is an amount that the Department's management expects to be adequate to absorb losses with respect to Contracts of Purchase based, among other things, on prior loss experience and the outstanding aggregate principal amount of Contracts of Purchase.

See APPENDIX C – "REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS – VETERANS' FARM AND HOME PURCHASE PROGRAM OF THE DEPARTMENT OF VETERANS AFFAIRS, STATE OF CALIFORNIA (VETERANS FARM AND HOME BUILDING FUND OF 1943, VETERANS DEBENTURE REVENUE FUND AND POOLED SELF-INSURANCE FUND) FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017," and APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Cancellations and Delinquencies."

Department Procedures for Addressing Delinquencies and Cancellations

The following is a description of the Department's procedures for addressing delinquencies and cancellations, which procedures are subject to change while the Offered Veterans G.O. Bonds are outstanding. Also see "—Contracts of Purchase – Keep Your Home California."

If a veteran fails to comply with any of the terms of a Contract of Purchase the Department may terminate the Contract of Purchase and be released from all obligations thereunder, at law or in equity. In such event, the veteran's rights under the Contract of Purchase may be forfeited and all payments made by the veteran prior to termination of the Contract of Purchase by the Department would be deemed to be rental paid for occupancy of the property by the veteran. In the event the veteran's rights under the Contract of Purchase are forfeited, the Department takes possession of the property for the purposes of reselling it. The Department may, for good cause, permit the postponement from time to time, and upon such terms as it deems proper, of the payment of the whole or any part of any installment under a Contract of Purchase.

If a veteran does not make a payment by the 16th day of the month in which the payment is due, the payment is considered "late." Mitas is to generate an initial reminder letter automatically if payment is not received by the 20th day of the month, which advises the veteran that payment has not been received. If payment is not received by the 30th day of the month, a second reminder letter is to be issued and the Contract of Purchase installment payment is considered "delinquent." After the initial reminder letter is issued the Department's staff also initiates telephone contact with the veteran. If the Contract of Purchase installment payment remains delinquent 60 days, a Notice of Intent to Cancel Contract ("NICC") is issued to notify the veteran that the Contract of Purchase may be cancelled at the end of a 30-day notice period unless the Contract of Purchase installment payment is brought current. Department personnel continue to initiate telephone contact with veterans with delinquent Contract of Purchase installment payments. If the veteran has not paid by the 70th day of the delinquency, another letter is issued reminding the veteran that he or she must bring the Contract of Purchase installment payment current within 30 days of the NICC date (the "70 Day Reminder Letter"). A schedule for liquidation of delinquent Contract of Purchase installment payments satisfactory to the Department is arranged during this period; however, if the Contract of Purchase installment payment remains delinquent 21 days after the issuance of the 70 Day Reminder Letter and no schedule for liquidation of delinquent installment payments has been agreed upon, the Department may begin cancellation of the Contract of Purchase. If a schedule of liquidation has been agreed to with respect to a Contract of Purchase and the veteran makes all regularly scheduled installment payments and liquidation payments on a timely basis, the Department does not initiate cancellation of the Contract of Purchase.

The Collections, Cancellation and REO Unit at the Department's headquarters monitors the delinquency throughout this process, orders a title search to identify any junior lienholders and then commences pre-cancellation processing in accordance with the California Code of Regulations. Junior lienholders are sent notices giving them 30 days (40 days in the case of Federal tax liens) to protect their interest by beginning foreclosure proceedings. If the Contract of Purchase installment payment is not brought current during the notice period to junior lienholders and no junior lienholder proceeds with a foreclosure action to protect its interest, the Department's Collections, Cancellation and REO Unit cancels the Contract of Purchase and a

Notice of Cancellation is mailed to the veteran and recorded with the applicable county recorder. The Department's Cancellation Unit then takes steps to evict occupants and clear any remaining liens. If judicial action is required, the case is referred to the Department's Law Division for additional processing. In some cases, cancellation of defaulted Contracts of Purchase may be deferred or delayed due to high volume of cancellations or other factors. If moratoriums on cancellations are enacted in California, such moratoriums may cause delays and increased expenses associated with Contract of Purchase cancellation and property repossession may increase realized losses.

If a Contract of Purchase guaranteed by the USDVA goes into default and is canceled, the related property either is sold to the USDVA for a percentage of the property's appraised value or becomes Department REO. After the sale of the property, either to USDVA or through Department REO, the USDVA is obligated to pay an amount based upon its USDVA Guaranty toward the unpaid principal, accrued interest and foreclosure expenses not recovered from proceeds of the sale, within USDVA-approved limits. The Department's policies regarding delinquencies and cancellations conform to USDVA Guaranty program requirements.

After all remaining liens are removed and the property is vacant, the repossessed property is repaired and improved, if necessary and feasible, and is marketed through the Department's Collections, Cancellation and REO Unit which uses a Pre-Advertising Listing ("PAL") program. Under the PAL program the property is listed for sale with a licensed real estate broker or agent, at an overall commission rate which typically does not exceed 6%. The Department is required to advertise and accept sealed offers during a 2-week period, after which the property may be sold to the highest acceptable bidder (best net return). If no acceptable bids are received, the property continues to be marketed by the listing real estate agent or broker until an acceptable offer is received and the property is sold. All sales of REO assets for the Department are required to be conducted in accordance with the California Code of Regulations.

As of June 30, 2018, the Department had Repayment Agreements in place for approximately 0.32% of the total then outstanding number of Contracts of Purchase (or approximately 0.37% of the then outstanding principal amount of the Department's Contracts of Purchase). As of December 31, 2018, the Department had Repayment Agreements in place for approximately 0.48% of the total then outstanding number of Contracts of Purchase (or approximately 0.67% of the then outstanding principal amount of the Department's Contracts of Purchase).

Additionally, if a veteran is able to demonstrate financial hardship to the Department, the Department may modify the Contract of Purchase to assist the veteran. Modifications may extend the term of the Contract of Purchase up to a 40 year term for most Contracts of Purchase and up to a 30 year term for a Contract of Purchase financing a mobile home in a mobile home park. When extending the term of the Contract of Purchase the Department reduces the monthly installment payments. In cases where the veteran has already defaulted on the Contract of Purchase at the time of the veteran's hardship assistance request, the Department may allow the veteran to make reduced payments under a Repayment Agreement for six months. Thereafter, the Department may approve a hardship deferral of the outstanding delinquent interest (and in rare cases, principal) on the Contract of Purchase. In such cases the delinquent interest (or principal) is due and payable upon the sale of the property, further encumbrance of the property or upon the maturity of the loan. In some cases the Department may also re-amortize the past due principal. As of June 30, 2018, the Department had hardship deferrals in place for approximately 1.94% of the total then outstanding number of Contracts of Purchase (or approximately 0.09% of the then outstanding principal amount of the Department's Contracts of Purchase). As of December 31, 2018, the Department had hardship deferrals in place for approximately 1.70% of the total then outstanding number of Contracts of Purchase (or approximately 0.07% of the then outstanding principal amount of the Department's Contracts of Purchase).

The Department permits a sale of a property in which the proceeds from the sale of the property will not be sufficient to pay the remaining amounts due under the Contract of Purchase (a distress sale or short sale) in situations where the Department determines significant hardship will occur if the holder of a Contract of Purchase is not permitted to enter into a short sale. Situations where short sale may be permitted include job relocation, a divorce which requires sale of the property, loss of employment or illness.

To be considered for a short sale, the Department requires a contract holder to submit a written explanation of the hardship and supporting documentation, including financial records. The Department reviews all estimated costs involved in the proposed short sale and only permits reasonable costs to be included in the short sale. In connection with the evaluation of a short sale the Department obtains the market value of the property through an appraisal, broker opinion of value or comparative market analysis report, as the Department determines appropriate. The Department compares the proposed short sale with the Department's projected recovery from the property as REO taking into consideration whether the Contract of Purchase is subject to a USDVA Guaranty or the Radian Policies (as defined below) and the amounts that may be realized in connection with a claim thereunder. USDVA approval is not required for a short sale and if the Contract of Purchase is subject to a USDVA Guaranty and the short sale is completed, the Department is permitted to submit a claim with the USDVA. If the Contract of Purchase is subject to a USDVA Guaranty and the Department sells the property as a Department REO, claim moneys can be received and are also considered in the analysis. If the Contract of Purchase is subject to the Radian Policies, then the short sale requires Radian approval. Once Radian approves the short sale, Radian informs the Department of the claim amount approved for payment. Claim moneys to be received for a Radian insured Contract of Purchase sold as a Department REO are also considered in the analysis. Upon consideration of the various options the Department pursues the most cost effective approach that provides the greatest benefit to the Department. The Department requires the parties to the short sale to execute, under the penalty of perjury, a transaction certification statement certifying that the sale is a true "arm's length" transaction. No sales proceeds are permitted to go to the holder of the Contract of Purchase.

For the Fiscal Year ended June 30, 2018 none of the outstanding number of the Department's Contracts of Purchase were approved for short sales. As of December 31, 2018, approximately 0.02% of the outstanding number of the Department's Contracts of Purchase (or approximately 0.06% of the then outstanding principal amount of the Department's Contracts of Purchase) were approved for short sales.

The Department's policies regarding delinquencies and cancellations conform to Radian guidelines.

The Federal Relief Act and the California Relief Act (each as described below) also require certain extensions of Contracts of Purchase terms. See "—Legislative Protection of Veterans" herein.

The Federal government, State and local governments, consumer advocacy groups and others continue to urge modifications of mortgage loans to avoid foreclosure, and Federal, State and local governmental authorities have enacted and continue to propose numerous laws and regulations relating to mortgage loans generally and to foreclosure actions in particular. Any of these laws or regulations may delay foreclosure or provide new defenses to foreclosure or result in reduced payments by borrowers, permanent forgiveness of debt and increased prepayments due to the availability of government-sponsored refinancing initiatives. In addition, in certain cases judicial decisions have delayed or prevented foreclosure.

Further, the Federal government has undertaken a number of measures designed to address past economic difficulties facing the United States including relief programs established by the USDVA. Additional measures and legislation may be considered by the Federal government, or the State Legislature, which measures may affect the Program, the Veterans G.O. Bonds, the Revenue Bonds or the Contracts of Purchase. While some of these measures may benefit the Program, no assurance can be given that the Program, the Veterans G.O. Bonds, the Revenue Bonds or the Contracts of Purchase will not be adversely affected by such measures.

See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Cancellations and Delinquencies" for additional information regarding the status of Contracts of Purchase.

Keep Your Home California

The California Housing Finance Agency formed the CalHFA Mortgage Assistance Corporation, a separate nonprofit public benefit corporation, to act as an institution eligible to receive applicable Federal funding. This afforded access to Federal funding through the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets established by the United States Department of the Treasury in connection with Federal programs authorized under the Emergency Economic Stabilization Relief Act of 2008 and the Troubled Asset Relief Program. CalHFA Mortgage Assistance Corporation received more than $2 billion in Federal awards to fund its Keep Your Home California program through 2018. The Keep Your Home California program consisted of four programs, all of which closed in mid-2018, and no longer accepts applications for assistance: the Unemployment Mortgage Assistance Program, the Mortgage Reinstatement Assistance Program, the Principal Reduction Program and the Transition Assistance Program. These programs were available to lenders throughout the State. The Department elected to participate in each of the programs. The Keep Your Home California program is now closed and no longer accepting applications.

The Unemployment Mortgage Assistance Program provided mortgage payment assistance to eligible homeowners who experienced an involuntary job loss and were receiving California unemployment benefits and includes homeowners whose unemployment benefits lapsed or expired within 30 days of the request for assistance. Benefit assistance through the Unemployment Mortgage Assistance Program was up to $3,000 per month and was permitted to last up to eighteen months. The maximum assistance per household was $54,000. As of December, 2018, CalHFA Mortgage Assistance Corporation allocated approximately $1 billion for the Unemployment Mortgage Assistance Program.

The Mortgage Reinstatement Assistance Program provided assistance to eligible homeowners who, because of a financial hardship, were delinquent and sought assistance to reinstate a delinquent first mortgage loan. Benefit assistance through the Mortgage

Reinstatement Assistance Program was permitted up to $54,000 as a one-time payment to cover principal, interest, property taxes and insurance and included escrowed homeowners' association dues or assessments. As of March, 2018, CalHFA Mortgage Assistance Corporation allocated approximately $239 million for the Mortgage Reinstatement Assistance Program.

The Principal Reduction Program provided assistance to eligible homeowners who experienced an economic hardship or a severe decline in the home's value, and who owed more on their mortgage than their home is worth and/or had an unaffordable payment. Homeowners who qualified for the Principal Reduction Program were eligible for up to $100,000 in assistance. As of March, 2018, CalHFA Mortgage Assistance Corporation allocated approximately $854 million for the Principal Reduction Program.

The Transition Assistance Program provided one-time funds to help eligible homeowners relocate into new housing after executing a short sale or deed-in-lieu of foreclosure program. The Transition Assistance Program was permitted to provide up to $5,000 in transition assistance per household. As of December, 2018, CalHFA Mortgage Assistance Corporation allocated approximately $3.8 million for the Transition Assistance Program.

Assistance provided in connection with the Unemployment Mortgage Assistance Program, Mortgage Reinstatement Assistance Program and Principal Reduction Program (where, in the Principal Reduction Program, CalHFA Mortgage Assistance Corporation receives less than 100% match by the applicable lender/servicer and the homeowner's post-assistance loan-to-value ratio ("LTV") is 100% or greater) is structured as a non-recourse, non-interest bearing subordinate loan in favor of CalHFA Mortgage Assistance Corporation secured by a junior lien on the applicable home. The subordinate loan is structured with a five year term. At the conclusion of the fifth year (or, in the Principal Reduction Program, the thirtieth year for post-assistance LTV of less than 100%), the subordinate lien will be released. In the event of a sale or refinancing of the property, the holder of the Contract of Purchase is required to repay the subordinate loan if there are sufficient proceeds.

Since January 2011, the Department has participated in the Keep Your Home California program. As of June 30, 2018, the Department has received approximately $17.6 million benefiting approximately 540 Contracts of Purchase as follows: (i) approximately $2.8 million from the Unemployment Mortgage Assistance Program benefiting approximately 186 Contracts of Purchase; (ii) approximately $1.4 million from the Mortgage Reinstatement Assistance Program benefitting approximately 122 Contracts of Purchase; (iii) approximately $12.7 million from the Principal Reduction Program benefiting approximately 223 Contracts of Purchase; and (iv) approximately $45,000 from the Transition Assistance Program benefiting approximately 9 Contracts of Purchase. As of December 31, 2018, the Department has received approximately $17.8 million benefiting approximately 550 Contracts of Purchase as follows: (i) approximately $2.9 million from the Unemployment Mortgage Assistance Program benefiting approximately 188 Contracts of Purchase; (ii) approximately $1.5 million from the Mortgage Reinstatement Assistance Program benefitting approximately 127 Contracts of Purchase; (iii) approximately $12.8 million from the Principal Reduction Program benefiting approximately 226 Contracts of Purchase; and (iv) approximately $45,000 from the Transition Assistance Program benefiting approximately 9 Contracts of Purchase.

Keep Your Home California indicates that homeowners who submitted an application to Keep Your Home California prior to allocable funds being fully allocated, will have their files processed to resolution. As of December 31, 2018, there were approximately 7 Contracts of Purchase approved with remaining disbursements for approximately $101,591.

Late Fees

Late charges are applied to Contracts of Purchase that have a remaining amount due of $25 or more at the close of any account month. The late charge imposed on Contracts of Purchase originated during and after October 1984 is currently 4% of the principal and interest portion of the installment, consistent with late charges authorized by the USDVA.

Additional Financing

Any veteran who qualifies under the Veterans Code and the Federal Tax Code may be granted a subsequent Contract of Purchase so long as any previous Contract of Purchase has been paid in full or the veteran lost his or her interest in the previous Contract of Purchase through divorce or dissolution of marriage so long as the Federal Tax Code requirements regarding first-time homebuyers are met. Only one farm or home purchased under the 1974 Act may be owned by a veteran (or a veteran and his/her spouse, which, under the Veterans Code, includes a registered domestic partner) at any one time.

Mobile Homes Contracts of Purchase

The Veterans Code permits the Department to issue Contracts of Purchase for the purchase of mobile homes. The Federal Tax Code requires that any mobile home purchased with QVMB Proceeds or QMB Proceeds must be permanently affixed to land. If the mobile home is located on land for which the Department obtains title, the Contract of Purchase is treated by the Department in substantially the same manner as Contracts of Purchase to finance the purchase of single family residences. If the mobile home is located where the Department does not obtain title to the land, the Contract of Purchase is issued by the Department only where the mobile home is in a qualified mobile home park. In such cases the Contract of Purchase is issued with a term not exceeding twenty years and an interest rate which is 1% higher than the interest rate for a Contract of Purchase issued to finance the purchase of a single family conventional residence or a mobile home sited on a lot owned by the purchaser. Mobile home parks are qualified by Department underwriting staff on a case-by-case basis based on a review of the appraisal, condition of the park, other minimum property standards and the park's rental agreement. The appraisals reflect the market conditions at the time the appraisals were conducted, may not reflect current values, are not guarantees and may not be fully indicative of present or future values. The Department also requires the mobile home park management to approve the transaction.

New single-wide mobile home units may be financed for up to 15 years and a 15% down payment is required. New multi-wide mobile home units may be financed for up to 20 years and a 10% down payment is required. Used multi-wide mobile home units may be financed for the lesser of 20 years or the economic life expectancy of the unit and a 15% down payment is required. No financing is available for used single-wide units or mobile homes which are over 20 years old.

As of June 30, 2018, approximately 6.83% of the then outstanding total number of the Department's Contracts of Purchase financed mobile homes in a mobile home park (or approximately 1.76% of the then outstanding principal amount of the Department's Contracts of Purchase). As of December 31, 2018, approximately 6.50% of the then outstanding total number of the Department's Contracts of Purchase financed mobile homes in a mobile home park (or approximately 1.59% of the then outstanding principal amount of the Department's Contracts of Purchase).

See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of December 31, 2018" and "—Cancellations and Delinquencies" for additional information.

Home Improvement Contracts of Purchase

The Veterans Code permits the Department to finance permanent home and property improvements. Currently, under Department policy, when a home improvement Contract of Purchase is issued, the amount of total financing, including the balance of the original Contract of Purchase, the amount of the improvement Contract of Purchase and any other encumbrances, is not permitted to exceed 90% of the improved market value of the property. The Department relies on current market data from a third party information provider to develop formal opinions of value for a determination of the improved market value of the property. Typically, the total loan-to-value ratio at origination of a home improvement Contract of Purchase is lower than 90%.

The Department distributes the proceeds from a home improvement Contract of Purchase either to the contractors (or vendors) directly as the improvements are completed or to the veteran as reimbursement for actual construction costs. For a home improvement Contract of Purchase which is subordinate to an existing Contract of Purchase, a separate Contract of Purchase covering only the improvements is executed. The subordinate Contract of Purchase bears interest at the same rate as the veteran's existing Contract of Purchase where the home improvement Contract of Purchase was entered into prior to January 1, 2005, or at current Department rates where the home improvement Contract of Purchase was entered into on or after January 1, 2005. Pursuant to Department policy, home improvement Contracts of Purchase are issued with a term of up to 25 years. Generally, the terms of the original Contract of Purchase and the home improvement Contract of Purchase mature separately. An origination fee of 1.5% of the home improvement Contract of Purchase amount is assessed. Except in the case of hardship or in connection with safety concerns, home improvement Contracts of Purchase, generally, are not approved for veterans who have had significant delinquencies in the 12 months immediately preceding the application.

The maximum home improvement Contract of Purchase funded with QMB Proceeds is $15,000. Home improvement Contracts of Purchase funded with Pre-Ullman Moneys or QVMB Proceeds are available up to a maximum of $150,000. Subsequent home improvement Contracts of Purchase may be granted, if funds are available to the Department, so long as there is only one home improvement Contract of Purchase per veteran outstanding at any time. As of June 30, 2018, the average principal balance of the Department's home improvement Contracts of Purchase then outstanding was approximately $24,983. As of December 31, 2018, the average principal balance of the Department's home improvement Contracts of Purchase then outstanding was approximately $20,287.

See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of December 31, 2018" for additional information.

Construction Contracts of Purchase

Contracts of Purchase entered into to finance the purchase of a building site and construction of a home are also available. Qualifying sites include undeveloped land, lots in subdivision developments and sites in non-profit self-help developments. Mobile homes in mobile home parks do not qualify. Construction of the improvements must be performed by a contractor licensed in the State. The Department does not submit Contracts of Purchase that finance home construction for USDVA Guaranty.

The Department has developed a program with a view to enriching residential neighborhoods (the "CalVet REN Program") under which the Department works with affordable home builders to provide affordable homes for low income veterans. As part of the CalVet REN Program the Department, together with the affordable home builders, identifies project areas for the construction of a number of new affordable homes, and identifies and qualifies veterans for Contracts of Purchase for whom the Department could finance a portion of the construction of the homes, with the balance of the construction costs financed by the affordable home builders and/or other governmental entities such as the city or county. In connection with any such Contracts of Purchase, the Department distributes the proceeds from the Contract of Purchase to the affordable home builders at various milestones as the construction is completed.

As of June 30, 2018, approximately 5.73% of the then outstanding total number of the Department's Contracts of Purchase financed the purchase of a building site and construction of a home (or approximately 5.24% of the then outstanding principal amount of the Department's Contracts of Purchase). As of December 31, 2018, approximately 5.62% of the then outstanding total number of the Department's Contracts of Purchase financed the purchase of a building site and construction of a home (or approximately 4.94% of the then outstanding principal amount of the Department's Contracts of Purchase).

See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of December 31, 2018" for additional information.

Deferred Payment Assistance Loans

The Veterans Code permits the Department to provide initial payment assistance to lower income first-time purchasers by providing a deferred-payment second loan, upon which simple interest is to be charged at a rate established by the Department and subject to all of the following conditions, the loan (i) may not exceed 3% of the selling price of the farm or home, (ii) must be secured by a deed of trust or, if authorized by the Department, another form of security, and (iii) must be due and payable upon the payment in full of the Contract of Purchase or upon the sale or transfer of the farm or home.

As of June 30 2018, approximately 0.41% of the then outstanding total number of the Department's Contracts of Purchase financed initial payment assistance for the purchase of a farm or home (or approximately 0.02%, of the then outstanding principal amount of the Department's Contracts of Purchase). As of December 31, 2018, approximately 1.61% of the then outstanding total number of the Department's Contracts of Purchase financed initial payment assistance for the purchase of a farm or home (or approximately 0.06%, of the then outstanding principal amount of the Department's Contracts of Purchase).

See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of December 31, 2018" for additional information.

Pooled Self-Insurance Fund

In 2009, the Veterans Code created a pooled self-insurance fund (the "Pooled Self-Insurance Fund") in the State Treasury to allow the Department to pool certain of its funds and accounts. The Pooled Self-Insurance Fund includes the reserves and moneys held by the Department, as authorized in the Veterans Code, in the Disaster Indemnity Fund, the Fire and Hazard Insurance Account, the Legacy Self-Insured Disability Coverage Account and the Primary Mortgage Insurance Account, each as defined below. Under the Veterans Code, if claims under one Pooled Self-Insurance Fund account exceed the amount of funds available in such account, the Department is permitted to borrow from other Pooled Self-Insurance Fund accounts within the Pooled Self-Insurance Fund rather than draw on the 1943 Fund. The Department on behalf of the Pooled Self-Insurance Fund is permitted to borrow from the 1943 Fund upon declaration of emergency by the Department Secretary. Amounts borrowed from other Pooled Self-Insurance Fund accounts or from the 1943 Fund must be repaid within three years. As of the date of this Official Statement, the Department on behalf of the Pooled Self-Insurance Fund has not borrowed from the 1943 Fund as permitted by the Veterans Code. The Veterans Code also requires the Department to manage rates charged to the holders of Contracts of Purchase for each account in the Pooled Self-Insurance Fund, so that each account is self-sufficient. Under the Veterans Code, the Department is permitted to insure or reinsure the risks payable out of the Pooled Self-Insurance Fund. The Department has insured certain risks payable out of the Disaster Indemnity Fund and the Fire and Hazard Insurance Account. Moneys in the Pooled Self-Insurance Fund are not available to make payments on Revenue Bonds or Veterans G.O. Bonds

See also "—USDVA Guaranty Program; Other Loan Insurance" and "—Life and Disability Insurance."

USDVA Guaranty Program; Other Loan Insurance

Significant principal amounts of Contracts of Purchase are not covered by a USDVA Guaranty or primary mortgage insurance. See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of December 31, 2018."

USDVA Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances the veteran's spouse) to obtain a guaranty from the USDVA covering mortgage financing for the purchase or construction of certain dwelling units at interest rates permitted by the USDVA (a "USDVA Guaranty"). The USDVA Guaranty program sets loan guaranty limits depending on the size of the loan and the location of the property and permits the guaranty of mortgage loans of up to 30 years and 32 days' duration unless the USDVA, in its sole discretion, approves an extension. Under the USDVA Guaranty program, the maximum USDVA Guaranty on a loan of more than $144,000 is an amount equal to 25% of the applicable USDVA county limit; as of January 1, 2019, the USDVA loan limits are set to those established by the Federal

Housing Finance Agency (and used by Fannie Mae). The maximum USDVA Guaranty for such loans originated on or after January 1, 2019 is generally $121,088 (equal to 25% of $484,350, the general Fannie Mae loan limit for single-family homes); however the maximum USDVA Guaranty for such loans originated for homes in certain "high cost" counties, including many counties in California, on or after January 1, 2019, may generally be as high as $181,631 (equal to 25% of $726,525, the general Fannie Mae loan limit for single-family homes for such counties). See "—Certain Statutory Requirements – Limits on Purchase Price". In addition to such maximum USDVA Guaranty limits, the amount of the original USDVA Guaranty with respect to any particular loan is limited to 25% of the loan amount. Therefore, USDVA Guaranty is limited to the lesser of 25% of the applicable county loan limit or 25% of the loan amount. The liability on the USDVA Guaranty is reduced or increased *pro rata* with any reduction or increase in the amount of indebtedness, but in no event will the amount payable on the USDVA Guaranty exceed the amount of the original USDVA Guaranty. Notwithstanding the dollar and percentage limitations of the USDVA Guaranty, a mortgage holder will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a mortgaged property is greater than the original USDVA Guaranty, as adjusted. Periods without interest payments prior to foreclosure increase the potential for losses. In the event of a default in the payment of a USDVA guaranteed loan, but prior to a suit or foreclosure, USDVA may, at its option, pay to the mortgage holder of such defaulted loan the unpaid balance of the obligation plus accrued interest and receive an assignment of the loan and the security for such loan. For information regarding the amount of Contracts of Purchase guaranteed by the USDVA, see "—Primary Mortgage Insurance" and APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of December 31, 2018."

Prior to 1998, Contracts of Purchase were not insured or guaranteed by the USDVA or any private primary mortgage insurer. The Department took steps to reduce Program risk, and as of March 10, 1998, the Department was approved by the USDVA as a "supervised lender with automatic processing authority," which approval allows the Department to underwrite and approve USDVA guaranteed loans without obtaining prior USDVA approval. Generally, for all new Contracts of Purchase the Department requires veterans to apply for a USDVA Guaranty except with respect to Contracts of Purchase for construction, for rehabilitation, for home improvement or for mobile homes in a mobile home park. See "—Primary Mortgage Insurance."

The Department has obtained, and continues to obtain, USDVA Guarantees (i) since 2002 on all Contracts of Purchase with LTV ratios greater than 97% and (ii) since 2009 on Contracts of Purchase where the veteran qualifies for the USDVA Guaranty, regardless of LTV.

The USDVA is a department of the United States of America. On June 26, 2018, S&P affirmed its long-term sovereign credit rating on the United States of America as "AA+." S&P's long-term rating outlook remains "stable." On April 25, 2018, Fitch Ratings ("Fitch") affirmed its long-term issuer default rating on the United States of America of "AAA" with an outlook of "stable." As of April 25, 2018, Moody's Investors Service ("Moody's") rated the United States of America "Aaa" with an outlook of "stable."† The foregoing ratings were still in effect as of the date of this Official Statement.

Primary Mortgage Insurance

The Department's primary mortgage insurer was Radian which is a wholly-owned subsidiary of Radian Group Inc., an insurance holding company listed on the New York Stock Exchange. On September 21, 2018, Moody's upgraded the insurance financial strength rating of Radian of "Baa2" and indicated a stable outlook. On September 11, 2017, S&P upgraded its financial strength ratings on Radian to "BBB+" from "BBB" with a stable outlook and reaffirmed such rating on October 18, 2017. The foregoing ratings were still in effect as of the date of this Official Statement.†

The Department purchased a policy of primary mortgage insurance from Radian (the "Original Radian Policy") for a pool of certain then-existing Contracts of Purchase with LTVs exceeding 80% originated before February 1, 1998. Thereafter, the Department purchased an additional policy of primary mortgage insurance from Radian (the "Additional Radian Policy," and together with the Original Radian Policy, the "Radian Policies") which provides similar coverage on certain Contracts of Purchase issued after February 1, 1998 as provided in the Original Radian Policy. The Radian Policies provide coverage for aggregate losses incurred on covered Contracts of Purchase following property disposition, above an aggregate 2% deductible. Under the Radian Policies the aggregate 2% deductible is defined as the total loss remaining after property disposition of the applicable Contracts of Purchase of an applicable subgroup. As many of the Contracts of Purchase insured under the Original Radian Policy have high originally insured balances but have been paid down significantly over the life of such Contracts of Purchase, the Department does not anticipate that it will incur significant losses on such Contracts of Purchase in excess of the 2% deductible. The aggregate 2% deductible under the Additional Radian Policy has been met, and Radian began paying claim proceeds effective August 29, 2013.

See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase – Primary Mortgage Insurance Coverage" for a table that describes the subgroups and outstanding Contracts of Purchase insured under Radian Policies as of June 30, 2018.

After meeting the aggregate 2% deductible and after an REO or short sale, in settlement of any claim Radian may at its option elect to pay the Department (i) the entire amount of the loss after the sale proceeds have been applied or (ii) a percentage of the loss, prior to the application of the sale proceeds, as specified in the applicable certificate of insurance and in accordance with the applicable mortgage coverage ratios under which the Contract of Purchase is insured. In both cases the Department will retain title to the applicable property until sold and transferred.

The coverage levels in the table below apply to Contracts of Purchase covered by the Additional Radian Policy. For these purposes, the loan-to-value ratio is calculated using the

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† Ratings as shown on the website of the respective rating agency as of March 25, 2019. Ratings and outlooks reflect each respective rating agency's current assessment of the creditworthiness of the United States of America and Radian, as applicable. An explanation of the significance of such ratings and outlooks may be obtained from the respective rating agencies. There is no assurance that the ratings and outlooks will continue for any given period of time or that they will not be revised, qualified or withdrawn entirely by such ratings agencies if, in their judgment, circumstances so warrant.

original appraised value of the applicable property. The appraisals reflect the market conditions at the time the appraisals were conducted, may not reflect current values, are not guarantees and may not be fully indicative of present or future values.

Radian Mortgage Insurance Coverage Ratios

LTV Category	% of Coverage
97.01% to 100.00%	35%
95.01% to 97.00%	35%
90.01% to 95.00%	30%
85.01% to 90.00%	25%
80.01% to 85.00%	17%

Source: Department of Veterans Affairs.

Since April 1, 2008, the Department has ceased insuring new Contracts of Purchase with Radian. Instead, where primary mortgage insurance would have been used with respect to a Contract of Purchase the Department has charged the veteran an amount equal to the premium amount which would have been collected by the Department in respect of a Radian Policy, but has retained such payments in a primary mortgage insurance account (the "Primary Mortgage Insurance Account") within the Pooled Self-Insurance Fund. As of June 30, 2018 and December 31, 2018, there was approximately $2.91 million in the Primary Mortgage Insurance Account. As of June 30, 2018, the balance of Contracts of Purchase to which the Primary Mortgage Insurance Account applies was approximately $82.20 million (or approximately 8.52% of the then outstanding principal amount of Department's Contracts of Purchase).

On an ongoing basis, the Department investigates options for primary mortgage insurance options for new Contracts of Purchase and reinsuring the Pooled Self-Insurance Fund to diversify the portfolio. See "—Pooled Self-Insurance Fund." No assurance can be given that the Department will be able to obtain replacement primary mortgage insurance or reinsurance, or whether such insurance or reinsurance will be available at commercially reasonable premiums.

For information regarding the principal amount of Contracts of Purchase covered by the Radian Policies, see APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of December 31, 2018."

Funding of USDVA Guaranty or Primary Mortgage Insurance Account

At the time of origination of each Contract of Purchase the Department collects a funding fee of 1.25% to 3.3% of the Contract of Purchase amount based on the LTV to offset the cost of the USDVA Guaranty or for deposit in the Primary Mortgage Insurance Account. For USDVA guaranteed loans, the funding fee may be added to the purchase price provided it does not exceed the effective maximum loan amount. Veterans obtaining USDVA-guaranteed loans must have adequate remaining USDVA Guaranty entitlement to obtain a 25% USDVA Guaranty. With respect to Contracts of Purchase eligible for a USDVA Guaranty, this fee is paid to the USDVA for the cost of the USDVA Guaranty. If the veteran or the property is not eligible for a USDVA Guaranty, the funding fee is retained by the Department, and such funding fees are deposited by the Department into the Primary Mortgage Insurance Account. Any change to the foregoing insurance and guaranty expectations may require an amendment to the Department's Program Operating Procedures and delivery of a new Cash Flow Statement.

Property Insurance

The Veterans Code and long-standing Department policy have both required the veterans holding a Contract of Purchase to maintain certain insurance with respect to the property covered by a Contract of Purchase. Insurance must be in the amount, with the insurance companies (or as part of the Department's insurance and indemnity programs, described below) and under the terms and conditions specified by the Department. The Fire and Hazard Insurance Program and the Disaster Indemnity Program are described below:

Fire and Hazard Coverage

Subject to certain limitations, the Department makes available to veterans holding a Contract of Purchase insurance for fire and hazard related physical losses (the "Fire and Hazard Insurance Program").

The Department's Fire and Hazard Insurance Program replacement cost coverage may be adjusted periodically to reflect current construction costs. Coverage is maintained on a guaranteed replacement cost basis for homes and on an actual cash value basis for outbuildings. A $250 deductible, payable by the holder of the Contract of Purchase, applies to each loss. Claims must be submitted within 12 months from the date of loss or discovery of loss to be considered for payment. If there are more than three paid claims which result to any one Contract of Purchase within a rolling five year period, the deductible is increased to $1,000. Claims adjusting activities and capped remediation payments are made on behalf of the Department by a third party adjuster.

The Fire and Hazard Insurance Program does not cover mobile homes, manufactured homes, condominiums or planned unit development properties which are covered by blanket insurance policies maintained by a homeowners' association. Veterans financing condominiums or planned unit development properties that are not covered by blanket insurance policies maintained by homeowners' associations are covered by the Fire and Hazard Insurance Program. Veterans financing mobile homes or manufactured homes are required to secure their own coverage. Veterans in all other housing types are required to participate in the Fire and Hazard Insurance Program.

If the holder of a Contract of Purchase participates in the Department's Fire and Hazard Insurance Program, such holder is required to pay an annual premium. The annual premium is divided into twelve equal payments which are collected in monthly installments via an impound charge, and included with the monthly payments on the Contract of Purchase. The current annual premium is equal to $1.70 per $1,000 of insured value.

Annual premiums for the Fire and Hazard Insurance Program that are collected from participating holders of the Contracts of Purchase are deposited into the Fire and Hazard Insurance Account within the Pooled Self-Insurance Fund (the "Fire and Hazard Insurance Account"). Amounts in the Fire and Hazard Insurance Account are used to, among other things, (i) fund a reserve for liabilities of the Fire and Hazard Insurance Program that are not payable from the Reinsurance Arrangements (as defined in and further described in "—Reinsurance of Potential Fire and Hazard Insurance Program and Disaster Indemnity Program Liabilities" below), (ii) pay amounts attributable to costs of claims adjusting, and (iii) pay the premiums for the Department's Reinsurance Arrangements.

Liabilities of the Fire and Hazard Insurance Program are payable solely from the Fire and Hazard Insurance Account and may be reimbursed, in part, to the Fire and Hazard Insurance Account through the Reinsurance Arrangements. Under the Veterans Code, if claims under one Pooled Self-Insurance Fund account exceed the amount of funds available in such account, the Department is permitted to borrow from other Pooled Self-Insurance Fund accounts within the Pooled Self-Insurance Fund rather than draw on the 1943 Fund. See "—Pooled Self-Insurance Fund" and "—Reinsurance of Potential Fire and Hazard Insurance Program and Disaster Indemnity Program Liabilities." The amount in the Fire and Hazard Insurance Account as of June 30, 2018 was approximately $2.7 million. The Department estimates that it will receive claims due to wildfire of approximately $10 million for the year ended December 31, 2018.

Willis Re Inc. ("Willis") performed an exceedance probability loss report analysis for the Department based on the portfolio of homes covered by the Department's Fire and Hazard program as of October 2018. The wildfire exposure analysis concluded that the wildfire gross probabilistic loss prior to the application of reinsurance for a 250-year period is approximately $10.3 million per occurrence. The Department can expect to incur approximately $1.2 million of damage from wildfire on an average annual basis. The analysis and the catastrophe modeling upon which the conclusions in the analysis are based are subject to certain limitations and assumptions including assumptions with respect to inflationary costs, environmental facts, structures, insured values, occupancy vulnerability and certain historical loss data. No assurances can be given that the conclusion made in the analysis will be accurate.

Disaster Indemnity Coverage

Every holder of a Contract of Purchase must participate in the Department's Disaster Indemnity Program (the "Disaster Indemnity Program"). The Disaster Indemnity Program covers the cost of repairing structural damage caused by earthquakes, volcanic eruption, landslide, mudslide and floods.

Disaster Indemnity insurance provides guaranteed replacement cost coverage on the main structure and on an actual cash value basis for outbuildings and may be adjusted periodically to reflect current construction costs. The holder of a Contract of Purchase is required to pay a $500 deductible for flood losses; the deductible for earthquake, volcanic eruption, landslide or mudslide losses is the greater of $500 or 5% of the loss. Claims must be submitted within 90 days following the date of loss to be considered.

Holders of Contracts of Purchase are required to pay an annual premium for the Disaster Indemnity Program. The annual premium is divided into twelve equal payments which are collected in monthly installments via an impound charge, and included with the monthly payments on the Contract of Purchase. The current annual premium for the Disaster Indemnity Program is $1.25 per $1,000 of insured value.

Annual premiums for the Disaster Indemnity Program that are collected from holders of the Contracts of Purchase are deposited into the Disaster Indemnity Account within the Pooled Self-Insurance Fund (the "Disaster Indemnity Account"). Amounts in the Disaster Indemnity Account are used to, among other things, (i) fund a reserve for liabilities of the Disaster Indemnity Program that are not payable from the Reinsurance Arrangements, (ii) pay amounts attributable to costs of claims adjusting, and (iii) pay the premiums for the Department's Reinsurance Arrangements.

Liabilities of the Disaster Indemnity Program are payable solely from the Disaster Indemnity Account and may be reimbursed, in part, to the Disaster Indemnity Account through the Reinsurance Arrangements. See "—Pooled Self-Insurance Fund" and "—Reinsurance of Potential Fire and Hazard Insurance Program and Disaster Indemnity Program Liabilities." The amount in the Disaster Indemnity Account as of June 30, 2018 was approximately $17.5 million.

Willis performed an exceedance probability loss report analysis for the Department based on the portfolio of homes covered by the Department's Disaster Indemnity program as of October 2018. The Earthquake exposure analysis concluded that earthquake shake and fire following gross probabilistic loss for a 250-year return period is as high as approximately $42.4 million in the aggregate, including the risk of fire after damage following the earthquake event, and that in the long-term, the Department can expect to incur as high as approximately $1.6 million of damage from earthquake on an average annual basis. The analysis and the catastrophe modeling upon which the conclusions in the analysis are based are subject to certain limitations and assumptions including assumptions with respect to inflationary costs, environmental facts, structures, insured values, occupancy vulnerability and certain historical loss data. No assurances can be given that the conclusion made in the analysis will be accurate.

Reinsurance of Potential Fire and Hazard Insurance Program and Disaster Indemnity Program Liabilities

Effective March 1, 2019, the Department entered into Property Catastrophe Excess of Loss Reinsurance Contracts (the "XL Reinsurance Arrangements") and Property Catastrophe Shared Limit Excess of Loss Reinsurance Contract (the "SL Reinsurance Arrangements", together with the XL Reinsurance Arrangements, the "Reinsurance Arrangements"), with a consortium of 11 insurers led by Lloyd's of London (collectively, the "Reinsurers"). Effective March 1, 2019, each of the Reinsurers was rated at least A- by A.M. Best Co. Subject to the terms and conditions of the Reinsurance Arrangements, the Reinsurers have agreed to reinsure the Department's exposure to liability for losses incurred under the Department's Fire and Hazard Insurance Program and Disaster Indemnity Program during the term of the Reinsurance Arrangements, which expires March 1, 2020. The total one-year premium paid by the Department for the Reinsurance Arrangements described above is approximately $2.4 million.

Under the XL Reinsurance Arrangements the Department may not make a claim under until the Department has first sustained, by reason of any one loss occurrence, a net loss in excess of $4 million. Thereafter the Reinsurers are liable for the amount of the net losses of the Department in excess of $4 million in any one loss occurrence, but the limit of liability of the Reinsurers will not exceed $26 million in any one loss occurrence. In the event that all or any portion of the reinsurance under the XL Reinsurance Arrangements is exhausted by a net loss arising from a loss occurrence, the amount so exhausted may be reinstated from the time of such loss occurrence. If reinstated, the XL Reinsurance Arrangements are thereafter limited to an additional $26 million in any one loss occurrence. For each amount so reinstated, the Department must pay an additional premium based on the final reinsurance premium due to the Reinsurers as calculated under the XL Reinsurance Arrangements, pro-rated as to the amount of limit reinstated. No claim may be made under the XL Reinsurance Arrangements in respect of any one loss occurrence unless two or more risks are involved in such loss occurrence.

Under the SL Reinsurance Arrangements the Department may not make a claim under until the Department has first sustained, by reason of any one loss occurrence, a net loss in excess of $2 million. Thereafter the Reinsurers are liable for the amount of the net losses of the Department in excess of $2 million in any one loss occurrence, but the limit of liability of the Reinsurers will not exceed $15 million in any one loss occurrence nor $15 million in the aggregate during the SL Reinsurance Contract. The SL Reinsurance Arrangements deem that the following property catastrophe excess of loss coverages are in place and inure to the benefit of the SL Reinsurance Arrangements: (i) property catastrophe excess of loss coverage with limits of $26 million in excess of the Department's $4 million deductible, with one reinstatement available and (ii) property catastrophe excess of loss coverage covering only the perils of earthquake and fire following earthquake with limits of $2 million in excess of the Department's $2 million deductible, with no reinstatements. No claim may be made under the SL Reinsurance Arrangements in respect of any one loss occurrence unless two or more risks are involved in such loss occurrence.

Concerns Regarding Geographic Concentration Risk

As the Department expands its housing options through the CalVet REN Program, the Department has identified that insurance coverage may be required to be expanded to mitigate increased geographic concentration risks. Some of the Department's newest housing expansion opportunities, including in connection with the CalVet REN Program, may result in a greater geographic concentrations of Contracts of Purchase. The Department plans to review risk-based pricing for high-density geographic concentration exposures. No assurance can be given that the Department will be able to obtain additional insurance coverage for risks resulting from high-density geographic concentration exposures or that any such additional insurance may be available at reasonable premiums. See "THE DEPARTMENT – Governance of the Department," "THE PROGRAM – Construction Contracts of Purchase" and APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Geographic Distribution of Contracts of Purchase."

Life and Disability Insurance

From 2003 to 2013, the Department required holders of Contracts of Purchase to obtain life insurance made available by the Department through The Standard Insurance Company ("Standard"), and also made available to holders of Contracts of Purchase optional disability insurance through Standard. In 2013 the Department's life and disability insurance requirements and offerings changed. Since 2013, the Department no longer makes available disability insurance for new holders of Contracts of Purchase and the Department no longer requires holders of Contracts of Purchase to obtain life insurance. Disability insurance remains available on a voluntary basis through Standard for those holders of Contracts of Purchase that were financed prior to February 1, 2003 and enrolled for disability insurance prior to 2013. Life insurance remains available on a voluntary basis through Standard to all new holders of Contracts of Purchase and to those holders of Contracts of Purchase that were financed prior to February 1, 2003, as further described below.

Currently, life insurance is made available by the Department through Standard to the primary holder of the Contract of Purchase and/or his or her spouse provided that certain requirements are met. To qualify to purchase life insurance, life insurance applicants must be under age 62. Life insurance is no longer made available after the insured reaches the age of

70. The availability of life insurance for a given life insurance applicant is also subject to the approval by Standard of an applicant's medical history statement. However, health conditions arising from a qualified military service-connected disability are not included in Standard's evaluation.

Life insurance benefits vary. For those insured under the previously mandatory life insurance requirement, the life insurance benefits pay the lesser of (i) the unpaid balance of the Contract of Purchase, or (ii) the principal and interest on the Contract of Purchase for up to five years, depending on the insured's medical history statement evaluation and underwriting by Standard. For those insured on a voluntary basis, the life insurance benefits pay the entire balance of the Contract of Purchase. In either event, the payment is made in a lump sum to the Department.

Premiums for the life insurance change annually based upon age and the balance of the Contract of Purchase. Monthly premiums are charged to the holder of the Contract of Purchase and are included in the monthly Contract of Purchase payments.

Where still available, as described above, disability insurance is made available by the Department through Standard to the primary holder of the Contract of Purchase and/or his or her spouse provided that certain requirements are met. Disability insurance coverage is not available for purchase after the insured reaches the age of 62. Disability insurance benefits pay the principal and interest on the Contract of Purchase, property taxes, and other insurance premiums totaling the current monthly installment. Available disability insurance includes three coverage options. Under the first option, disability insurance benefits begin on the first day of the calendar month following 90 days of continuous disability and continue through the earliest of (i) the last day of the calendar month in which the insured becomes 70 years of age; (ii) the date the Contract of Purchase is terminated; (iii) (a) for a disability due to injury, provided disability occurs within 180 days of the accident, 60 months or (b) for any other disability, 24 months; or (iv) upon the death of the insured. Under the first option disability benefits can continue beyond the periods described above if the insured is unable to safely perform two or more specified activities of daily living. Notwithstanding the foregoing, disability benefits cease upon the earlier of death or termination of the related Contract of Purchase. Under the second option, disability insurance benefits begin on the first day of the calendar month following 90 days of continuous disability and continue through the earliest of (i) the last day of the calendar month in which the insured becomes 65 years of age or (ii) the date the related Contract of Purchase is terminated. Under the third option, benefits begin on the first day of the calendar month following 365 consecutive days of disability and will continue through the earliest of (i) the date that the insured becomes 70 years of age or (ii) the date the Contract of Purchase is terminated. To qualify for disability insurance, the applicant must be a veteran under the age of 62, provide evidence of good health and be actively working at least 30 hours per week.

Premiums for the disability insurance change annually based upon age and the balance of the Contract of Purchase. Monthly premiums are charged to the holder of the Contract of Purchase and are included in the monthly Contract of Purchase payments.

In addition to the foregoing, there remain approximately five holders of Contracts of Purchase that are insured under a prior disability plan (the "Legacy Plan Beneficiaries"). As of June 30, 2018, the aggregate principal balance of the Contracts of Purchase applicable to the Legacy Plan Beneficiaries was approximately $158 thousand. As of June 30, 2018, the

Department held approximately $1.2 million in a Legacy Self-Insured Disability Coverage Account within the Pooled Self-Insurance Fund (the "Legacy Self-Insured Disability Coverage Account") to pay all benefits in connection with the Contracts of Purchase held by the Legacy Plan Beneficiaries. The Department expects that, upon the repayment of all of the Contracts of Purchase held by the Legacy Plan Beneficiaries, any amount remaining in the Legacy Self-Insured Disability Coverage Account (and not otherwise borrowed for the benefit of other Pooled Self-Insurance Fund accounts) will be returned to the 1943 Fund. See "—Pooled Self-Insurance Fund" and "—Selected Financial Data of the 1943 Fund and the Program and Department's Discussion."

In connection with the life insurance and disability insurance coverage made available by the Department through Standard (the "Standard Group Policy"), the Department entered into an experience rating refund agreement with Standard (the "Experience Rating Refund Agreement") pursuant to which The Bank of New York Mellon, as trustee, administers a claim fluctuation reserve account. The Department has funded, from the moneys of the 1943 Fund, a claim fluctuation reserve account in the amount of $6 million. Funds held in the claim fluctuation reserve account earn interest annually. The interest rate paid by Standard has varied over time and varies under the Experience Rating Refund Agreement based on the interest rate paid by The Bank of New York Mellon on funds in the claim fluctuation reserve account. At June 30, 2018, the claims fluctuation reserve account held approximately $18.2 million, primarily due to interest earned on claims reserves and positive claims paying experience. Under the Experience Rating Refund Agreement, an experience rating refund is calculated periodically (i.e., a refund or credit based on the premium collection and claims paying experience under the plan during the computation period). Based on these calculations, during a period where earned premiums, amounts charged by Standard for administration, and interest earned on claims reserves exceeds insured claims paid, Standard is required to make a deposit into the claim fluctuation reserve account. During a period where earned premiums, amounts charged by Standard for administration, and interest earned on claims reserves do not exceed insured claims paid, Standard is permitted to withdraw from the moneys on deposit in the claim fluctuation reserve account. In addition, under the Experience Rating Refund Agreement, the Department is permitted to make deposits to the claim fluctuation reserve account at any time. Under the Experience Rating Refund Agreement, if the claim fluctuation reserve account exceeds $6 million the Department is permitted to withdraw money in excess of $6 million. The Department expects that any excess funds so withdrawn will be returned to the 1943 Fund.

The Department may terminate the Experience Rating Refund Agreement by giving 31 days prior written notice of the termination to Standard. Standard may terminate the Experience Rating Refund Agreement if it determines that the Department has failed to promptly furnish any necessary information requested by Standard, or if the Department has failed to perform any other obligations relating to the Experience Rating Refund Agreement. Standard is required to give 31 days prior written notice of any such termination. Standard may terminate the Experience Rating Refund Agreement without cause at the end of the current rate guarantee period or any subsequent renewal period by providing 60 days prior written notice to the Department. Standard may also terminate the Experience Rating Refund Agreement on any anniversary date if the amount in the claim fluctuation reserve account falls below $1 million. Standard is required to provide 60 days prior written notice of such termination. The Experience Rating Refund Agreement terminates automatically when the Standard Group Policy terminates. The Experience Rating Refund Agreement is scheduled to expire on January 31, 2020. Under the Experience Rating Refund Agreement, an experience rating refund calculation will be performed as of the termination date of the Experience Rating Refund Agreement, and a deposit to or withdrawal from the claim fluctuation reserve account is required to be made by Standard as required under the Experience Rating Refund Agreement. If funds are remaining in the claim fluctuation reserve account after the experience rating refund calculation as of the termination date of the Experience Rating Refund Agreement, the final experience rating refund calculation is required to be performed after a 12-month run-out period. If the result is negative, a withdrawal from the claim fluctuation reserve account is required to be made by Standard. If the result is positive, a deposit to the claim fluctuation reserve account is required to be made by Standard. Any amount remaining in the claim fluctuation reserve account is then required to be refunded to the Department. See "Additional Investments" in APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA."

Legislative Protection of Veterans

Federal law provides certain protections to military personnel on active duty, and reservists and members of the National Guard ordered to report for military service under the Servicemembers Civil Relief Act of 2003, formerly known as The Soldiers' and Sailors' Civil Relief Act of 1940 (the "Federal Relief Act"). Under the Federal Relief Act, a servicemember may seek a stay (or a court may on its own motion grant a stay) of any court action or proceeding. The Federal Relief Act provides that if a servicemember incurred an obligation or liability consisting of a mortgage, trust deed or other security in the nature of a mortgage, such as a Contract of Purchase, bearing interest at a rate in excess of 6% per year, and is later recalled to active duty, then during the period of military service and one year thereafter, the interest rate on the Contract of Purchase cannot exceed 6% (unless in the opinion of a court the ability of the servicemember to pay interest in excess of 6% is not materially impaired by such military service). The Veterans Code also provides that no obligation or liability bearing interest at a rate in excess of 6% per year incurred by a servicemember before that person's entry into service shall bear interest at a rate in excess of 6% per year, for an obligation or liability consisting of a mortgage, trust deed or other security in the nature of a mortgage (such as a Contract of Purchase), during any part of the period of military service and one year thereafter. Notwithstanding the foregoing, the Veterans Code provides that if in the opinion of a court upon application thereto by the obligee the ability of the servicemember to pay interest at a rate in excess of 6% per year is not materially affected by reason of that service, the court may make that order as in its opinion may be just. Furthermore, the 1974 Act within the Veterans Code provides relief for Contract of Purchase holders called to active duty in the military service of the U.S. who qualify for relief under the Federal Relief Act by authorizing the Department to establish separate rates of interest (not greater than the rate provided for in the Federal Relief Act) payable on the amounts remaining unpaid under Contracts of Purchase, applicable to any Contract of Purchase from the date of entry into active duty to and including 90 days after the date of release from active duty. Taking into account current interest rates applicable on Contracts of Purchase, the effect of any application of the Federal Relief Act in most cases would be a reduction in the applicable interest rate of less than 1% or no reduction at all.

Pursuant to the California Military Families Financial Relief Act (the "California Relief Act"), a reservist who is called to active duty may defer payments on obligations secured by mortgages or deeds of trust, including Contracts of Purchase, for the lesser of (i) 180 days or (ii) the period of active duty plus 60 calendar days. The total period of the deferment must not exceed 180 days within a 365-day period. The California Relief Act requires, among other things, that reservists desiring to take advantage of such deferments provide notice to their lender, and the deferral shall apply only to those payments due subsequent to the notice provided to the lender. The California Relief Act also requires lenders, such as the Department, to extend the term of loans subject to deferment by the amount of months of the deferral, and prohibits foreclosure or repossession of property during a deferment period. In addition, no interest can be charged or accumulated on the principal or interest on which the payment was delayed.

Under the Program, deferrals required by the California Relief Act are accounted for by the Department through the creation of a deferred balance on the loan account. The Department anticipates that, of the loans affected by the California Relief Act that are not delinquent, foreclosed upon or canceled, most will be prepaid prior to the end of the regular term, making an extension of the Contract of Purchase term unnecessary. If a Contract of Purchase affected by the California Relief Act is covered by a USDVA Guaranty, the Department will request the USDVA's approval to extend the loan term, if necessary. As of June 30, 2018, 18 Contracts of Purchase were subject to California Relief Act deferrals and there has been no material impact on the 1943 Fund. See "—Contracts of Purchase – Delinquencies and Cancellations" herein.

External Reviews of the Program

The Program and the Department have been the subject of external reviews. The most recent reviews are briefly explained below.

Bureau of State Audits

The Bureau of State Audits ("BSA") periodically audits the Department as part of the State's regular Single Audit required under the Single Audit Act of 1984 and the California Government Code. The BSA audited the Department's USDVA Guaranty program in 2010 and the Department complied with the BSA's operational recommendations contained therein. Additional information regarding this and other BSA audits may be obtained from the BSA.

USDVA

The USDVA Loan Guaranty Monitoring Unit (the "USDVA Auditors") periodically audits the Department to determine, among other things, whether the Department is compliant with the laws, regulations and policies governing USDVA guaranties. The most recent audit took place in 2009 and the Department responded to the findings and implemented new procedures in connection therewith. The USDVA Auditors accepted the Department's responses as satisfactory and required no additional action. Reports of the USDVA Auditors and the Department's responses thereto are available by contacting the Department's Bond Finance Division at P.O. Box 942895, Sacramento, California 94295-0001, telephone (916) 503-8012. Nothing contained in such reports of the USDVA Auditors or the Department's responses thereto is incorporated into this Official Statement.

THE 1943 FUND

General

The components of the 1943 Fund are (i) proceeds derived from the sale of Revenue Bonds; (ii) proceeds derived from the sale of Veterans G.O. Bonds; (iii) amounts receivable under all Contracts of Purchase and from sales of properties subject to cancelled Contracts of Purchase; (iv) temporary investments, cash and funds and (v) certain other miscellaneous assets.

Proceeds of Veterans G.O. Bonds may not be applied to payment of principal of, and interest or any redemption premium on, the Revenue Bonds. The holders of Veterans G.O. Bonds and Revenue Bonds are not entitled to compel the sale of Contracts of Purchase and the properties to which they relate. Holders of Revenue Bonds are entitled to receive payment out of the Revenues derived from those Contracts of Purchase and properties, subject to the prior claims of the holders of the Veterans G.O. Bonds for debt service payments on Veterans G.O. Bonds and of the State for reimbursement of debt service payments made by the State General Fund on Veterans G.O. Bonds.

In addition to financing Contracts of Purchase and paying or reimbursing debt service on the Veterans G.O. Bonds and paying debt service on the Revenue Bonds, as described below, moneys in the 1943 Fund are used to pay administrative costs of the Department, and to fund certain losses from and reserves for property insurance, mortgage losses and life and disability insurance described in "THE PROGRAM – Property Insurance – Life and Disability Insurance." However, amounts in the Pooled Self-Insurance Fund (which are used to pay certain disaster indemnity, fire and hazard, Legacy Plan Beneficiaries' self-insured disability, and primary mortgage insurance benefits) are not held within the 1943 Fund. See "THE PROGRAM – Property Insurance," "—Life and Disability Insurance" and "—Pooled Self-Insurance Fund" regarding pooling of certain funds and accounts.

For financial information concerning the 1943 Fund, see APPENDIX C – "REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS – VETERANS' FARM AND HOME PURCHASE PROGRAM OF THE DEPARTMENT OF VETERANS AFFAIRS, STATE OF CALIFORNIA (VETERANS FARM AND HOME BUILDING FUND OF 1943, VETERANS DEBENTURE REVENUE FUND AND POOLED SELF-INSURANCE FUND) FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017."

The Veterans' Revenue Debenture Act of 1970, as amended (the "Act") within the Veterans Code provides that the undivided interest created by the Revenue Bond Resolution in favor of the holders of Revenue Bonds in the assets of the 1943 Fund is secondary and subordinate to the interest of the people of the State and the holders of Veterans G.O. Bonds. As described in "AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS," the Veterans Code requires that on the dates when funds are to be remitted to bondholders for the payment of debt service on Veterans G.O. Bonds, there shall be transferred to the Veterans' Bonds Payment Fund to pay the debt service on such Veterans G.O. Bonds all of the money in the 1943 Fund (but not in excess of the amount of debt service then due and payable). Debt service on Veterans G.O. Bonds is payable first from the moneys required under the Veterans Code to be transferred from the 1943 Fund to the Veterans' Bonds Payment Fund and second, if the moneys transferred from the 1943 Fund to the Veterans' Bonds Payment Fund are less than debt service then due and payable, the balance is payable from the General Fund. The 1943 Fund is required to transfer to the General Fund, as soon as it becomes available, an amount equal to the amount paid by the General Fund, if any, together with interest thereon from the remittance date until paid, at the same rate of interest as borne by the applicable Veterans G.O. Bonds, compounded semiannually. The Veterans Code does not grant any lien on the 1943 Fund or the moneys therein to the holders of any Veterans G.O. Bonds. The 1943 Fund is required to reimburse the General Fund for any debt service payments on the Veterans G.O. Bonds paid by the General Fund to the extent of any shortfalls in transfers from the 1943 Fund to the Veterans' Bonds Payment Fund, including to pay interest thereon to the General Fund as described above, before the 1943 Fund may make payments on Revenue Bonds (although payments on Revenue Bonds may be made from amounts on deposit in any reserve accounts established for the benefit of Revenue Bonds and, if any, in the loan loss account held in the Veterans Debenture Revenue Fund).

As of the date of this Official Statement, (a) there are outstanding approximately $719,160,000 aggregate principal amount of Veterans G.O. Bonds and there are no outstanding commercial paper notes, (b) $1,001,755,000 of Veterans G.O. Bonds are authorized but not issued and (c) there are approximately $315,665,000 aggregate principal amount of Revenue Bonds outstanding. Under the Act, Revenue Bonds in an aggregate principal amount not to exceed $1,000,000,000, at any given time, may be outstanding. The State Legislature may increase the amount of Revenue Bonds that can be outstanding under the Act or may decrease such amount to an amount not less than the amount of Revenue Bonds then outstanding. Voters in the State or the State Legislature, as applicable, may authorize increases or decreases in the amount of Veterans G.O. Bonds authorized but not issued. Additional information about outstanding Veterans G.O. Bonds and Revenue Bonds is in APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Veterans G.O. Bonds and Revenue Bonds."

Selected Financial Data of the 1943 Fund and the Program and Department's Discussion

The following table (the "Selected Financial Data") contains selected financial data of the Program and separately, the 1943 Fund, for fiscal years ended June 30, 2018 and 2017 which has been derived from the financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund included in APPENDIX C and the Department's accounting records. The Selected Financial Data contains the comparable financial data of the 1943 Fund and the Program for fiscal years ended June 30, 2015 and 2014 which have been derived from the audited financial statements of the 1943 Fund that are not included herein. Certain information for the Fiscal Years ended June 30, 2014 through June 30, 2016 has been reclassified to conform to the June 30, 2018 presentation.

This Selected Financial Data should be read in conjunction with the audited financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund and notes thereto contained in APPENDIX C and the Department's Discussion of Financial Data contained herein.

The information presented in the Selected Financial Data and presented under "—Department's Discussion of Financial Data" distinguishes between information relating to the Program (which includes the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund) and the separate funds thereunder. Investors should note the differences and recognize that the financial information of the 1943 Fund may not be, and in most cases, is not, the same as the financial information of the Program. As discussed in this Official Statement, the Veterans Debenture Revenue Fund is a source of payment for the Revenue Bonds but is not a source of payment of Veterans G.O. Bonds. Also see "THE PROGRAM – Pooled Self-Insurance Fund" for a discussion of the uses of monies in such fund.

Non-GAAP Financial Measurements

In addition to the results reported in the following tables in accordance with generally accepted accounting principles for governmental units as presented by the Governmental

Accounting Standards Board ("GASB"), as in effect from time to time in the United States ("GAAP") included in this Official Statement, the Department has provided certain information regarding the Selected Financial Data. These non-GAAP measurements, when read in conjunction with the audited financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund, provide information that may assist readers to:

- make period-to-period comparisons of the 1943 Fund's and the Program's ongoing operating results;
- identify trends in the 1943 Fund's and the Program's underlying business;
- gain additional information about how the Department plans and measures the 1943 Fund's and the Program's underlying business; and
- compare the 1943 Fund's and the Program's most recent results of operations against certain investor and analyst financial models.

Non-GAAP measurements should not be considered a substitute or an alternative to computations calculated in accordance with and required by GAAP.

SELECTED FINANCIAL DATA
(Dollars in Thousands)

	For Fiscal Years Ended on				
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015[(1)]	June 30, 2014[(1)]
ASSETS AND LIABILITIES RELATED TO LENDING AND FINANCING ACTIVITIES OF THE 1943 FUND:					
CASH AND INVESTMENTS					
Cash and amounts on deposit in SMIF	$ 91,355	$ 134,577	$ 209,927	$ 109,989	$ 61,397
Guaranteed Investment Contracts	-	-	-	1,327	10,327
Investments With Insurance Administrators[(2)]	18,215	17,964	17,157	16,642	14,875
Total Cash and Investments	$ 109,570	$ 152,541	$ 227,084	$ 127,958	$ 86,599
Due From Other Funds[(3)]	$ 1,468	$ 3,560	$ 1,101	$ 1,356	$ 951
Other Current Assets	4,597	4,346	3,993	4,323	4,473
Net Other Non-Current Assets	4,187	2,249	4,172	2,979	3,300
CONTRACTS OF PURCHASE					
Performing Contracts	$ 963,202	$ 912,634	$ 844,877	$ 819,346	$ 835,611
Non Performing Contracts (REO)	1,412	259	2,859	1,280	3,343
Total	$ 964,614	$ 912,893	$ 847,736	$ 820,626	$ 838,954
Allowance For Contract Losses[(4)]	$ (3,400)	$ (2,817)	$ (2,108)	$ (4,963)	$ (6,103)
Reduction of REO to Fair Value	-	-	-	-	(190)
Total Valuation Allowances	$ (3,400)	$ (2,817)	$ (2,108)	$ (4,963)	$ (6,293)
TOTAL ASSETS	$ 1,081,036	$ 1,072,772	$ 1,081,978	$ 952,279	$ 927,984
Deferred Outflows of Resources	9,228	5,006	3,313	3,334	2,113
Total Assets and Deferred Outflows of Resources	$ 1,090,264	$ 1,077,778	$ 1,085,291	$ 955,613	$ 930,097
BONDS PAYABLE					
Veterans G.O. Bonds and Notes	$ (634,585)	$ (613,440)	$ (657,215)	$ (466,190)	$ (433,645)
Revenue Bonds	(317,775)	(331,775)	(295,660)	(359,745)	(372,705)
Unamortized Premiums/Discounts	(7,505)	(4,353)	(2,214)	1,047	1,130
Total	$ (959,865)	$ (949,568)	$ (955,089)	$ (824,888)	$ (805,220)
Other Current Liabilities	$ (13,144)	$ (13,429)	$ (12,381)	$ (11,014)	$ (10,733)
Non-Current Liabilities	(54,304)	(25,059)	(18,724)	(18,528)	(1,564)
TOTAL LIABILITIES	$ (1,027,313)	$ (988,056)	$ (986,194)	$ (854,430)	$ (817,517)
Deferred Inflows of Resources	(3,031)	(44)	(160)	(2,440)	-
Total Liabilities and Deferred Inflows of Resources	(1,030,344)	(988,100)	(986,354)	(856,870)	(817,517)
1943 Fund Net Assets Lending & Financing Activities	$ 59,920	$ 89,678	$ 98,937	$ 98,743	$ 112,580
Net Position of the 1943 Fund	$ 59,920	$ 89,678	$ 98,937[(11)]	$ 98,743[(11)]	$ 112,580
Net Position Veterans Debenture Fund[(5)]	9,953	9,953	9,742[(11)]	11,742[(11)]	13,742
Net Position Pooled Self-Insurance Fund[(6)]	24,318	24,097	25,092	25,296	24,560
Net Position of the Program	$ 94,191	$ 123,728	$ 133,771	$ 135,781	$ 150,882
SUMMARY OF CERTAIN PROGRAM INFORMATION:[(7)]					
Total Program Assets and Deferred Outflows of Resources[(8)]	$ 1,126,616	$ 1,113,343	$ 1,123,318	$ 994,168	$ 969,462
Total Program Liabilities and Deferred Inflows of Resources[(9)]	$ (1,032,425)	$ (989,615)	$ (989,547)	$ (858,387)	$ (818,580)
Total Number of Contracts of Purchase	5,303	5,402	5,511	5,802	6,237
Total Program Assets to Liabilities Ratio[(10)]	1.09	1.13	1.14	1.16	1.18

(1) Certain prior year information has been reclassified to conform to current year presentation.
(2) Consists of amounts held in accordance with the Experience Rating Refund Agreement with Standard for the Department's Life and Disability Plan.
(3) Consists of recognized receivables in favor of the 1943 Fund for amounts from the Pooled Self-Insurance Fund, the Veterans Debenture Revenue Fund and certain other funds.
(4) This allowance is an amount that Department management believes will be adequate to absorb payment losses inherent in existing Contracts of Purchase and commitments to extend credit based on various factors. See APPENDIX C.
(5) The Veterans Debenture Revenue Fund is not part of the 1943 Fund, consists of the bond reserve account and is pledged to the payment of Revenue Bonds.
(6) The Pooled Self-Insurance Fund is not part of the 1943 Fund and is comprised of moneys of the Department previously on deposit in the Disaster Indemnity Fund, the Fire and Hazard Insurance Account, the Legacy Self-Insured Disability Coverage Account and the Primary Mortgage Insurance Account. Moneys in the Pooled Self-Insurance Fund are not available to make payments on Revenue Bonds or Veterans G.O. Bonds. Amounts predate the anticipated claims described under "THE PROGRAM – Property Insurance."
(7) See "THE PROGRAM – Pooled Self-Insurance Fund." The Program includes the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund. Of such funds, debt service on Veterans G.O. Bonds is payable from the 1943 Fund. See "AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS."
(8) Derived from APPENDIX C and includes Cash; Cash Equivalents and Investments; Receivables under Contracts of Purchase – Net; and other receivables and assets of the Program described therein.
(9) Derived from APPENDIX C and includes Bonds Payable and other payables of the Program described therein.
(10) Ratio of total Program assets to liabilities includes deferred outflows and inflows of resources.
(11) For each of the Fiscal Years ended June 30, 2015 and 2016 the Department made a transfer into the 1943 Fund from the Veterans Debenture Revenue Fund of approximately $2 million due to a reduction in required reserves associated with the Veterans Debenture Revenue Fund.

SELECTED FINANCIAL DATA
(Dollars in Thousands)

	For Fiscal Years Ended on				
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015[1]	June 30, 2014[1]
NET OPERATING REVENUES (EXPENSE) FROM LENDING AND FINANCING ACTIVITIES OF THE 1943 FUND:					
INTEREST INCOME					
Interest on Contracts of Purchase	$ 41,422	$ 40,989	$ 41,020	$ 43,307	$ 47,461
Interest on Investments	2,106	1,063	2,714	2,273	1,051
Total	$ 43,528	$ 42,052	$ 43,734	$ 45,580	$ 48,512
BOND INTEREST EXPENSE	$ (31,203)	$ (31,462)	$ (31,779)	$ (33,446)	$ (37,138)
Net Interest Income	12,325	10,590	11,955	12,134	11,374
Amortization of Bond Premium/Discount	$ 147	$ (142)	$ (1,649)	$ (280)	$ (501)
Insurance Reimbursement For Contract Losses	44	194	586	1,583	4,982
CONTRACTS OF PURCHASE					
Net Gain/(Loss) on Sale of REO	$ 255	$ 725	$ 189	$ (491)	$ (1)
(Provision for)/Reversal of provision for Allowance for Contract Losses and REO	(768)	(855)	2,161	46	3,586
Total	$ (513)	$ (130)	$ 2,350	$ (445)	$ 3,585
Net Lending/Financing Activities Income	$ 12,003	$ 10,512	$ 13,242	$ 12,992	$ 19,440
NET OPERATING REVENUES (EXPENSE) FROM ADMINISTRATION ACTIVITIES					
Operating Revenues	$ 3,233	$ 4,089	$ 3,564	$ 5,030	$ 2,499
Operating Expenses (excluding OPEB)	(18,946)	(22,427)	(19,949)	(15,431)	(13,898)
Net Administration Activities Expense	$ (15,713)	$ (18,338)	$ (16,385)	$ (10,401)	$ (11,399)
Total Lending/Financing Activities Net Income	$ (3,710)	$ (7,826)	$ (3,143)	$ 2,591	$ 8,041
NON-LENDING/FINANCING ACTIVITIES CHANGES IN NET POSITION					
GASB Adjustment	$ (25,184)[4]	$ -	$ -	$ (14,589)[2]	$ -
Other postemployment benefits (expense) income (OPEB)	(1,348)	(1,745)	1,292	(3,869)	(250)
Interfund Transfers	484	312	2,045	2,030	(38,078)
Total	$ (26,048)	$ (1,433)	$ 3,337	$ (16,428)	$ (38,328)
Change In Net Position Of The 1943 Fund	$ (29,758)	$ (9,259)	$ 194[5]	$ (13,837)[5]	$ (30,287)
OTHER INCOME/EXPENSE					
Total Change In Net Position of the Veterans Debenture Fund	$ -	$ 211	$ (2,000)[5]	$ (2,000)[5]	$ 13,742
Total Change In Net Position of the Pooled Self-Insurance Fund	$ 221	$ (995)	$ (204)	$ 736	$ 24,560
NET POSITION OF THE PROGRAM – BEGINNING OF THE YEAR	$ 123,728	$ 133,771	$ 135,781	$ 150,882	$ 142,867
NET POSITION OF THE PROGRAM – END OF THE YEAR	$ 94,191	$ 123,728	$ 133,771	$ 135,781	$ 150,882

(1) Certain prior year information has been reclassified to conform to current year presentation.
(2) GASB 68 Adjustment.
(3) GASB 65 Adjustment.
(4) GASB 75 Adjustment.
(5) For each of the Fiscal Years ended June 30, 2015 and 2016 the Department made a transfer into the 1943 Fund from the Veterans Debenture Revenue Fund of approximately $2 million due to a reduction in required reserves associated with the Veterans Debenture Revenue Fund.

Department's Discussion of Financial Data

Included as part of the financial statements contained in APPENDIX C is the section entitled "Management's Discussion and Analysis" which presents management's discussion in relation to the financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund for the fiscal years ended June 30, 2018 and 2017 and the changes from prior periods (the "Management Discussion and Analysis"). The Selected Financial Data appearing on the preceding two pages are presented only to provide a summary of the financial position and operations over a longer period of time, and a presentation of the significant changes that have occurred. Dollar amounts therein have been rounded. Certain limited aspects of the Selected Financial Data are discussed below; however, such discussion contains information that is not included in and is derived from sources other than the Selected Financial Data.

As noted above, the information presented in the Selected Financial Data and presented under this subheading "—Department's Discussion of Financial Data" distinguishes between information relating to the Program (which includes the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund) and the separate funds thereunder. Investors should note the differences and recognize that the financial information of the 1943 Fund may not, and in most cases, is not the same as the financial information of the Program. Totals may not sum due to rounding.

This discussion should be read in conjunction with the Management Discussion and Analysis and with APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA."

Fiscal Years Ended June 30, 2018 and 2017

Certain information for the Fiscal Years ended June 30, 2014 through June 30, 2016 has been reclassified to conform to the June 30, 2018 presentation.

Assets, Liabilities and Net Position

For the Fiscal Year ended June 30, 2018, the total assets of the 1943 Fund increased by approximately \$8.2 million from approximately \$1,072.8 million at June 30, 2017 to approximately \$1,081.0 million at June 30, 2018. For the Fiscal Year ended June 30, 2018, the total cash equivalents and investments of the 1943 Fund decreased by approximately \$43.0 million from approximately \$152.5 million at June 30, 2017 to approximately \$109.6 million at June 30, 2017. This decrease was primarily due to the Department's issuance of Veterans G.O. Bonds in the aggregate principal amount of \$110.3 million, offset by maturities and redemptions of Veterans G.O. Bonds and Revenue Bonds totaling \$99.7 million. Additionally, the decrease in total cash and investments was due to principal repayments of contracts of purchase of \$125.3 million offset by payments made for new contracts of purchase in the approximate amount of \$177.0 million.

For the Fiscal Year ended June 30, 2018, the net (of the allowance for uncollectable Contracts of Purchase) receivables under outstanding Contracts of Purchase increased by approximately \$51.2 million from approximately \$915.5 million at June 30, 2017 to approximately \$966.6 million at June 30, 2018. The increase was a function of increased volume of new Contracts of Purchase originated due to the continued low interest rate environment offsetting repayments of Contracts of Purchase during the year ended June 30, 2018. For the

Fiscal Year ended June 30, 2018, other receivables and assets of the 1943 Fund increased by approximately \$0.1 million from approximately \$10.2 million at June 30, 2017 to approximately \$10.3 million at June 30, 2018. Deferred outflows of resources increased by approximately \$4.2 million from approximately \$5.0 million at June 30, 2017 to approximately \$9.2 million at June 30, 2018.

For the Fiscal Year ended June 30, 2018, the total liabilities of the 1943 Fund increased by approximately \$39.2 million from approximately \$988.1 million at June 30, 2017 to approximately \$1,027.3 million at June 30, 2018. This increase was primarily due to a net increase in Veterans G.O. Bonds and Revenue Bonds payable of approximately \$10.3 million and an increase in recognition of the 1943 Fund's other post employment benefit liability totaling approximately \$25.2 million related to the adoption of GASB 75. In 2015, GASB issued Statement No.75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("GASB 75"), which applies to governmental entities such as the Department. GASB 75 requires the liability of employers to employees for defined benefit postemployment benefits other than pensions ("OPEB") to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the OPEB plan's fiduciary net position. GASB 75 addresses the disclosure of OPEB liability only and does not impose any funding requirements.

Accordingly, for the Fiscal Year ended June 30, 2018, the net position of the 1943 Fund decreased by approximately \$29.8 million from approximately \$89.7 million at June 30, 2017 to approximately \$59.9 million at June 30, 2018. The decrease is primarily due to a net operating loss of approximately \$4.6 million and the recognition of the OPEB liability of the 1943 Fund of approximately \$25.2 million.

For the Fiscal Year ended June 30, 2018, the net position of the Veterans Debenture Revenue Fund, as shown in the supplementary information to the financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund for the Fiscal Year ended June 30, 2017, did not change at approximately \$9.9 million at June 30, 2018 and at June 30, 2017. For the Fiscal Year ended June 30, 2018, the total cash and cash equivalents of the Veterans Debenture Revenue Fund decreased approximately \$1.6 million from approximately \$11.6 million at June 30, 2017 to approximately \$10.0 million at June 30, 2018. This decrease was primarily due to a transfer from the Veterans Debenture Revenue Fund to the 1943 Fund in the approximate amount of \$1.6 million due to a reduction in required reserves. For the Fiscal Year ended June 30, 2018, the net position of the Pooled Self-Insurance Fund, as shown in the supplementary information to the financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund, increased approximately \$0.2 million from a net position of \$24.1 million at June 30, 2017 to a net position of approximately \$24.3 million at June 30, 2018. For the Fiscal Year ended June 30, 2018, the total cash and cash equivalents of the Pooled Self-Insurance Fund increased by approximately \$0.5 million from approximately \$27.1 million at June 30, 2017 to approximately \$27.6 million at June 30, 2018.

Accordingly, for the Fiscal Year ended June 30, 2018, the net position of the Program (i.e., the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund) decreased by approximately \$29.5 million from approximately \$123.7 million at June 30, 2017 to approximately \$94.2 million at June 30, 2018. At June 30, 2018, the total assets to liabilities ratio of the Program (which totals include deferred outflows and inflows of resources) decreased to approximately 1.09 from approximately 1.13 at June 30, 2017.

Operations Revenues and Expenses

For the Fiscal Year ended June 30, 2018, operations revenues of the 1943 Fund (comprised primarily of interest revenues of Contracts of Purchase, revenues from investments and insurance revenue and claims reimbursement) increased by approximately $1.5 million from approximately $42.1 million for the Fiscal Year ended June 30, 2017 to approximately $43.5 million for the Fiscal Year ended June 30, 2018. This increase was primarily due to interest revenues of the 1943 Fund from investments increasing by approximately $1.0 million from approximately $1.1 million for the Fiscal Year ended June 30, 2017 to approximately $2.1 million for the Fiscal Year ended June 30, 2018, primarily due to increased yields earned on investment funds, which are partially offset by a lower investments outstanding.

For the Fiscal Year ended June 30, 2018, operations expenses of the 1943 Fund (excluding OPEB) decreased by approximately $3.5 million from approximately $22.4 million for the Fiscal Year ended June 30, 2017 to approximately $18.9 million for the Fiscal Year ended June 30, 2018. The provision for program losses decreased by approximately $87 thousand from a provision for program losses of $855 thousand for the year ended June 30, 2017 to a provision for program losses of $768 thousand for the year ended June 30, 2018. The decrease in provision from program losses was a function of the Department's evaluation of the overall adequacy of the Program's allowance for uncollectable contracts.

Farm and Home Program Administration

For the Fiscal Year ended June 30, 2018, total Farm and Home Program administration revenues of the 1943 Fund (i.e., origination fee, late payment fees, transfers and rent on REO) decreased by approximately $0.9 million from approximately $4.1 million for the Fiscal Year ended June 30, 2017 to approximately $3.2 million for the Fiscal Year ended June 30, 2018. For the Fiscal Year ended June 30, 2018, total Farm and Home Program administration expenses of the 1943 Fund (including expenses related to the 1943 Fund's liability related to OPEB) decreased by approximately $3.5 million from approximately $22.4 million for the Fiscal Year ended June 30, 2017 to approximately $18.9 million for the Fiscal Year ended June 30, 2018. This increase is primarily due to an increase of payroll and other support expenditures, including an approximately $4.3 million increase in expenses associated with the 1943 Fund's liability related to OPEB.

For the Fiscal Year ended June 30, 2018, the total deficiency of revenues over expenses of the 1943 Fund decreased by approximately $4.7 million from a net deficiency of approximately $9.3 million for the Fiscal Year ended June 30, 2017 to a net deficiency of approximately $4.6 million for the Fiscal Year ended June 30, 2018.

Fiscal Years Ended June 30, 2014 through 2018

The following discussion illustrates certain information regarding performance of the 1943 Fund and the Program over the past five Fiscal Years. Certain information for the Fiscal Years ended June 30, 2014 through June 30, 2016 has been reclassified to conform to the June 30, 2018 presentation.

Assets, Liabilities and Net Position

For the Fiscal Year ended June 30, 2018, the total assets of the 1943 Fund increased by approximately $153 million from approximately $928.0 million at June 30, 2014 to approximately $1,081 million at June 30, 2018. For the Fiscal Year ended June 30, 2018, the total cash equivalents and investments of the 1943 Fund increased by approximately $23.0 million from approximately $86.6 million for the Fiscal Year ended June 30, 2014 to approximately $109.6 million at June 30, 2018. This increase was primarily due to the Department's issuance of Veterans G.O. Bonds and Revenue Bonds in the aggregate principal amount of approximately $929.4 million, offset by maturities and redemptions of Veterans G.O. Bonds and Revenue Bonds totaling approximately $783.4 million.

For the Fiscal Year ended June 30, 2018, the total liabilities of the 1943 Fund increased by approximately $209.8 million from approximately $817.5 million at June 30, 2014 to approximately $1,027.3 million at June 30, 2018. This increase was primarily due to a net increase in Veterans G.O. Bonds and Revenue Bonds payable of approximately $154.6 million and the recognition at June 30, 2018 of an OPEB liability totaling approximately $25.2 million.

For the Fiscal Year ended June 30, 2018, the net (of the allowance for uncollectable Contracts of Purchase) receivables under outstanding Contracts of Purchase of the 1943 Fund increased by approximately $130.3 million from approximately $829.5 million at June 30, 2014 to approximately $959.8 million at June 30, 2018. The increase was a function of increased volume of new Contracts of Purchase originated due to the continued low interest rate environment offsetting repayments of Contracts of Purchase.

For the Fiscal Year ended June 30, 2018, the total liabilities of the 1943 Fund increased by approximately $209.8 million from approximately $817.5 million at June 30, 2014 to approximately $1,027.3 million at June 30, 2018. This increase was primarily due to a net increase in Veterans G.O. Bonds and Revenue Bonds payable of approximately $154.6 million and the recognition at June 30, 2018 of an OPEB liability totaling approximately $25.2 million.

Accordingly, for the Fiscal Year ended June 30, 2018, the net position of the 1943 Fund decreased by approximately $52.7 million from approximately $112.6 million at June 30, 2014 to approximately $59.9 million at June 30, 2018. This decrease was due to the recognition for financial statement presentation purposes of an outgoing transfer to the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund totaling $38.1 million during the Fiscal Year ended June 30, 2014, and to the recognition of net losses between June 30, 2014 and June 30, 2018 due to the adoption of GASB 68 and GASB 75 and the resulting reporting of the 1943 Fund's pension and OPEB liability in the aggregate amount of $39.8 million.

At June 30, 2018, the total assets of the Veterans Debenture Revenue Fund for financial statement presentation purposes decreased by approximately $3.7 million from approximately $13.7 million at June 30, 2014 to approximately $10.0 million at June 30, 2018. At June 30, 2018, the net position of the Veterans Debenture Revenue Fund for financial statement presentation purposes decreased by approximately $3.7 million from $13.7 million at June 30, 2014. This decrease was due to a reduction in required reserves. At June 30, 2018, the net position of the Pooled Self-Insurance Fund at June 30, 2018 for financial statement presentation purposes increased by approximately $0.3 million from a net excess of approximately $24.6 million at June 30, 2014 to a net excess of approximately $24.3 million at June 30, 2018. This increase was due to the recognition for financial statement presentation purposes of the transfer in from the 1943 Fund as noted above, offset by a liability for incurred, but not reported insurance claims. Accordingly, at June 30, 2018, the net position of the Program (i.e., the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund/reserves) decreased by approximately $56.7 million from approximately $150.9 million at June 30, 2014 to approximately $94.2 million at June 30, 2018. At June 30, 2018, the total assets to liabilities ratio of the Program (which totals include deferred outflows and inflows of resources) were approximately 1.09 and have varied from Fiscal Years ended June 30, 2014 through 2018 from as high as approximately 1.18 at Fiscal Year ended June 30, 2014 and as low as approximately 1.09 at Fiscal Year ended June 30, 2018.

Operations Revenues and Expenses

For the Fiscal Year ended June 30, 2018, operations revenues of the 1943 Fund totaled approximately $43.5 million as compared with approximately $48.5 million recognized for the Fiscal Year ended June 30, 2014, resulting in a decrease of approximately $5.0 million. This decrease was primarily due to the following factors:

- Interest revenues of the 1943 Fund from Contracts of Purchase totaled approximately $41.4 million for the Fiscal Year ended June 30, 2018. In contrast, approximately $47.5 million was recognized in Fiscal Year ended June 30, 2014, resulting in a decrease of approximately $6.1 million primarily due to a decrease in the average balance of Contracts of Purchase outstanding since the Fiscal Year ended June 30, 2014.
- Interest revenues of the 1943 Fund from investments increased by approximately $1.0 million from approximately $1.1 million for the Fiscal Year ended June 30, 2014 to approximately $2.1 million for the Fiscal Year ended June 30, 2018, primarily due to increased yields earned on investment funds, which are partially offset by a lower investments outstanding.
- Insurance revenue and claims reimbursement of the 1943 Fund decreased by approximately $4.9 million from approximately $5.0 million for the Fiscal Year ended June 30, 2014 to approximately $0.04 million for the Fiscal Year ended June 30, 2018, primarily due to a reduction in the collection of insurance proceeds related to Contracts of Purchase insured by Radian due to a reduction in cancelled Contracts of Purchase.

For the Fiscal Year ended June 30, 2018, operations expenses of the 1943 Fund (excluding OPEB) increased by approximately $5.0 million from approximately $13.9 million for the Fiscal Year ended June 30, 2014 to approximately $18.9 million for the Fiscal Year ended June 30, 2018. This increase was primarily due to the following factors:

- Interest expense of the 1943 Fund decreased by approximately $5.9 million from approximately $37.1 million for the Fiscal Year ended June 30, 2014 to approximately $31.2 million for the Fiscal Year ended June 30, 2018, primarily due to the strategic redemptions and refundings of Veterans G.O. Bonds and Revenue Bonds.
- The provision for program losses increased by approximately $4.4 million from a reversal of provision for program losses of $3.6 million for the year ended June 30, 2014 to a provision for program losses of $0.8 million for the year ended June 30, 2018. The decrease in provision from program losses as a function of the Department's evaluation of the overall adequacy of the Program's allowance for uncollectable contracts.

Farm and Home Program Administration

For the Fiscal Year ended June 30, 2018, total Farm and Home Program administration revenues of the 1943 Fund (i.e., origination fee, late payment fees, transfers and rent on REO) decreased by approximately $0.7 million from approximately $2.5 million for the Fiscal Year ended June 30, 2014 to approximately $3.2 million for the Fiscal Year ended June 30, 2018. For the Fiscal Year ended June 30, 2018, total Farm and Home Program administration expenses of the 1943 Fund (excluding OPEB) increased by approximately $5.0 million from approximately $13.9 million for the Fiscal Year ended June 30, 2014 to approximately $18.9 million for the Fiscal Year ended June 30, 2018. This increase is primarily due to an increase of payroll and other support expenditures, including an approximately $3.7 million increase in expenses associated with the 1943 Fund's pension liabilities.

For the Fiscal Year ended June 30, 2018, total deficiency of expenses over revenues of the 1943 Fund totaled approximately $4.6 million. In contrast, for the Fiscal Year ended June 30, 2014, the 1943 Fund reported net revenues over expenses of approximately $7.8 million, resulting in a decrease of approximately $12.8 million when comparing these two periods. The decrease is primarily due to decreases of REO, insurance proceed revenue and an increase of payroll, pension and bond issue related expense.

Summary

Over the periods from Fiscal Year ended June 30, 2014 through Fiscal Year ended June 30, 2018, the Department utilized cash assets and the issuance of refunding bonds to redeem or refund certain of its higher interest maturities of Veterans G.O. Bonds and Revenue Bonds in order to, among other things, reduce its annual debt service. The Department, subject to applicable bond authorizing resolutions, may apply Excess Revenues to redeem any Veterans G.O. Bonds or Revenue Bonds eligible for redemption, and has done so and may continue to do so. Through this reduction of debt service, the Department has been able to lower the interest rate the Department can offer on Contracts of Purchase. During such periods, the interest rate offered on Contracts of Purchase has been as high as 5.99%; however, as of the date of this Official Statement the Department is able to offer an interest rate as low as 4.25%. See "—Contracts of Purchase – Down Payment Requirements – Term of Contract of Purchase," "—Contracts of Purchase-Post-December 2010 Contracts of Purchase" and APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA."

When the interest rates offered on the Contracts of Purchase were higher than presently offered, the rate of origination of Contracts of Purchase was substantially reduced as compared to previous periods. The ability to offer Contracts of Purchase at the lower rates has enabled the Department to be more competitive in the mortgage lending market, and is well-timed for possible increases in interest rates offered by lenders other than the Department. The principal amount of Contracts of Purchase originated for the Fiscal Year ended June 30, 2018 and for the Fiscal Year ended June 30, 2014 were approximately $176.8 million and approximately $73.5 million, respectively, an increase of approximately $103.3 million over such period. See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience" for information regarding the recent rate of originations of Contracts of Purchase, and "—Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds."

During periods of reduced origination of Contracts of Purchase, including in recent years, the aggregate principal amount of Contracts of Purchase has been reduced due to such lower levels of origination, as well as due to principal repayments and veterans refinancing their loans with other lending sources. These factors, coupled with recent economic growth within the State and national economies and increases in housing prices, have resulted in Contracts of Purchase recently experiencing decreased delinquencies, cancellations, REO and losses on the Contracts of Purchase. See "—Contracts of Purchase – Delinquencies and Cancellations" and APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Cancellations and Delinquencies."

At the same time the Department has endeavored to improve its underwriting and servicing processes in order to better manage Contracts of Purchase and to prepare the Department for an increased level of origination and servicing of Contracts of Purchase. For example, the Department has deployed resources within the Program to ensure adequate staffing. The Department is also developing new avenues for origination opportunities.

Program Features Designed to Mitigate Market Downturns

The following features of the Program are designed to mitigate and protect the Program from the negative effects of market downturns:

- Interest rates on Contracts of Purchase originated after January 1, 2011 are fixed for the entire term of the loan. Interest rates on Contracts of Purchase originated prior to January 1, 2011 are fixed, subject to periodic adjustment as described in "THE PROGRAM—Contracts of Purchase – Interest Rates."
- The Department requires that, at the time of financing, Program participants reside in the home purchased under the Contracts of Purchase.
- The Department's underwriting requirements have resulted in average borrower FICO credit scores at the time of origination in excess of approximately 710 for transactions originated between January 1, 2005 and December 31, 2018.
- Since 2009, all new Contracts of Purchase require a minimum 1.25% funding fee to offset the cost of the USDVA Guaranty or for deposit in the Primary Mortgage Insurance Account.
- Certain of the Department's Contracts of Purchase are guaranteed by the USDVA. See "THE PROGRAM – USDVA Guaranty Program; Other Loan Insurance" and APPENDIX D - "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of December 31, 2018."

The Department cannot predict whether future disruptions in the housing and financial markets generally or difficulties in the national or California economies will occur in the future and, if so, whether the Department's finances will be adversely impacted.

Department Outlook

The ability of the Department to maintain an excess of revenues over expenses in future periods and the financial performance of the 1943 Fund depend upon a variety of factors including, among others: (a) the level of interest rates available on short-term investments (including the rate paid on the State's Surplus Money Investment Fund ("SMIF"), an investment fund established under the California Government Code, which is part of the Pooled Money Investment Account ("PMIA"), which fund invests money according to an investment policy established by the State Treasurer's Office, and including the rate paid on investment contracts as such contracts may be acquired) relative to the level of interest rates on outstanding Veterans G.O Bonds and Revenue Bonds; (b) the rate of origination and the rate of prepayment of Contracts of Purchase, which will directly affect the amount of bond proceeds, recycling funds and revenues held in such investments; (c) the interest rates established from time to time by the Department for newly originated Contracts of Purchase relative to the interest cost on bonds issued to finance such Contracts of Purchase; (d) the interest rates on outstanding Contracts of Purchase relative to the interest cost on outstanding bonds; (e) the Department's ability to use special and optional redemption provisions to minimize the overall cost of outstanding debt; (f) the market prices that can be achieved upon the sale of repossessed properties relative to the balances of then outstanding Contracts of Purchase; (g) the level of administrative expenses relative to the rate of origination and outstanding balances of the Contracts of Purchase; (h) counterparty performance under the Department's investment arrangements; (i) uncertainties, disruption or volatility in the financial markets, generally, and in the mortgage and residential real estate markets, specifically; (j) the accuracy of certain projections and assumptions upon which the Department's financial planning may be based, including, among other things, the rate of repayment of Contracts of Purchase, levels of defaults and delinquencies and losses on Contracts of Purchase; (k) the issuance and structuring of any additional Veterans G.O. Bonds or additional Revenue Bonds; (l) the implementation of any new programs of the Department; (m) changes in law, including changes which may affect the timing and the amount the Department may recover from Contracts of Purchase; and (n) maintenance of adequate reinsurance to address claims under the Department's fire and hazard insurance program and disaster indemnity program liabilities. The Department expects that there will be significant variations in results in future periods, including additional periods in which there may be a deficit of revenues over expenses. Consideration should be given to these factors, among others, in connection with the purchase of the Offered Veterans G.O. Bonds. See "INTRODUCTION – Forward-Looking Statements" in this APPENDIX B.

Investments of the 1943 Fund

The Department currently invests nearly all of its cash of the 1943 Fund in the SMIF. The Department also invests certain moneys of the 1943 Fund as described under APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Additional Investments." All investments, including those in the SMIF, contain certain risks, some of which may be material. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. These risks may be mitigated, but are not eliminated, by limitations imposed on the portfolio management process by the State Treasurer's PMIA investment policy, which may change from time to time.

Excess Revenues

The Department has covenanted with the holders of its Revenue Bonds to apply Revenues received with respect to Contracts of Purchase, after payment or reimbursement of debt service on Veterans G.O. Bonds, in a specified order of priority. The availability and use of Revenues may provide moneys for special redemption of the Offered Veterans G.O. Bonds (see "THE OFFERED VETERANS G.O. BONDS – Redemption – Special Redemption from Excess

Revenues" in the forepart of this Official Statement). For this purpose, "Revenues" means all moneys received by or on behalf of the Department representing (i) principal and interest payments on the Contracts of Purchase including all prepayments representing the same and all prepayment premiums or penalties received by or on behalf of the Department in respect to the Contracts of Purchase, (ii) interest earnings received on the investment of amounts to the extent deposited in the revenue account established under the Revenue Bond Resolution, (iii) amounts transferred to the revenue account from the bond reserve account or the loan loss account established under the Revenue Bond Resolution, and (iv) any other amounts payable by parties executing Contracts of Purchase or private participants in the Program or related to recoveries on defaulted Contracts of Purchase, including origination and commitment fees, servicing acquisition fees, liquidation proceeds, and insurance proceeds, *except* to the extent not included as "Revenues" pursuant to the provisions of any resolution authorizing the issuance of a series of Revenue Bonds.

The Department has covenanted with the Revenue Bond holders to administer the Program and perform its obligations under the Revenue Bond Resolution in accordance in all material respects with the then-current Program Operating Procedures. The Program Operating Procedures are operating policies of the Department governing the discretionary activities of the Department under the Revenue Bond Resolution. The Department may amend the Program Operating Procedures. The Program Operating Procedures will affect the Excess Revenues that will become available to redeem the Offered Veterans G.O. Bonds.

The Department has covenanted with the Revenue Bond holders to apply Revenues in the following order, after paying, or reimbursing for payments of, debt service on Veterans G.O. Bonds, including the costs of liquidity and credit enhancement facilities related thereto, and setting aside moneys as required under the Federal Tax Code to preserve the tax-exempt status of certain Veterans G.O. Bonds and Revenue Bonds, (1) to pay debt service on Revenue Bonds, (2) to pay the costs associated with liquidity and credit enhancement facilities, if any, for Revenue Bonds, (3) to replenish certain reserve funds established for the Revenue Bonds, (4) if the Department elects, to pay Department expenses, (5) to set aside a monthly accrual of Veterans G.O. Bond debt service, (6) if the Department elects, to finance Contracts of Purchase, and (7) with respect to Excess Revenues and certain tax restricted moneys, to redeem Veterans G.O. Bonds (including the Offered Veterans G.O. Bonds) and Revenue Bonds. For such purposes:

(a) "Excess Revenues" means, as of any date of calculation, Revenues in excess of Accrued Debt Service;

(b) "Accrued Debt Service" means, as of any date of determination and, as the context requires, with respect to all Revenue Bonds and Veterans G.O. Bonds (including the Offered Veterans G.O. Bonds), the sum of:

(i) the aggregate amount of scheduled interest and principal (except to the extent otherwise to be redeemed pursuant to clause (ii) or (iii) below) to become due after such date but on or before the end of the current debt service year, *less* the product of (x) the number of whole months remaining in the current debt service year and (y) the Monthly Debt Service Requirement;

(ii) the redemption price of bonds for which notice of redemption has been issued, provided such redemption price is to be paid from amounts on deposit in the revenue account created under the Revenue Bond Resolution; and

(iii) the redemption price of bonds that the Department will be obligated to redeem prior to the end of the next succeeding debt service year under the terms of any resolution governing Revenue Bonds or Veterans G.O. Bonds, to the extent that such obligation arises on account of amounts on deposit in the revenue account created under the Revenue Bond Resolution; and

(c) "Monthly Debt Service Requirement" means, as of any date of determination, one-twelfth of the aggregate amount of scheduled interest and principal to become due during the debt service year in which such date falls, as computed on the first day of such debt service year.

Maintenance of Fund Parity

The Revenue Bond Resolution requires the Department to calculate "Fund Parity" at least annually. "Fund Parity" means, on any determination date (a) an amount equal to the difference between (i) all assets in the 1943 Fund and in the accounts established under the Revenue Bond Resolution, and (ii) the aggregate principal amount of all Revenue Bonds and Veterans G.O. Bonds outstanding (plus accrued interest); reduced by (b) defined allowances and reserves for loss coverage on Contracts of Purchase and life and disability coverage on persons obligated under Contracts of Purchase. If any such calculation shall not reflect that Fund Parity at least equals the applicable percentage of the then outstanding aggregate principal amount of Revenue Bonds required by the Revenue Bond Resolution, the Department may be required to expend Excess Revenues to redeem Revenue Bonds until its recalculations of Fund Parity meet the test required by the Revenue Bond Resolution. Currently the applicable required percentage of Fund Parity is 25%. Such applicable percentage has been subject to rating agency confirmation.

APPENDIX C

REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS – VETERANS' FARM AND HOME PURCHASE PROGRAM OF THE DEPARTMENT OF VETERANS AFFAIRS, STATE OF CALIFORNIA (VETERANS FARM AND HOME BUILDING FUND OF 1943, VETERANS DEBENTURE REVENUE FUND AND POOLED SELF-INSURANCE FUND) FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

Report of Independent Auditors and Financial Statements

Veterans' Farm and Home Purchase Program of the Department of Veterans Affairs, State of California (Veterans Farm and Home Building Fund of 1943, Veterans Debenture Revenue Fund and Pooled Self-Insurance Fund)

June 30, 2018 and 2017

MOSSADAMS

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Report of Independent Auditors

California Veterans' Board
State of California

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Veterans' Farm and Home Purchase Program of the Department of Veterans Affairs, State of California (the Program), which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements. We have also audited the statements of net position and the related statements of revenues, expenses, and changes in net position of the Veterans' Farm and Home Building Fund of 1943 (the 1943 Fund), Veterans Debenture Revenue Fund (the VDRF), and Pooled Self-Insurance Fund (the PIF) presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining fund financial statements as of and for the years ended June 30, 2018 and 2017, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Veterans' Farm and Home Purchase Program of the Department of Veterans Affairs, State of California, as of June 30, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the 1943 Fund, VDRF, and PIF as of June 30, 2018 and 2017, and the respective changes in financial position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The financial statements represent only the business activities of the Veterans' Farm and Home Purchase Program of the Department of Veterans' Affairs, State of California, and are not intended to present the financial position of the Department of Veterans Affairs, State of California, and the results of its operations and its cash flows. The financial statements referred to above are included in the financial statements of the State of California as the State represents the primary government and has ultimate oversight responsibility for the Program.

In the year ended June 30, 2018, Department of Veterans' Affairs adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which modified the presentation of the financial statements by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to other postemployment benefits (OPEB) provided through defined benefit OPEB plans. In addition, GASB Statement 75 requires disclosure of information related to OPEB. As discussed in Note 7 to the financial statements, the adoption of GASB Statement 75 resulted in the restatement of beginning net position. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, the schedule of the proportionate share of the net pension liability on page 41, and the schedule of plan contributions on page 42, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Moss Adams LLP

Sacramento, California
February 20, 2019

INTRODUCTION

The Department of Veterans Affairs (the Department) is a separate legal entity and a cabinet-level agency of the State of California. A seven-member California Veterans Board (the Board) has policy oversight of the operations of the Department, all of whom are appointed by the Governor, subject to confirmation by the State Senate.

The Department began making low interest rate farm and home financing available to veterans after World War I, following the enactment by the California Legislature of the Veterans' Farm and Home Purchase Act of 1921. In 1943, the Legislature enacted the Veterans' Farm and Home Purchase Act of 1943 to meet new needs of California's veterans. The 1943 Act established in the state treasury the Veterans' Farm and Home Building Fund of 1943 (the 1943 Fund), which is the principal fund utilized for the Veterans' Farm and Home Purchase Program (the Program). Financing is provided as installment loans, which are referred to as Contracts of Purchase.

Financing for Contracts of Purchase are derived from: the sales of Home Purchase Revenue Bonds, Veterans General Obligations Bonds, principal prepayments of Contracts of Purchase, and other Program revenues not needed to meet 1943 Fund operating costs and debt service requirements of the bond portfolio. Expenditures are primarily for debt service and administration of the Program.

The revenue bond resolution giving the Department authority to issue Revenue Bonds requires a reserve fund in an amount equal to no less than 3% of the aggregate outstanding principal of all revenue bonds with interest rates fixed to maturity. The Veterans Debenture Revenue Fund (VDRF) was established to segregate the bond reserve requirements.

The Department operates a Pooled Self-Insurance Fund (PIF), which provides segregation of insurance risk from the Program. In accordance with California state law, the Department is required to pay all insurance claims from the PIF. California state law further provides that each of the Department's insurance reserves be self-sufficient and adequately maintained.

The PIF has combined cash reserves of $27.6 million as of June 30, 2018, which is divided into the following sub accounts:

a. The Disaster Indemnity Fund, covering earthquake and flood risks

b. The Fire and Hazard Insurance Fund

c. The CalVet Legacy Self-Insurance and Disability Fund

d. The CalVet Primary Mortgage Insurance Fund

The following financial analysis of the Program includes the condensed consolidated information of the 1943 Fund, the VDRF, and the PIF.

FINANCIAL ANALYSIS

Condensed statements of net position – The following table presents the condensed statements of net position for the Program as of June 30, 2018, 2017, and 2016 (in thousands).

	2018	2017	2016
ASSETS			
Cash, cash equivalents, and investments	$ 147,124	$ 191,220	$ 266,153
Receivables under contracts of purchase – net	959,802	909,817	842,769
Other receivables and assets	10,462	7,300	11,083
TOTAL ASSETS	1,117,388	1,108,337	1,120,005
Deferred outflows of resources	9,228	5,006	3,313
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,126,616	$ 1,113,343	$ 1,123,318
LIABILITIES AND NET POSITION			
LIABILITIES			
Bonds payable	$ 959,865	$ 949,568	$ 955,089
Other payables and liabilities	69,529	40,003	34,298
Total liabilities	1,029,394	989,571	989,387
DEFERRED INFLOWS OF RESOURCES	3,031	44	160
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,032,425	989,615	989,547
NET POSITION – RESTRICTED	94,191	123,728	133,771
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 1,126,616	$ 1,113,343	$ 1,123,318

Total assets and deferred outflows of resources – Total assets and deferred outflows of resources increased by $13.3 million from $1.11 billion at June 30, 2017 to $1.13 billion at June 30, 2018. This increase consisted primarily of the following items:

Total cash, cash equivalents, and investments decreased by approximately $44.1 million from $191.2 million at June 30, 2017 to $147.1 million at June 30, 2018. This decrease was primarily due to the Department's issuance of State of California Veterans' Home Purchase General Obligation Bonds in the aggregate principal amount of $110.3 million being offset by maturities and redemptions of bonds totaling $99.7 million. Additionally, the decrease in total cash and investments was due to principal repayments of contracts of purchase of $125.3 million offset by payments made for new contracts of purchase (i.e., origination of new contracts of purchase) in the approximate amount of $177.0 million.

Net receivables under contracts of purchase increased $50 million, from $909.8 million at June 30, 2017, to $959.8 million at June 30, 2018. The increase was a function of increased volume of new contracts originated due to the continued low interest rate environment offsetting repayments of contracts of purchase during the year ended June 30, 2018.

Other receivables and assets increased by $3.2 million from $7.3 million at June 30, 2017 to $10.5 million at June 30, 2018. The increase is primarily attributable to an increase in other real estate owned balances of approximately $1.2 million and a general increase in other asset balances.

Deferred outflows of resources increased by $4.2 million from $5 million at June 30, 2017 to $9.2 million at June 30, 2018. Of this increase, $2.9 million related to the Department's pension liability and $1.5 million related to the Department's other post-employment benefit liability related to the adoption of GASB 75.

Total assets and deferred outflows of resources decreased by $10 million from $1.12 billion at June 30, 2016 to $1.11 billion at June 30, 2017. This increase consisted primarily of the following items:

Total cash, cash equivalents, and investments decreased by approximately $75 million from $266.2 million at June 30, 2016 to $191.2 million at June 30, 2017. This decrease was primarily due to the Department's issuance of State of California Veterans' Home Purchase Revenue Bonds in the aggregate principal amount of $167.1 million being offset by maturities and redemptions of bonds totaling $175 million. Additionally, the decrease in total cash and investments was due to principal repayments of contracts of purchase of $154 million offset by payments made for new contracts of purchase (i.e., origination of new contracts of purchase) in the approximate amount of $218 million.

Net receivables under contracts of purchase increased $67 million from $842.8 million at June 30, 2016 to $909.8 million at June 30, 2017. The increase was a function of increased volume of new contracts originated due to the continued low interest rate environment offsetting repayments of contracts of purchase during the year ended June 30, 2017.

Other receivables and assets increased by $3.8 million from $11.1 million at June 30, 2016 to $7.3 million at June 30, 2017. The increase is primarily attributable to an increase in other real estate owned balances of approximately $2.6 million.

Deferred outflows of resources increased by $1.7 million from $3.3 million at June 30, 2016 to $5.0 million at June 30, 2017. The decrease in deferred outflows of resources was primarily driven from the calculation of the Program's net pension liability, in accordance with Governmental Accounting Standards Board (GASB) Standard No. 68.

Liabilities, deferred inflows of resources, and net position – Total liabilities and deferred inflows of resources increased by approximately $42.8 million from $989.6 million at June 30, 2017 to $1.03 billion at June 30, 2018. This increase was primarily due to a net increase in Veterans' G.O. Bonds and Revenue Bonds payable of approximately $10.3 million, a $4.1 million increase in the Department's pension liability, and an increase in the Department's other post-employment benefit liability totaling $25.2 million, related to the adoption of GASB 75.

At June 30, 2018, the net position decreased by approximately $29.5 million from approximately $123.7 million at June 30, 2017 to approximately $94.2 million at June 30, 2018. This decrease was due to a net operating loss of $4.6 million for fiscal year 2018 being offset by $255 thousand in gains on sales of repossessed property. In addition, due to the adoption of GASB 75 and related recording of the Department's other post-employment benefit liability, the Department recorded a $25.2 million reduction in the net position.

Total liabilities and deferred inflows of resources increased by approximately $100 thousand from $989.5 million at June 30, 2016 to $989.6 million at June 30, 2017. This increase was primarily due to a net increase in Veterans' G.O. Bonds and Revenue Bonds payable of approximately $5.5 million, offset by a $4.6 million increase in the net pension liability and a $1.7 million increase in the liability for other postemployment benefits. The remaining variance is attributable to lower levels of accrued interest payable and other liabilities.

At June 30, 2017, the net position decreased by approximately $10.1 million from approximately $133.8 million at June 30, 2016 to approximately $123.7 million at June 30, 2017. This decrease was due to a net operating loss of $10.8 million for fiscal year 2017 being offset by $725 thousand in gains on sales of repossessed property.

Condensed statements of revenues and expenses – The following table presents condensed statements of revenues and expenses for the Program for fiscal years ended June 30, 2018, 2017, and 2016 (in thousands).

	2018	2017	2016
REVENUES			
Program operating revenues			
Contracts of purchase of properties	$ 41,422	$ 40,989	$ 41,020
Investments and other	2,571	1,350	2,879
Insurance revenue and claim reimbursements	5,104	5,354	5,480
Program administration revenues	3,383	4,424	4,049
Total revenues	52,480	52,117	53,428
EXPENSES			
Program operating expenses			
Interest expense	31,056	31,604	33,428
Provision for (reversal of) program losses	768	855	(2,161)
Insurance premiums and claims paid	3,862	5,517	4,646
Program administration expenses	21,402	24,909	19,714
Total expenses	57,088	62,885	55,627
Net operating loss	(4,608)	(10,768)	(2,199)
Gain on sale of repossessed property	255	725	189
Deficiency of revenues over expenses	$ (4,353)	$ (10,043)	$ (2,010)

Program operations – The program operations revenues over program operations expenses increased by approximately $3.6 million from $9.7 million for the year ended June 30, 2017 to $13.4 million for the year ended June 30, 2018, due to the following:

Interest revenues from contracts of purchase remained relatively consistent with the prior period, reflecting a marginal increase of approximately $400 thousand at June 30, 2018.

Interest revenues on investments and other increased by approximately $1.2 million from $1.4 million for the year ended June 30, 2017 to $2.6 million for the year ended June 30, 2018. This increase was attributable to increased yields earned on invested funds, which was partially offset by a lower volume of investments outstanding.

Insurance revenue and claim reimbursements decreased by approximately $300 thousand from $5.4 million for the year ended June 30, 2017 to $5.1 million for the year ended June 30, 2018. The decrease in insurance revenue and claim reimbursements is primarily due to a reduction in the collection of insurance proceeds related to contracts of purchase insured by Radian due to a reduction in cancelled contracts of purchase. The Program met their deductible during 2014 and is now receiving proceeds for reimbursable losses related to this insurance program.

Interest expense decreased by approximately $500 thousand from $31.6 million for the year ended June 30, 2017 to $31.1 million for the year ended June 30, 2018. The decrease in interest expense was attributable to the special redemptions of higher paying bonds during the year being replaced with new bonds at lower rates.

The provision for program losses decreased by approximately $97 thousand from a provision for program losses of $855 thousand for the year ended June 30, 2017 to a provision for program losses of $758 thousand for the year ended June 30, 2018. The decrease in the provision for program losses was a function of management's evaluation of the overall adequacy of the Program's allowance for uncollectible contracts.

Insurance premiums and claims paid decreased by approximately $1.6 million from $5.5 million for the year ended June 30, 2017 to $3.9 million for the year ended June 30, 2018. The decrease was due to a decrease in fire claims, which occurred in fiscal year 2017.

The program operations revenues over program operations expenses decreased by approximately $3.8 million from $13.5 million for the year ended June 30, 2016 to $9.7 million for the year ended June 30, 2017, due to the following:

Interest revenues from contracts of purchase remained relatively consistent with the prior period, reflecting a marginal decrease of $31 thousand at June 30, 2017.

Interest revenues on investments and other decreased by approximately $1.5 million from $2.9 million for the year ended June 30, 2016 to $1.4 million for the year ended June 30, 2017. This decrease was attributable to a reduction in the fair value of investments, which was partially offset by an increase in SMIF interest income.

Insurance revenue and claim reimbursements decreased by approximately $100 thousand from $5.5 million for the year ended June 30, 2016 to $5.4 million for the year ended June 30, 2017. The decrease in insurance revenue and claim reimbursements is primarily due to a reduction in the collection of insurance proceeds related to contracts of purchase insured by Radian due to a reduction in cancelled contracts of purchase. The Program met their deductible during 2014 and is now receiving proceeds for reimbursable losses related to this insurance program.

Interest expense decreased by approximately $1.8 million from $33.4 million for the year ended June 30, 2016 to $31.6 million for the year ended June 30, 2017. The decrease in interest expense was attributable to the special redemptions of higher paying bonds during the year being replaced with new bonds at lower rates.

The reversal of provision for program losses decreased by approximately $3 million from a reversal of provision of $2.2 million for the year ended June 30, 2016 to a provision for program losses of $855 thousand for the year ended June 30, 2017. The decrease in the reversal of provision for program losses was a function of the increase in receivables under contracts of purchase and management's evaluation of the overall adequacy of the Program's allowance for uncollectible contracts.

Insurance premiums and claims paid increased by approximately $871 thousand from $4.6 million for the year ended June 30, 2016 to $5.5 million for the year ended June 30, 2017. The increase was due to an increase in fire claims.

Program administration – Total program administration revenues include loan origination fees paid to the Program, fees for late payments on contracts of purchase, and rent received on a property owned by the Program. Total program administration revenues decreased by approximately $1 million from $4.4 million for the year ended June 30, 2017 to $3.4 million for the year ended June 30, 2018. Total program administration revenues increased by approximately $375 thousand from $4 million for the year ended June 30, 2016 to $4.4 million for the year ended June 30, 2017.

Total program administration expenses decreased by $3.5 million from $24.9 million for the year ended June 30, 2017 to $21.4 million for the year ended June 30, 2018. This is due to a decrease of payroll and other support expenditures. Total program administration expenses increased by $5.2 million from $19.7 million for the year ended June 30, 2016 to $24.9 million for the year ended June 30, 2017. This is due to an increase of payroll and other support expenditures, including a $4.3 million increase in expenses associated with the Program's pension liability and liability related to other postemployment benefits.

Total deficiency of revenues over expenses – Total deficiency of revenues over expenses decreased by approximately $5.7 million from a net deficiency of $10 million for the year ended June 30, 2017 to a net deficiency of $4.4 million for the year ended June 30, 2018. The total deficiency of revenues over expenses decreased due to the reasons noted above, in addition to the following:

During the year ended June 30, 2018, the Program recognized a net gain on sale of repossessed property of $255 thousand. In comparison, the Program recognized a net gain on sale and write down of repossessed property totaling $725 thousand for the year ended June 30, 2017. The Program's holdings of repossessed properties, net of allowances for losses, increased from $259 thousand as of June 30, 2017 to $1.4 million as of June 30, 2018.

Total deficiency of revenues over expenses increased $8 million from a net deficiency of $2 million for the year ended June 30, 2016 to a net deficiency of $10 million for the year ended June 30, 2017. The total deficiency of revenues over expenses increased due to the reasons noted above, in addition to the following:

During the year ended June 30, 2017, the Program recognized a net gain on sale of repossessed property of $725 thousand. In comparison, the Program recognized a net gain on sale and write down of repossessed property totaling $189 thousand for the year ended June 30, 2016. The Program's holdings of repossessed properties, net of allowances for losses, decreased from $2.9 million as of June 30, 2016 to $259 thousand as of June 30, 2017.

OVERVIEW OF LOAN PORTFOLIO

Single family home loans/condominiums/farm loans – The Department makes loans to veterans for the purchase of individual residences. Approximately 98% of the dollar volume of the Department's loans is for home loans as of June 30, 2018. Currently, the maximum loan amount ranges from $566,375 to $795,187 ($625,250 to $975,000 for farms) depending on the county, which represents 125% to 150% of the maximum loan limit for a single family home set by the Federal National Mortgage Association (Fannie Mae).

Loans are made after an underwriting process that includes, but is not limited to, a review of credit history, verifiable income, and the amount and source of down payment. In general, credit scores of approved applicants are above the average. Loans are required to be insured, either through private mortgage insurance, upfront mortgage insurance funding fee, or through the guarantee program of the United States Department of Veterans Affairs (USDVA). Loans with a LTV of 97% or greater are required to be insured through the USDVA guarantee program. Under the USDVA guarantee program, the Program is insured for the first 25% of loss in the event that they are required to foreclose on a property and need to sell that property for less than the outstanding loan balance.

Interest rates for loans are determined when the loan is originated. As of June 30, 2018, interest rates on loans outstanding ranged from 3% to 9.75%. While the Program has the limited ability to adjust the interest rates, post-1999 through December 2010, loans can be adjusted by 0.5% if needed and pre-1999 loans can be adjusted with no rate cap. The policy of the Program has been to leave the interest rate fixed at the rate in effect when the loan was originated. Beginning on January 1, 2011, all contracts of purchase are issued with fixed interest rates.

Mobile homes – The Program makes loans to veterans for the purchase of mobile homes. Approximately 1.74% of the dollar volume of the Program's loans is for home loans as of June 30, 2018. The terms of the loans for mobile homes are substantially the same as loans made to finance the purchase of single family homes. In certain circumstances, the interest rate of a mobile home loan may be 1% higher than an equivalent loan on a single family home.

Home improvement loans – The Program makes a limited amount of home improvement loans. Approximately 0.4% of the dollar volume of the Program's loans is for home loans as of June 30, 2018. These loans typically have a LTV of lower than 90%.

Allowances for uncollectible contracts – The allowance for uncollectible contracts are established through a provision charged to operations. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing contracts and commitments to extend credit, based on evaluations of the collectability and prior loss experience of contracts and commitments to extend credit. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, specific problem contracts, commitments, and current and anticipated economic conditions that may affect the borrowers' ability to repay the obligation. Management updates its estimates periodically to take into account changes in the economic environment. The allowance for uncollectible contracts was $3.4 million and $2.8 million as of June 30, 2018 and 2017, respectively.

Other real estate owned – Real estate acquired by the Program by repossession is recorded at the lower of estimated fair value less estimated selling costs or the carrying value of the related loan at the date of foreclosure. After repossession, the value of the underlying contract is written down through the allowance for uncollectible contracts to the estimated fair value of the real estate, if necessary. Any subsequent write-downs or gains on sales of foreclosures are charged against nonoperating expenses. Operating expenses of such properties, net of any related income, are included in other expenses. Operating costs on foreclosed real estate are expensed as incurred. Costs incurred for physical improvements to foreclosed real estate are capitalized if the value is recoverable through future sale.

Higher-risk loans (excluding home equity loans) – The Program's higher risk loans, designated by having a loan-to-value ratio of 97% or greater, are evenly dispersed throughout the state. The LTV was determined by dividing the current loan balance by the initial purchase price of the property. As of June 30, 2018, the Program had 5,303 active loans in its portfolio, of which 12.53% were determined to have a high LTV. As of June 30, 2018, 12.51% of the total portfolio has a high LTV and is insured with USDVA, and .02% of the total portfolio has a high LTV and is uninsured. The Program believes these factors adequately mitigate the risks inherent with loans which are considered to have a high LTV.

Mitigating factors – The following features of the Program are designed to mitigate and protect the Program from the negative effects of market downturns:

The Program does not provide variable rate loans.

The Program requires that Program participants reside in the home purchased under the contracts of purchase for the term of the loan.

The Program's underwriting requirements, according to an internal unaudited survey by the Department, have resulted in an average borrower FICO credit score in excess of 700 for transactions originated during the last five years.

Certain of the Program's contracts of purchase are guaranteed through the USDVA guarantee program.

Since 2009, all new contracts of purchase require a minimum 1.25% funding fee.

The Program cannot predict whether disruptions in the housing and financial markets or difficulties in the national or California economies will continue and, if so, whether the Program's finances will be adversely impacted.

ECONOMIC FACTORS FACING FARM AND HOME PURCHASE PROGRAM

At June 30, 2018, the Program's gross receivables under contracts of purchase were $963.2 million, an increase of $50.6 million, or 5.5%, from $912.6 million at June 30, 2017. During the fiscal year ended June 30, 2018, cash and investments decreased $44.1 million, or 23.1%, from a balance of $191.2 million to $147.1 million. Bonds payable increased $10.3 million, or 1.1%, from $949.6 million at June 30, 2017 to $959.9 million at June 30, 2018. Bond ratings for the Department's G.O. Bonds are AA, Aa2, and AA- by rating agencies Standard & Poor's, Moody's, and Fitch, respectively. Bond ratings for the Department's revenue bonds are AA, Aa3, and AA- by Standard & Poor's, Moody's, and Fitch, respectively.

Program outlook – The ability of the Program to maintain an excess of revenues over expenses in future periods and the financial performance of the Program depends upon a variety of factors, including, among others:

Loan portfolio performance – Significant factors include uncertainties, disruption, or volatility in the financial markets, generally, and the market prices that can be achieved upon the sale of repossessed properties relative to the then-outstanding contract of purchase balances. For the fiscal years ended June 30, 2016, 2017 and 2018, the Program recognized a net gain on sales of repossessed properties of $189 thousand, $725 thousand, and $255 thousand, respectively. The Program believes that this improved trend is indicative of an improving housing market.

Cost of bond portfolio – The Program has strategically used principal proceeds from contracts of purchase to fund special and optional redemption to minimize the overall cost of outstanding debt. Principal repayments of contracts of purchase for the years ended June 30, 2018 and 2017, have been $125.3 million and $153.8 million, respectively, while special and optional redemption over the same period were $94.0 million and $162.5 million, respectively. The Program will continue to look for strategic opportunities to issue additional Veterans' G.O. Bonds or Revenue Bonds.

Overall program administration – The Program's financial performance is driven by the successful origination and maintenance of outstanding balances of contracts of purchases and the related maintenance of a net interest margin adequate to satisfy the Program's administrative expense obligations. Contracts of purchase represent the Programs highest yielding assets and the income generated from these assets are the primary means used to satisfy the Program's administrative expense obligations and its debt service obligations associated with outstanding Veteran's G.O. Bonds and Revenue Bonds.

Financial Statements

Veterans’ Farm and Home Purchase Program
Department of Veterans Affairs, State of California
Statements of Net Position
(In Thousands)

ASSETS

	JUNE 30, 2018	JUNE 30, 2017
CURRENT ASSETS		
Cash in the state treasury	$ 8,971	$ 7,193
State of California Surplus Money Investment Fund	119,938	166,063
Total cash and cash equivalents	128,909	173,256
Current portion of receivables under contracts of purchase – net of allowance for uncollectible contracts	30,089	29,092
Due from other funds	127	353
Interest receivable	4,736	4,434
Total current assets	163,861	207,135
NONCURRENT ASSETS		
Investments:		
Taxable municipal securities and other investments	18,215	17,964
Receivables under contracts of purchase – net of allowance for uncollectible contracts	929,713	880,725
Other real estate owned – net of valuation allowances of $0 at June 30, 2018 and 2017	1,412	259
Capital assets – net	463	552
Other noncurrent assets	3,724	1,702
Total noncurrent assets	953,527	901,202
TOTAL ASSETS	1,117,388	1,108,337
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pension and OPEB	8,414	4,040
Loss on bond refunding	814	966
	9,228	5,006
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,126,616	$ 1,113,343

 See accompanying notes.

In Thousands)

LIABILITIES AND NET POSITION

	JUNE 30, 2018	JUNE 30, 2017
CURRENT LIABILITIES		
Bonds payable – current portion	$ 1,770	$ 5,710
Accrued interest and other liabilities	14,308	13,882
Due to other funds	515	733
Total current liabilities	16,593	20,325
NONCURRENT LIABILITIES		
Bonds payable – noncurrent portion	958,095	943,858
Insurance claims reserves	402	329
Other postemployment benefits	31,047	5,888
Net pension liability	23,257	19,171
Total noncurrent liabilities	1,012,801	969,246
Total liabilities	1,029,394	989,571
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension and OPEB	3,031	44
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,032,425	989,615
NET POSITION – RESTRICTED	94,191	123,728
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 1,126,616	$ 1,113,343

See accompanying notes.

Veterans' Farm and Home Purchase Program
Department of Veterans Affairs, State of California
Statements of Revenues, Expenses, and Changes in Net Position
(In Thousands)

	YEARS ENDING JUNE 30, 2018	2017
REVENUES		
Program operations		
Contracts of purchase of properties	$ 41,422	$ 40,989
Investments and other	2,571	1,350
Insurance revenue and claim reimbursements	5,104	5,354
Program administrative		
Fees	2,043	2,491
Other revenue	1,340	1,933
Total revenues	52,480	52,117
EXPENSES		
Program operations		
Interest expense	31,056	31,604
Provision for program loan losses	768	855
Insurance premiums and claims paid	3,862	5,517
Program administrative		
Payroll and related costs	12,243	14,390
General and administrative expenses	9,159	10,519
Total expenses	57,088	62,885
NET OPERATING LOSS	(4,608)	(10,768)
NONOPERATING REVENUE		
Gain on sale of repossessed property	255	725
Deficiency of revenues over expenses	(4,353)	(10,043)
NET POSITION		
Beginning of year	123,728	133,771
Restatement due to GASB 75 implementation	(25,184)	-
End of year	$ 94,191	$ 123,728

See accompanying notes.

Statements of Cash Flows

Veterans' Farm and Home Purchase Program
Department of Veterans Affairs, State of California
Statements of Cash Flows
(In Thousands)

	YEARS ENDING JUNE 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from contract holders	$ 125,333	$ 153,790
Interest received	43,691	41,950
Interest payments	(31,056)	(31,604)
Payments made to other suppliers for goods and services	(6,037)	(7,181)
Payments made to employees for services	(12,243)	(14,390)
Payments made for new contracts of purchase	(176,984)	(218,368)
Insurance revenue and claim reimbursements	5,104	5,354
Insurance premiums and claims paid	(3,862)	(5,517)
Other receipts	1,361	6,259
Net cash used in operating activities	(54,693)	(69,707)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(6,055)	(1,332)
Proceeds from maturities of investment securities	5,804	525
Net cash used in investing activities	(251)	(807)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Maturities of bonds payable	(5,710)	(12,325)
Proceeds from issuance of bonds	110,257	169,559
Early redemption of bonds payable	(93,950)	(162,460)
Net cash provided by (used in) provided by noncapital financing activities	10,597	(5,226)
DECREASE IN CASH AND CASH EQUIVALENTS	(44,347)	(75,740)
CASH AND CASH EQUIVALENTS		
Beginning of year	173,256	248,996
End of year	$ 128,909	$ 173,256

See accompanying notes.

(In Thousands)

	YEARS ENDING JUNE 30, 2018	2017
RECONCILIATION OF OPERATIONS DEFICIENCY OF REVENUES OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating loss	$ (4,608)	$ (10,768)
Adjustments to reconcile to net cash in operating activities:		
Bond accretion amortization	(300)	(295)
Provision for program losses	768	855
Depreciation	89	89
Effect of changes in assets and liabilities:		
Increase in interest receivable	(302)	(389)
Increase in receivables under contracts of purchase and other real estate owned	(51,651)	(64,578)
(Increase) decrease in other assets	(2,022)	1,835
Increase (decrease) in accrued interest payable and other liabilities	426	(571)
Change in deferred inflows and outflows of resources	(1,235)	(1,809)
Change in net pension liability	4,086	4,590
Change in insurance claims reserves	73	(397)
Change in due to other funds	8	(14)
Increase (decrease) in other postemployment benefits	(25)	1,745
NET CASH USED IN OPERATING ACTIVITIES	$ (54,693)	$ (69,707)
NON-CASH ACTIVITIES		
Value of real estate received on foreclosed contracts of purchase	$ 1,678	$ 842
Increase to other post-employment benefit liability beginning balance due to GASB 75 implementation	$ 25,184	$ -

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and description – The California Department of Veterans Affairs (the Department) is a separate legal entity and a cabinet-level agency of the State of California. A seven-member California Veterans Board (the Board) has policy oversight of the operations of the Department, all of whom are appointed by the Governor, subject to confirmation by the State Senate.

The Veterans' Farm and Home Purchase Program oversees the Veterans Farm and Home Building Fund of 1943 (the 1943 Fund). The 1943 Fund was established under the authority of the California Constitution to provide low-interest, long-term farm and home mortgage loan contracts to veterans living in California. The 1943 Fund is administered by the Veterans' Farm and Home Purchase Program and the contract loan program has been continuous since 1922. Proceeds from the sale of general obligation bonds, periodically authorized by the vote of the people of California, and revenue bonds authorized by the legislature are used for contract loans to veterans. Expenses are primarily for debt service and administration of the 1943 Fund. The 1943 Fund is tax exempt.

The Department established the Veterans Debenture Revenue Fund (VDRF) and the Pooled Self-Insurance Fund (PIF) to provide ancillary support for the 1943 Fund. These funds are also managed by the Veterans' Farm and Home Purchase Program of the California Department of Veterans Affairs. Notes 5 and 8 provide disclosures related to these funds.

The financial statements represent only the business-type activities of the Veterans' Farm and Home Purchase Program of the California Department of Veterans Affairs, which include the 1943 Fund, the VDRF, and the PIF (collectively, the Program), and are not intended to present the financial position of the Department and the results of its operations and its cash flows of its other proprietary funds. The financial statements of the Program are included in the financial statements of the State of California as the state represents the primary government and has ultimate oversight responsibility for the Program.

Basis of accounting – The Program has been classified as a proprietary fund for accounting purposes, and the financial statements are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

Accounting standards – The Program follows the standards of governmental accounting and financial reporting, as promulgated by the Governmental Accounting Standards Board (GASB).

In June 2015, the GASB issued Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The purpose of this statement is similar to GASB 74; however, it improves accounting and financial reporting by state and local governments for OPEB. GASB 75 is effective for fiscal years beginning after June 15, 2017. The program adopted this standard effective July 1, 2017, and recorded a $25.2 million reduction to the July 1, 2017, net position to record the other post-employment benefit liability beginning balance. In March 2016, the GASB issued Statement No. 82 (GASB 82), *Pension Issues – An amendment of GASB Statements No. 67, No. 68 and No. 73.* This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB 82 is applicable for reporting periods beginning after June 15, 2016, except for the requirements of the statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. There was no material impact on the Program's financial statements as a result of adopting this standard. In January 2017, the GASB issued Statement No. 84 (GASB 84), *Fiduciary Activities.* This statement establishes criteria for identifying fiduciary activities of all state and local governments. GASB 84 is effective for reporting periods beginning after December 15, 2018. The Program is currently evaluating the impact of this standard on the financial statements. In March 2017, the GASB issued Statement No. 85 (GASB 85), *Omnibus 2017.* The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements including blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). The requirements of GASB 85 are effective for reporting periods beginning after June 15, 2017. In May 2017, the GASB issued Statement No. 86 (GASB 86), *Certain Debt Extinguishment Issues.* The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. GASB 86 is effective for reporting periods beginning after June 15, 2017. There was no material impact on this Program's financial statements as a result of adopting this standard.

The Program is currently evaluating the impact of this standard on the financial statements.

Use of estimates in the preparation of financial statements – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Restrictions on net position – The proceeds of the General Obligation and Revenue bonds are restricted by the State of California Military and Veterans Code for the purpose of providing farm and home aid for veterans in accordance with the Veterans' Farm and Home Purchase Act of 1974 and of all acts amendatory thereof and supplemental thereto.

Cash and cash equivalents – The Program considers all cash and highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents. At June 30, 2018 and 2017, cash equivalents consisted of the State of California Surplus Money Investment Fund (the SMIF) and the California State Treasury (the Treasury), carried at cost, which approximates fair value.

Investments – The Program reports all investments at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers.

Fair value measurements – The Program categorizes its 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 asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Receivables under contracts of purchase – Receivables under contracts of purchase consist of the remaining contract principal balance net of the allowance for uncollectible contracts.

Allowance for uncollectible contracts – The allowance for uncollectible contracts is established through a provision charged to operations. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing contracts and commitments to extend credit, based on evaluations of the collectability and prior loss experience of contracts and commitments to extend credit. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, specific problem contracts, commitments, and current and anticipated economic conditions that may affect the borrowers' ability to repay the obligation. The allowance for uncollectible contracts was approximately $3.4 million and $2.8 million as of June 30, 2018 and 2017, respectively.

Contract guarantees and primary mortgage insurance – The Program collects a contract guarantee fee on all contracts with down payments less than 20% of purchase price. Such contracts are classified as high loan-to-value (HLTV) contracts. For eligible borrowers, the fee is used to purchase contract guarantees from the U.S. Department of Veterans Affairs (USDVA) or primary mortgage insurance (PMI). The contract guarantee fee is forwarded to the PIF, where it is recognized as revenue when received. Prior to March 31, 2008, for certain HLTV contracts not eligible for USDVA guarantees, the Program purchased PMI from Radian Guaranty Inc., formerly, the Commonwealth Mortgage Assurance Company. The PMI provides lifetime coverage on the HLTV contracts, not covered by USDVA guarantees, subject to an aggregate 2% deductible. The Program is responsible for any losses not covered by the USDVA guarantees or the PMI. Estimates of these losses are included in the allowance for uncollectible contracts.

Other real estate owned – Real estate acquired by the Program by repossession is recorded at the lower of estimated fair value, less estimated selling costs, or the carrying value of the related loan at the date of foreclosure. After repossession, the value of the underlying contract is written down to the estimated fair value of the real estate, if necessary. Any subsequent write-downs or gains on sales of foreclosed properties are charged against non-operating expenses. Operating expenses of such properties, net of any related income, are included in other expenses. Operating costs on foreclosed real estate are expensed as incurred. Costs incurred for physical improvements to foreclosed real estate are capitalized if the value is recoverable through future sale.

Capital assets – Capital assets are stated at cost less accumulated depreciation and reflect assets with an estimated useful life in excess of one year. Depreciation is provided for in amounts sufficient to relate the cost of capital assets over their estimated service lives using the straight-line method. Building improvements and equipment have an estimated useful life of five years.

Deferred inflows and deferred outflows – Revenues that are earned and measurable, but applicable to future reporting periods are reported as deferred inflows of resources in the funds until such time the revenue becomes available. Deferred outflows of resources are the consumption of assets that are applicable to future reporting periods. The increases (decreases) in the Program's net pension and OPEB liability and contributions to the plans, that are not included in pension and OPEB expense, are reported as either deferred inflows or outflows of resources. The Program's bond refunding gains and losses are amortized over the life of the bonds and are recognized as deferred outflows of resources.

Public Employees' Retirement Fund (PERF) – For purposes of measuring net pension liability, deferred outflows and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PERF and additions to/deductions from PERF's fiduciary net position have been determined on the same basis as they were reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits (OPEB) – For purposes of measuring the net OPEB liability/asset, deferred outflows of resources and deferred inflows of resources to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB and additions to/deductions from OPEB's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, OPEB recognizes benefit payments when due and payable in accordance with benefit terms. Investments are reported at fair value.

Amortization of bond premiums and discounts – Premiums and discounts arising from the issuance of bonds are capitalized and amortized using the monthly amortization method, which approximates the interest method.

Revenue recognition – Interest and fees are recognized as revenue when earned according to the terms of the loans or investments. Interest accrual is only discontinued at the point of physical property repossession.

Classification of operating revenues and expenses – Revenues and expenses are classified as operating as they relate to the administration of the Program. Operating revenues include interest income, insurance fees, loan fees, and other fees received related to the origination and collection of contracts of purchase. Operating expenses include provisions for program loan losses, interest expense associated with the issuance of bonds payable, insurance premiums and claims paid, and general and administrative expenses, including payroll, associated with the administration the Program's objectives. Nonoperating revenues and expenses include gains or losses incurred in the disposition of repossessed property.

Reclassifications – Certain prior year amounts have been reclassified to conform to the current year presentation. There was no effect on operations or net position as a result of reclassifications.

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Program's cash, cash equivalents, and investments held at cost as of June 30, 2018 and 2017, were as follows (in thousands):

	JUNE 30, 2018	JUNE 30, 2017
Cash in the state treasury	$ 8,971	$ 7,193
State of California Surplus Money Investment Fund (SMIF)	119,938	166,063
Cash and cash equivalents	128,909	173,256
Taxable municipal securities and other investments	18,215	17,964
Investments	18,215	17,964
Total cash, cash equivalents, and investments	$ 147,124	$ 191,220

Cash in state treasury – Cash in the state treasury represents amounts held in the Program's general operating accounts with the state treasury. These monies are pooled with the monies of other state agencies and invested by the state treasurer's office. These assets are not individually identifiable. For a complete description of the risks related to cash in state treasury, refer to the State of California Comprehensive Annual Financial Report (CAFR).

SMIF – Cash in the SMIF represents the value of the deposits in the state treasurer's pooled investment program, which 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 and 2017, this difference was immaterial to the valuation of the SMIF. The pool is run with "dollar-in, dollar-out" participation. There are no share-value adjustments to reflect changes in fair value. For a complete description of the risks related to this program, refer to the CAFR that includes information about the state's pooled investment program.

Investments – Investments from proceeds of bond issuances are restricted by applicable California law and the various bond resolutions associated with each issuance, generally, to certain types of investments. These investments include direct obligations of the U.S. government and its agencies and investment agreements with financial institutions or insurance companies rated within the top two ratings of a nationally recognized rating service. The investments with the insurance administrator, held as a deposit in accordance with a master agreement for the remaining active life and disability insurance program for disabled contract holders, are authorized by California law. The Program monitors the creditworthiness of all companies that hold investments of the Program.

The program has the following recurring fair value measurements as of June 30: Municipal securities of $18,215,000 and $17,964,000 as of June 30, 2018 and 2017, respectively, are valued using a matrix pricing model (Level 2 inputs).

The Program's investments include amounts held in trust by insurance administrators. The investments held by the insurance administrator include taxable municipal securities and money market funds. Additionally, the Program only invests in investment agreements issued by highly rated insurance companies, and management regularly monitors the credit rating of the insurance companies issuing such investment agreements as part of monitoring the Program's exposure to credit risk.

Investment risk factors – Many factors can affect the value of investments. Some, such as credit risk, custodial credit risk, concentration of credit risk, and interest rate risk, may affect both equity and fixed-income securities. Equity and debt securities respond to factors, such as economic conditions, individual company earnings performance, and market liquidity, while fixed-income securities are particularly sensitive to credit risks and changes in interest rates. It is the investment policy of the Program to invest substantially all of its funds within SMIF and the remainder in investment contracts or with insurance administrators to limit the Program's exposure to most types of investment risk.

Credit risk – Fixed-income securities are subject to credit risk, which is the chance that an 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. Certain fixed-income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. At June 30, 2018, the investments held are all considered investment grade and are rated equal to or greater than Aa3 by Moody's. The Program does not currently have a formal policy to manage credit risk associated with its investments.

Custodial credit risk – Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. At June 30, 2018, the Program did not have any investments exposed to custodial credit risk. The investments held by the insurance administrator are held in trust for the benefit of the Department and are held in the Department's name. The Program does not currently have a formal policy to manage custodial credit risk associated with its investments.

Concentration of credit risk – Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the Program to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. At June 30, 2018, the Program does not have a significant concentration of credit risk. The Program does not currently have a formal policy to manage concentration of credit risk associated with its investments.

Interest rate risk – Interest rate risk is the risk that the value of fixed-income securities will decline due to decreasing interest rates. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. The interest rates on the underlying taxable municipal securities reflected as investments with insurance administrators range from 1.30% to 3.70% and mature from 2018 to 2028. The weighted average interest rate for the municipal securities at June 30, 2018 is 2.68% and the weighted average maturity date is 3.31 years. The Program does not currently have a formal policy to manage interest rate risk associated with its investments.

NOTE 3 – RECEIVABLES UNDER CONTRACTS OF PURCHASE

The Program retains title to all real property subject to contracts of purchase until the contract is satisfied. The veterans' contracts have original terms of 25 to 30 years and bear interest at rates of 3.00% to 9.75%, depending on the age and type of contract and the classification of the contract holder. Receivables under contracts of purchase, net of allowance for uncollectible contracts as of June 30, 2018 and 2017, were as follows (in thousands):

	JUNE 30, 2018	JUNE 30, 2017
Receivables under contracts of purchase	$ 963,202	$ 912,634
Less allowance for uncollectible contracts of purchase	(3,400)	(2,817)
Total, net	959,802	909,817
Less current portion, net	(30,089)	(29,092)
Noncurrent receivables under contracts of purchase, net	$ 929,713	$ 880,725

NOTE 4 – LAND, BUILDINGS, AND EQUIPMENT

The changes in capital assets during the year ended June 30, 2018, were as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
NON-DEPRECIABLE				
Land	$ 443	$ -	$ -	$ 443
Total non-depreciable	443	-	-	443
DEPRECIABLE				
Buildings	12,876	-	-	12,876
Equipment	3,384	-	-	3,384
Total depreciable	16,260	-	-	16,260
ACCUMULATED DEPRECIATION				
Buildings	(12,818)	(58)	-	(12,876)
Equipment	(3,333)	(31)	-	(3,364)
Total accumulated depreciation	(16,151)	(89)	-	(16,240)
Total capital assets being depreciated	109	(89)	-	20
Total capital assets, net of depreciation	$ 552	$ (89)	$ -	$ 463

The changes in capital assets during the year ended June 30, 2017, were as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
NON-DEPRECIABLE				
Land	$ 443	$ -	$ -	$ 443
Total non-depreciable	443	-	-	443
DEPRECIABLE				
Buildings	12,876	-	-	12,876
Equipment	3,384	-	-	3,384
Total depreciable	16,260	-	-	16,260
ACCUMULATED DEPRECIATION				
Buildings	(12,760)	(58)	-	(12,818)
Equipment	(3,302)	(31)	-	(3,333)
Total accumulated depreciation	(16,062)	(89)	-	(16,151)
Total capital assets being depreciated	198	(89)	-	109
Total capital assets, net of depreciation	$ 641	$ (89)	$ -	$ 552

NOTE 5 – BONDS PAYABLE

The Veterans General Obligation bonds are general obligations of the State of California to which the full faith and credit of the state is pledged. Because the debt service requirements on the Veterans General Obligation bonds are payable first from the 1943 Fund of the Program, the bonds are included as obligations of the Program when the proceeds from the bond sales are received by the Program. To the extent that the 1943 Fund is not able to service the debt, the secondary repayment source would come from the General Fund of the state Treasury. The Program has been able to service all debt requirements and there have been no amounts paid by the state through the General Fund.

The Program has outstanding general obligation bonds payable with fixed annual interest rates ranging from 1.25% to 5.38% due in varying installments through December 2046 and subject to varying redemption provisions. In November 2000, California voters approved the Veterans Bond Act of 2000 (2000 Bond Act) totaling $500 million. In November 2008, California voters approved the Veterans Bond Act of 2008 (2008 Bond Act) totaling $900 million. In October 2013, Assembly Bill 639, Veterans Housing and Homeless Prevention Act of 2014, reduced the voter authorized amount from $900 million to $300 million. The total authorized and unissued general obligation bonds under the 2008 Bond Act at June 30, 2018 and 2017, was $93.5 million and $200.3 million, respectively.

Home purchase revenue bonds are generally used to fund contracts of purchase and represent special obligations of the Department payable solely from, and by a pledge of, an undivided interest in the assets and net revenues of the Program. The amount of the pledge is equal to the remaining principal and interest requirements associated with the outstanding revenue bonds and the term of the pledge coincides with the remaining term of the revenue bonds. The undivided interest in the net revenues of the Program is secondary and subordinate to any interest or right in the Program of the people of the State of California and of the holders of general obligation veterans bonds. The net revenues pledged represent the total net revenues of the Program. At any point in time, authorized and unissued revenue bonds equal the ceiling authorized in 1987 of $1.5 billion, less revenue bonds outstanding at that time. At June 30, 2018 and 2017, authorized and unissued revenue bonds were $1.2 billion.

In December 1997, the Program amended the revenue bond resolution provision regarding the Bond Reserve Account in the VDRF. The revenue bond resolution requires the establishment and maintenance of a Bond Reserve Account in an amount not less than 3% of the aggregate outstanding principal amount of all Revenue Bonds with interest rates fixed to maturity. Amounts in the Bond Reserve Account shall be used solely for the purposes of paying the principal of and the interest on the Revenue Bonds and for making Mandatory Sinking Account Payments on Revenue Bonds. Amounts on deposit in the Bond Reserve Account in excess of the bond reserve requirement may be transferred out of the VDRF to the 1943 Fund at the request of the Program. Investment earnings of the VDRF are transferred to the 1943 Fund. The total amounts in the Bond Reserve Account were $10.0 million and $11.6 million at June 30, 2018 and 2017, respectively, and were held in the State of California Surplus Money Investment Fund.

The activity for bonds payable for the year ended June 30, 2018, is as follows (in thousands):

	Outstanding July 1, 2017	Issued	Matured / Redeemed During Year	Outstanding June 30, 2018	Due Within One Year
General Obligation Bonds	$ 613,440	$ 106,805	$ 85,660	$ 634,585	$ -
Home Purchase Revenue Bonds	331,775	-	14,000	317,775	1,770
Total	945,215	106,805	99,660	952,360	1,770
Less					
Discounts	(1,925)	-	125	(1,800)	-
Premium	6,278	3,451	(425)	9,304	-
Total	$ 949,568	$ 110,256	$ 99,360	$ 959,864	$ 1,770

The activity for bonds payable for the year ended June 30, 2017, is as follows (in thousands):

	Outstanding July 1, 2016	Issued	Matured / Redeemed During Year	Outstanding June 30, 2017	Due Within One Year
General Obligation Bonds	$ 657,215	$ -	$ 43,775	$ 613,440	$ 2,520
Home Purchase Revenue Bonds	295,660	167,125	131,010	331,775	3,190
Total	952,875	167,125	174,785	945,215	5,710
Less					
Discounts	(1,559)	(505)	139	(1,925)	-
Premium	3,773	2,939	(434)	6,278	-
Total	$ 955,089	$ 169,559	$ 174,490	$ 949,568	$ 5,710

A summary of debt service requirements for the next five years and to maturity as of June 30, 2018, is as follows (in thousands):

Fiscal Years Ending June 30	Principal	Interest
2019	$ 1,770	$ 30,734
2020	34,130	30,460
2021	33,680	29,878
2022	38,090	29,063
2023	39,765	28,017
2024 – 2028	171,510	121,643
2029 – 2033	219,340	92,642
2034 – 2038	180,815	56,819
2039 – 2043	133,345	29,914
2044 – 2048	99,915	7,415
Total	$ 952,360	$ 456,585

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Commitments – As of June 30, 2018 and 2017, the Program had loan commitments to veterans for the purchase of properties under contracts of sale of approximately $45.2 million and $39.2 million, respectively.

The Program leases a building that was formerly used to administer the affairs of the Program. The building is not currently being utilized. However, the Program is still subject to minimum lease requirements through the expiration of the lease agreement. Rent expense for the years ended June 30, 2018 and 2017, was $35,000 and $34,000, respectively.

Minimum annual rent under the operating lease as of June 30, 2018, is as follows (in thousands):

Fiscal Years Ending June 30		
2019	$	38
2020		38
2021		38
2022		38
2023		38
Total	$	190

Contingencies – The Program is subject to a variety of legal actions arising out of the normal course of business. Based upon information available to the Program, its review of such lawsuits and consultation with legal counsel, the Program believes the liability relating to these actions, if any, would not have a material adverse effect on the Program's financial statements.

NOTE 7 – EMPLOYEE BENEFIT PLANS

Public Employees' Retirement Fund (PERF)

Plan description – All of the employees of the Program are paid by the 1943 Fund. All qualified permanent and probationary employees of the 1943 Fund are eligible to participate in the separate Miscellaneous Plan (the Plan), an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by state statute. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website. While the 1943 Fund participates in an agent-multiple employer defined benefit pension plan, guidance pertaining to cost sharing employer defined benefit pension plans is followed for financial reporting for the 1943 Funds' proportionate share of the Miscellaneous Plan as the 1943 Fund is part of the state of California and the state allocates its involvement to its various state agencies.

Benefits provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. The benefit provisions for state employees are established by statute. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Retirement age (minimum)	50 and minimum 5 years service	52 and minimum 5 years service
Benefit formula (based off above hire date and retirement age)	2% @ 55	2% @ 62
Benefit payments (unmodified allowance)	Monthly for life	Monthly for life
Monthly benefits, as a % of eligible compensation (based off formula above)	1.426% - 2.418%	1.000% to 2.500%
Required employee contribution rates	5.00%	6.50%
Required employer contribution rates	28.325%	28.325%

Contributions – Section 20814(c) of the California Public Employees' Retirement Law 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. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30, by CalPERS. 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 1943 Fund is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Collective net pension liability – The net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The 1943 Fund's proportionate share of the net pension liability is 0.05566% which was calculated using the 1943 Fund's share of the pensionable compensation as compared to the total pensionable compensation amounts for the state. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial assumptions **–** The total pension liabilities in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous
Valuation date	6/30/2016
Measurement date	6/30/2017
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Salary increases	(1)
Payroll growth	3.00%
Investment rate of return	7.50% (2)
Mortality	(3)

(1) Varies by entry age and service
(2) Net of pension plan investment and administrative expenses; includes inflation
(3) Derived using CalPERS' membership data for all funds

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016, valuation were based on the results of a January 2014, actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website at www.calpers.ca.gov.

Discount rate – The discount rate used to measure the total pension liability was 7.15% for the Plan. 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 be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2018 fiscal year.

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-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11- 60 years) using a building-block approach. Using the expected nominal returns for both short-term 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-term 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.

The table below reflects 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. These rates of return are net of administrative expenses:

Asset Class	Current Target Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
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%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate – The following presents the net pension liability for the 1943 Fund, calculated using the discount rate for the 1943 Fund, as well as what the 1943 Fund's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease 6.15%	Current Discount Rate 7.15%	1% Increase 8.15%
Plan's collective net pension liability	$ 27,821,000	$ 20,335,000	$ 14,071,000

Pension expenses and deferred outflows/inflows of resources related to pensions – For the year ended June 30, 2018, the 1943 Fund recognized pension expense of $2,317,013. At June 30, 2018, the 1943 Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 2,365,863	$ -
Differences between expected and actual experience	89,093	189,781
Employer contributions	1,909,598	-
Supplemental contributions	2,004,000	-
Net differences between projected and actual earnings on plan investments	576,828	-
Total	$ 6,945,382	$ 189,781

The deferral for contributions after the measurement date will be reported as a reduction in the net pension liability of the Program in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2018	$ 798,843
2019	1,363,981
2020	973,200
2021	(294,021)
2022	-
Thereafter	-
	$ 2,842,003

State of California Other Postemployment Benefit Plan (SCOPEB)

Plan description – Plan benefits are approved by the CalPERS board of directors. The Program contributes to the SCOPEB as part of the State of California, the primary government. The SCOPEB is a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the State of California and CalPERS. CalPERS provides retirement, death, disability, and postretirement health care benefits to members as established by state statute. CalPERS issues a publicly available CAFR that includes financial statements and required supplementary information for the SCOPEB. A copy of that report may be obtained from CalPERS, Central Supply, P.O. Box 942715, Sacramento, CA 95229-2715 or via the CalPERS website.

Benefits provided – The State of California provides medical and prescription drug benefits to retired state employees and dependents through CalPERS under the Public Employees' Medical and Hospital Care Act, and dental benefits under the State Employees' Dental Care Act. The State, and certain bargaining units and judicial employees (valuation groups) have agreed to prefund retiree healthcare benefits. Assets are held in separate accounts by valuation group within the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit other postemployment benefits plan administered by CalPERS. Assets within each valuation group benefit retirees and dependents associated with that valuation group.

Contributions – The State and employees in all bargaining units and Judicial employees have agreed to pre-fund retiree healthcare benefits. The State and all members make contributions into separate accounts for each respective bargaining unit and Judicial employee group. Contributions are based on a percentage of pensionable compensation with the ultimate goal of contributing 100 percent of the actuarially determined normal cost shared equally between the State and employees. Pre-funding contributions and investment income are not available to pay plan benefits until the earlier of 2046 or the year that actuarial accrued liabilities are fully funded. Contributions to the OPEB plan from the Department of Veterans' Affairs were $0 for the year ended June 30, 2018. Employees are not required to contribute to the OPEB plan.

OPEB Assets, Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – At June 30, 2018, the 1943 Fund reported a liability of $31,047,221 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation date as of June 30, 2017. The 1943 Funds' proportionate share of the CalPERS net OPEB liability has been determined based on the Department of Veterans' Affairs' contributions to the CalPERS program (as reported by CalPERS) during the Measurement Period ending on the corresponding Measurement Date. The Department of Veterans' Affairs' proportionate share at June 30, 2017, was 0.101020%.

	Net OPEB Liability	Allocation
Professional, Administrative, Financial, and Staff Services (BU1)	$ 25,642,642	82%
Attorneys and Hearing Officers (BU2)	525,432	2%
Office and Allied (BU4)	3,692,467	12%
Printing and Allied Trades (BU14)	530,898	2%
Allied Services (BU15)	306,891	1%
Exempt/Excluded/Executive	348,891	1%
	$ 31,047,221	100%

For the year ended June 30, 2018, the 1943 Fund recognized an OPEB expense of $1,348,000. At June 30, 2018, the 1943 Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Changes of assumptions	$ -	$ 2,838,704	$ 2,838,704
Differences between expected and actual contributions	-	-	-
Employer contributions	-	-	-
Total	$ -	$ 2,838,704	$ 2,838,704

Deferred outflows and inflows of resources related to differences between expected and actual experience and changes in assumptions are amortized over closed periods equal to the average expected remaining service lives for members of each valuation group. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	Deferred Inflows of Resources
2018	$ 476,709
2019	476,709
2020	476,709
2021	473,606
2022	472,433
Thereafter	464,834
	$ 2,841,000

Actuarial Methods & Assumptions – The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial methods and assumptions:

Valuation date	6/30/2017
Measurement date	6/30/2017
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Discount rate	7.28% (1)
Inflation	2.75%
Salary increases	(2)
Investment rate of return	7.28% (3)
Healthcare cost trend rates	(4)
Mortality	(5)

(1) 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%
(2) Varies by entry age and service
(3) Net of OPEB plan investment expenses
(4) Varies by coverage type and year
(5) Derived using CalPERS' membership data for all members

The underlying mortality assumptions and all other actuarial 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 (Experience Study) for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website at www.calpers.ca.gov.

Discount rate – The discount rate used to measure the total OPEB liability at June 30, 2017, was 7.28% and was based on a blended rate for each valuation group. The cash flow projections used to calculate the discount rate were developed assuming that prefunding agreements in which actuarially determined normal cost are shared between employees and the State will continue and that he required contributions will be made on time and as scheduled in future years. The prefunding agreements are subject to collective bargaining and legislative approval.

Depletion date projection – GASB 75 generally requires that a blended discount rate be used to measure the total OPEB liability. The long-term expected 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), as 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.

The following table reflects the long-term expected real rate of return by asset class:

Asset Class	Target Asset Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11 - 60 (a)
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%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

Sensitivity of the net OPEB liability to changes in the discount rate – The following presents the 1943 Fund's proportionate share of the net OPEB liability/(asset), as well as what the 1943 Fund's proportionate share of the net OPEB liability/(asset) would be if it were calculated using a discount rate that is one percentage point lower (6.28%) or one percentage point higher (8.28%).

	1% Decrease 6.25%	Discount Rate 7.25%	1% Increase 8.25%
Proportionate share of the net OPEB liability (asset)	$ 36,682,000	$ 31,047,000	$ 26,559,000

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate – The following presents the 1943 Fund's proportionate share of the net OPEB liability/(asset), as well as what the 1943 Fund's proportionate share of the net OPEB liability/(asset) would be if it were calculated using a healthcare cost trend rate that is one percent lower or one percent higher.

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Proportionate share of the net OPEB liability (asset)	$ 26,219,000	$ 31,047,000	$ 37,245,000

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CalPERS financial report.

NOTE 8 – POOLED SELF-INSURANCE FUND

Effective July 1, 2010, pursuant to legislation enacted by the California State Legislature, the Department established a Pooled Self-Insurance Fund (the PIF). The PIF was established to help ensure that each of the Department's insurance programs, which include Fire and Reserve Hazard, Primary Mortgage, Disaster, and Life and Disability, is self-sufficient and adequately maintained for the benefit of the contract purchasers. The Program manages the PIF, and allocates the PIF related payroll expenses which the 1943 Fund incurs on its behalf.

The 1943 Fund is not legally bound to make any further advances to the PIF, although it is not precluded from doing so if circumstances warrant. The net position for the PIF was $24.3 million and $24.1 million as of June 30, 2018 and 2017, respectively.

NOTE 9 – RISK MANAGEMENT

The program is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters for which the Program established the PIF and carries commercial insurance.

There have been no significant reductions in insurance coverage or settlements in excess of insurance coverage for the years ended June 30, 2018 and 2017.

NOTE 10 – SUBSEQUENT EVENT

The Department has evaluated subsequent events through February 20, 2019, which is the date the financial statements available to be issued.

Required Supplementary Information

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	2018	2017
Proportion of the net pension liability	0.055659%	0.057895%
Proportionate share of the net pension liability	$ 20,335,000	$19,171,000
Covered employee payroll	$ 6,482,000	$ 6,497,000
Proportion of the net pension liability as a percentage of covered employee payroll	313.71%	295.07%
Proportion of fiduciary net position as a percentage of the proportion of total pension liability	66.42%	66.81%

Notes to schedule:
Benefit changes: There were no changes in benefit terms for the year ended June 30, 2017
Changes in assumptions: In 2017, the discount rate was changed from 7.65% to 7.15%.

SCHEDULE OF PLAN CONTRIBUTIONS FOR THE MEASUREMENT PERIODS ENDED JUNE 30

	2018	2017
Actuarial determined contribution [1]	$ 1,716,000	$ 1,625,000
Contributions in relation to the actuarially determined contribution [2]	(1,723,000)	(1,632,000)
Contribution excess	$ (7,000)	$ (7,000)
Covered payroll [3, 4]	$ 6,728,000	$ 6,482,000
Contributions as a percentage of covered payroll	25.61%	25.18%

[1] The actuarially determined contribution is based on the actuarially required employer contribution rate and the total contribution rate found in the June 30, 2016 actuarial valuation report.

[2] The actual contribution amount is based on the statutorily required contribution as outlined in Government Code Section 20683.2 based on actuarially determined amounts, which dictates that any excess employer contributions due to increased employee contributions must be allocated to the unfunded liability.

[3] Covered payroll represented above is based on pensionable earnings provided by the employer.

[4] Payroll from prior year was assumed to increase by the 3.00 percent payroll growth assumption.

Notes to Schedule of Plan Contributions:

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Inflation	2.75%
Salary increases	(1)
Payroll growth	3.00%
Investment rate of return	7.50% (2)
Retirement age	(3)
Mortality	(4)

(1) Varies by entry age and service
(2) Net of pension plan investment and administrative expenses; includes inflation
(3) Based on 2014 CalPERS experience study from 1997 to 2011
(3) Derived using CalPERS' membership data for all funds

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Other Postemployment Benefits
Last Ten Years *

	2018
Proportion of the OPEB liability	0.101020%
Proportionate share of the net OPEB	$ 31,047,000
Covered employee payroll **	$ 6,397,000
Proportionate share of the net OPEB liability as a percentage of covered employee payroll	485.34%
Plan net position as a percentage of the total OPEB liability	100.00%

* Only years with available information and presented.
** As of the measurement date which is one year in arrears.

SCHEDULE OF CONTRIBUTIONS
Other Postemployment Benefits
Last Ten Years *

	2018
Actuarially determined contributions	$ 1,551,000
Contributions in relation to the contractually required contribution **	-
Contribution deficiency (excess)	$ 1,551,000
Covered employee payroll	$ 6,728,000
Contributions as a percentage of covered employee payroll	0.00%

* Only years with available information are presented.
** The State is still determining contributions for fiscal year ended June 30, 2018, therefore no contributions were made during the year.

Supplementary Information

Veterans' Farm and Home Purchase Program
Department of Veterans Affairs, State of California
Combining Statements of Net Position
June 30, 2018
(In Thousands)

	ASSETS			
	Veterans Farm and Home Building Fund of	Veterans Debenture Revenue Fund	Pooled Self-Insurance Fund	Total
CURRENT ASSETS				
Cash in the state treasury	$ 7,873	$ 1	$ 1,097	$ 8,971
State of California Surplus Money Investment Fund	83,482	9,952	26,504	119,938
Total cash and cash equivalents	91,355	9,953	27,601	128,909
Current portion of receivables under contracts of purchase – net of allowance for uncollectible contracts	30,089	-	-	30,089
Due from (to) other funds	1,468	(38)	(1,303)	127
Interest receivable	4,597	38	101	4,736
Total current assets	127,509	9,953	26,399	163,861
NONCURRENT ASSETS				
Investments:				
Taxable municipal securities and other investments	18,215	-	-	18,215
Receivables under contracts of purchase – net of allowance for uncollectible contracts	929,713	-	-	929,713
Other real estate owned	1,412	-	-	1,412
Capital assets – net	463	-	-	463
Other noncurrent assets	3,724	-	-	3,724
Total noncurrent assets	953,527	-	-	953,527
TOTAL ASSETS	1,081,036	9,953	26,399	1,117,388
DEFERRED OUTFLOWS OF RESOURCES	9,228	-	-	9,228
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$1,090,264	$ 9,953	$ 26,399	$1,126,616

(In Thousands)

	LIABILITIES AND NET POSITION			
	Veterans Farm and Home Building Fund	Veterans Debenture Revenue Fund	Pooled Self-Insurance Fund	Total
CURRENT LIABILITIES				
Bonds payable – current portion	$ 1,770	$ -	$ -	$ 1,770
Accrued interest and other liabilities	12,629	-	1,679	14,308
Due to other funds	515	-	-	515
Total current liabilities	14,914	-	1,679	16,593
NONCURRENT LIABILITIES				
Bonds payable – noncurrent portion	958,095	-	-	958,095
Insurance claims reserves	-	-	402	402
Other postemployment benefits	31,047	-	-	31,047
Net pension liability	23,257	-	-	23,257
Total noncurrent liabilities	1,012,399	-	402	1,012,801
Total liabilities	1,027,313	-	2,081	1,029,394
DEFERRED INFLOWS OF RESOURCES	3,031	-	-	3,031
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,030,344	-	2,081	1,032,425
NET POSITION – RESTRICTED	59,920	9,953	24,318	94,191
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 1,090,264	$ 9,953	$ 26,399	$ 1,126,616

Veterans' Farm and Home Purchase Program
Department of Veterans Affairs, State of California
Combining Statements of Net Position (continued)
June 30, 2017
(In Thousands)

	ASSETS			
	Veterans Farm and Home Building Fund of	Veterans Debenture Revenue Fund	Pooled Self-Insurance Fund	Total
CURRENT ASSETS				
Cash in the state treasury	$ 6,489	$ 2	$ 702	$ 7,193
State of California Surplus Money Investment Fund	128,088	11,595	26,380	166,063
Total cash and cash equivalents	134,577	11,597	27,082	173,256
Current portion of receivables under contracts of purchase – net of allowance for uncollectible contracts	29,092	-	-	29,092
Due from other funds	3,560	(1,671)	(1,536)	353
Interest receivable	4,346	27	61	4,434
Total current assets	171,575	9,953	25,607	207,135
NONCURRENT ASSETS				
Investments:				
Taxable municipal securities and other investments	17,964	-	-	17,964
Receivables under contracts of purchase – net of allowance for uncollectible contracts	880,725	-	-	880,725
Other real estate owned – net of valuation allowance	259	-	-	259
Capital assets – net	552	-	-	552
Other noncurrent assets	1,697	-	5	1,702
Total noncurrent assets	901,197	-	5	901,202
TOTAL ASSETS	1,072,772	9,953	25,612	1,108,337
DEFERRED OUTFLOWS OF RESOURCES	5,006	-	-	5,006
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$1,077,778	$ 9,953	$ 25,612	$1,113,343

(In Thousands)

	LIABILITIES AND NET POSITION			
	Veterans Farm and Home Building Fund	Veterans Debenture Revenue Fund	Pooled Self-Insurance Fund	Total
CURRENT LIABILITIES				
Bonds payable – current portion	$ 5,710	$ -	$ -	$ 5,710
Accrued interest and other liabilities	12,696	-	1,186	13,882
Due to other funds	733	-	-	733
Total current liabilities	19,139	-	1,186	20,325
NONCURRENT LIABILITIES				
Bonds payable – noncurrent portion	943,858	-	-	943,858
Insurance claims reserves	-	-	329	329
Other postemployment benefits	5,888	-	-	5,888
Net pension liability	19,171	-	-	19,171
Total noncurrent liabilities	968,917	-	329	969,246
Total liabilities	988,056	-	1,515	989,571
DEFERRED INFLOWS OF RESOURCES	44	-	-	44
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	988,100	-	1,515	989,615
NET POSITION – RESTRICTED	89,678	9,953	24,097	123,728
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 1,077,778	$ 9,953	$ 25,612	$ 1,113,343

Veterans' Farm and Home Purchase Program
Department of Veterans Affairs, State of California
Combining Statements of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2018
(In Thousands)

	STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
	Veterans Farm and Home Building Fund	Veterans Debenture Revenue Fund	Pooled Self-Insurance Fund	Total
REVENUES				
Program operations				
Contracts of purchase of properties	$ 41,422	$ -	$ -	$ 41,422
Investments and other	2,106	127	338	2,571
Insurance revenue and claim reimbursements	44	-	5,060	5,104
Program administrative				
Fees	1,893	-	150	2,043
Other revenue	1,340	-	-	1,340
Total revenues	46,805	127	5,548	52,480
EXPENSES				
Program operations				
Interest expense	31,056	-	-	31,056
Provision for program loan losses	768	-	-	768
Insurance premiums and claims paid	-	-	3,862	3,862
Program administrative				
Payroll and related costs	12,243	-	-	12,243
General and administrative expenses	8,051	-	1,108	9,159
Total expenses	52,118	-	4,970	57,088
NET OPERATING (LOSS) INCOME	(5,313)	127	578	(4,608)
NONOPERATING REVENUE (EXPENSE)				
Gain on sale of repossessed property	255	-	-	255
Transfers	484	(127)	(357)	-
(Deficiency) excess of revenues over expenses	(4,574)	-	221	(4,353)
NET POSITION				
Beginning of year	89,678	9,953	24,097	123,728
Restatement due to GASB 75 implementation	(25,184)			(25,184)
(Deficiency) excess of revenues over expenses	(4,574)	-	221	(4,353)
End of year	$ 59,920	$ 9,953	$ 24,318	$ 94,191

(In Thousands)

	STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
	Veterans Farm and Home Building Fund	Veterans Debenture Revenue Fund	Pooled Self-Insurance Fund	Total
REVENUES				
Program operations				
Contracts of purchase of properties	$ 40,989	$ -	$ -	$ 40,989
Investments and other	1,063	85	202	1,350
Insurance revenue and claim reimbursements	194	-	5,160	5,354
Program administrative				
Fees	2,156	-	335	2,491
Other revenue	1,933	-	-	1,933
Total revenues	46,335	85	5,697	52,117
EXPENSES				
Program operations				
Interest expense	31,604	-	-	31,604
Provision for program loan losses	855	-	-	855
Insurance premiums and claims paid	-	-	5,517	5,517
Program administrative				
Payroll and related costs	14,390	-	-	14,390
General and administrative expenses	9,782	-	737	10,519
Total expenses	56,631	-	6,254	62,885
NET OPERATING (LOSS) INCOME	(10,296)	85	(557)	(10,768)
NONOPERATING REVENUE (EXPENSE)				
Gain on sale of repossessed property	725	-	-	725
Transfers	312	126	(438)	-
Excess (deficiency) of revenues over expenses	(9,259)	211	(995)	(10,043)
NET POSITION				
Beginning of year	98,937	9,742	25,092	133,771
Excess (deficiency) of revenues over expenses	(9,259)	211	(995)	(10,043)
End of year	$ 89,678	$ 9,953	$ 24,097	$ 123,728

APPENDIX D

CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA

Contracts of Purchase

Set forth below is certain financial information regarding Contracts of Purchase. Capitalized terms not defined herein shall have the meanings ascribed to them in the forepart of this Official Statement or Appendix B to this Official Statement.

Existing Contracts of Purchase

The following charts describe the LTV ratio of Contracts of Purchase based on the original appraised value of the applicable properties, geographic distribution, portfolio age data, and high LTV distribution of Contracts of Purchase financed under the Program as of December 31, 2018 using proceeds of Veterans G.O. Bonds and Commercial Paper Notes, Revenue Bonds and other amounts under the 1943 Fund.

LTV is based on Contracts of Purchase balance as of December 31, 2018 divided by original appraised value of the property, except where the Department has updated the appraised value of the applicable home after a veteran has applied for a home improvement loan. In such cases, the LTV is calculated with the new appraised value. Current appraised value may be higher or lower than original appraised value. For some properties financed with Contracts of Purchase, the appraised value as of December 31, 2018, is lower than the original appraised value. The appraisals reflect the market conditions at the time the appraisals were conducted, may not reflect current values, are not guarantees and may not be fully indicative of present or future values. This paragraph includes information relevant to references to LTV in the tables below:

Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of December 31, 2018[1]

	Uninsured	Original Radian Insured[2]	Additional Radian Insured[2]	VA Guaranteed	Total
Single Family Homes					
Less than 30% LTV	$ 16,565	$ 3,152	$ 430	$ 1,218	$ 21,365
30-49% LTV	39,544	8,091	4,136	9,873	61,644
50-59% LTV	24,803	4,704	17,632	12,720	59,859
60-69% LTV	18,594	403	35,315	20,484	74,796
70-79% LTV	20,784	-	21,414	41,909	84,107
Sub-total	$ 120,290	$ 16,350	$ 78,927	$ 86,204	$ 301,771
80-84% LTV	$ 12,064	$ -	$ 1,336	$ 36,725	$ 50,125
85-89% LTV	15,737	-	-	50,609	66,346
90-94% LTV	15,676	-	-	174,121	189,797
95-97% LTV	1,090	-	-	178,331	179,421
Sub-total	$ 44,567	$ -	$ 1,336	$ 439,786	$ 485,689
Greater than 97% LTV	$ 592	$ -	$ -	$ 201,686	$ 202,278
Other Loan and Property Types					
Farms	$ 1,098	$ 85	$ 371	$ -	$ 1,554
Mobile Homes in Parks	9,789	77	6,240	-	16,106
Home Improvement Loans	10,002	-	-	-	10,002
Homes under Construction	2,929	-	-	-	2,929
Deferred Payment Assistance Loans	616	-	-	-	616
Sub-total	$ 24,434	$ 162	$ 6,611	$ -	$ 31,207
Special Status Contracts of Purchase					
Real Estate Owned[3]	$ 137	$ 73	$ 324	$ -	$ 534
Cancelled	276	-	140	749	1,165
Disability Program[4]	169	262	81	134	646
Sub-total	$ 582	$ 335	$ 545	$ 883	$ 2,345
Total Portfolio	$ 190,465	$ 16,847	$ 87,419	$ 728,559	$ 1,023,290

Source: Department of Veterans Affairs.

(1) Amounts in thousands.

(2) The primary mortgage insurance policies (the "Radian Policies") issued by Radian Guaranty Inc. ("Radian") provide coverage for aggregate losses incurred on covered Contracts of Purchase following property disposition, above an aggregate 2% deductible based upon the originally insured balances of the Contracts of Purchase originally included in the applicable group identified by Radian Policy coverage dates. As many of the Contracts of Purchase insured under the Original Radian Policy have high originally insured balances but have been paid down significantly over the life of such Contracts of Purchase, the Department does not anticipate that it will incur losses on Contracts of Purchase in excess of the aggregate 2% deductible in the Original Radian Policy. For the Additional Radian Policy, Radian's aggregate 2% deductible was met and Radian is now paying claims under the Additional Radian Policy. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – USDVA Guaranty Program; Other Loan Insurance – USDVA Guaranty Program" and "—Primary Mortgage Insurance Coverage" above and "Primary Mortgage Insurance" below.

(3) REO by the Department on financial statements.

(4) Contracts of Purchase where payments are made on behalf of veterans by the Department's life and disability coverage plan.

Geographic Distribution of Contracts of Purchase
Approximate Principal Balance Outstanding
as of December 31, 2018[(1)]

County	
Riverside	$ 135,413
Sacramento	103,859
Los Angeles	87,420
San Diego	85,015
San Bernardino	64,695
Solano	44,562
Fresno	41,732
Placer	35,527
Kern	34,027
San Joaquin	31,129
Contra Costa	26,274
Orange	23,364
Shasta	18,419
El Dorado	17,916
Butte	16,964
Other Northern California Counties	139,797
Other Central California Counties	99,463
Other Southern California Counties	17,714
Statewide—California........................	$ 1,023,290

Source: Department of Veterans Affairs.
(1) Amounts in thousands. Approximate Principal Balance Outstanding of Contracts of Purchase includes the principal balance of delinquent Contracts of Purchase, cancelled or foreclosed upon Contracts of Purchase and REO in inventory.

Portfolio Age Data for Outstanding Contracts of Purchase as of December 31, 2018

Origination Date	Number of Contracts of Purchase	% of Outstanding Contracts of Purchase	Outstanding Principal Balance[(1)]	Outstanding Principal Balance as a Percent of Total Portfolio
1999 and Prior	673	12.43%	$ 28	2.77%
2000	175	3.23	13	1.25
2001	62	1.15	4	0.41
2002	135	2.49	12	1.21
2003	332	6.13	41	4.02
2004	346	6.39	47	4.62
2005	205	3.79	24	2.38
2006	229	4.23	30	2.97
2007	254	4.70	37	3.57
2008	215	3.97	32	3.15
2009	85	1.57	7	0.67
2010	64	1.18	5	0.43
2011	44	0.81	3	0.30
2012	38	0.71	4	0.34
2013	70	1.29	13	1.28
2014	226	4.18	49	4.79
2015	449	8.29	124	12.11
2016	520	9.61	160	15.61
2017	575	10.62	180	17.62
2018	716	13.23	210	20.50
Total	5,413	100.00%	$ 1,023	100.00%

Source: Department of Veterans Affairs.
(1) Amounts in millions. Outstanding principal balance of Contracts of Purchase includes the principal balance of delinquent Contracts of Purchase, cancelled or foreclosed upon Contracts of Purchase and REO in inventory.

Contracts of Purchase[1] with 97% LTV or Higher as of December 31, 2018

County	USDVA Guaranteed	No USDVA Guaranty or other Primary Mortgage Insurance	Total Contracts of Purchase with 97% or Higher LTV	Outstanding Balance of Contracts of Purchase with 97% or Higher LTV[2]
Riverside	138	0	138	$ 51,315
Sacramento	100	0	100	34,707
San Bernardino	43	0	43	13,427
San Diego	40	0	40	19,766
Los Angeles	38	2	40	17,263
All Other Counties[3]	353	2	355	127,843
Total	712	4	716	$ 264,321

Source: Department of Veterans Affairs.

(1) Includes "Single Family Homes," "Other Property Types" and "Special Status Contracts of Purchase" as described in the table titled "Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of December 31, 2018." Excludes Home Improvement Loans, as described in the table titled "Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of December 31, 2018."

(2) Amounts in thousands.

(3) All counties not listed individually had less than 38 total contracts with a LTV of 97% or higher, as described above.

Primary Mortgage Insurance Coverage

The Contracts of Purchase insured under Radian Policies are divided into four sub-groups. The following table describes the sub-groups and outstanding Contracts of Purchase, insured under Radian Policies, as of December 31, 2018.

Group	Approximate Contracts of Purchase Coverage Dates[(4)]	Total Contracts of Purchase	Percentage of Radian Insured Portfolio[(1)]	Percentage of Radian Insured Portfolio of Department Total Portfolio[(1)]	Loan-to-Value Ratio Radian Insured[(2)()]	Original Aggregate Sub-group Deductible[(3]	Remaining Aggregate Sub-group Deductible
Original Radian Policy							
1	Prior to 2/3/1998	267	9.72%	0.97%	29.29%	$ 14,024,312	$ 12,636,931
2	2/3/1998 – 11/30/1998	28	1.44%	0.14%	39.60%	2,101,257	2,027,113
3	12/1/1998 – 6/30/2000	3	0.15%	0.01%	46.83%	568,391	568,391
Additional Radian Policy							
4	7/1/2000 – 3/31/2008	745	88.69%	8.89%	59.67%	24,252,550	
	Total	1043	100.00%	10.01%	53.83%		

Source: Department of Veterans Affairs.

(1) Percentage based on outstanding Contract of Purchase principal amounts.

(2) Calculated as the ratio of the outstanding principal amount of the aggregate Contracts of Purchase during the applicable period as compared to the aggregate original appraised value of the properties subject to such Contracts of Purchase at origination. The appraisals reflect the market conditions at the time the appraisals were conducted, may not reflect current values, are not guarantees and may not be fully indicative of present or future values.

(3) The Radian Policies provide coverage for aggregate losses incurred on covered Contracts of Purchase following property disposition, above an aggregate 2% deductible based upon the originally insured balances of the Contracts of Purchase originally included in the applicable group identified by Radian policy coverage dates. As many of the Contracts of Purchase insured under the Original Radian Policy have high originally insured balances but have been paid down significantly over the life of such Contracts of Purchase, the Department does not anticipate that it will incur losses on Contracts of Purchase in excess of the aggregate 2% deductible in the Original Radian Policy. For the Additional Radian Policy, Radian's aggregate 2% deductible was met and Radian is now paying claims under the Additional Radian Policy. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – USDVA Guaranty Program; Other Loan Insurance" and "Primary Mortgage Insurance Coverage."

(4) "Coverage Date" is the respective Radian Policy date. As of April 1, 2008, the Department discontinued purchase of Radian mortgage insurance coverage.

Contracts of Purchase Origination and Principal Repayment Experience

The following tables represent, respectively, a historical picture of Contract of Purchase originations since the fiscal year ended June 30, 1990 and selected principal repayments with respect to Contracts of Purchase since the fiscal year ended June 30, 1990.

Contracts of Purchase Originated During the Fiscal Year

Fiscal Year Ending June 30	Veterans G.O. Bonds		Pre-Ullman Moneys		Revenue Bonds		Total	
	Number[1]	Amount	Number[1]	Amount	Number[1]	Amount	Number[1]	Amount
1990	2,097	$ 187,445,600	--	--	522	$ 38,150,800	2,619	$225,596,400
1991	1,927	200,393,500	--	--	359	29,189,600	2,286	229,583,100
1992	1,086	111,600,500	--	--	388	34,671,600	1,474	146,272,100
1993	740	94,417,100	--	--	286	27,443,800	1,026	121,860,900
1994	843	117,213,779	--	--	337	34,740,536	1,180	151,954,315
1995	2,109	286,178,376	--	--	822	84,860,894	2,931	371,039,270
1996	762	107,751,444	--	--	222	22,723,617	984	130,475,061
1997	766	118,344,636	--	--	201	21,853,933	967	140,198,569
1998	615	99,224,002	188	$ 17,716,376	164	18,871,066	967	135,811,444
1999	758	129,521,359	575	92,728,280	274	33,284,343	1,607	255,533,982
2000	1,045	185,180,534	1,725	333,328,690	708	92,214,409	3,478	610,723,633
2001	844	135,498,480	1,211	232,445,146	697	101,175,512	2,752	469,119,138
2002	334	56,887,867	416	74,915,487	204	27,178,525	954	158,981,879
2003	357	68,105,508	508	99,105,265	123	16,285,625	988	183,496,398
2004	444	97,223,818	1173	274,187,085	165	26,109,792	1,782	397,520,696
2005	285	72,958,181	702	181,075,275	178	37,152,048	1,165	291,185,504
2006	198	48,999,641	898	230,993,270	5	831,638	1,101	280,824,549
2007	74	19,751,777	764	173,744,639	68	11,349,372	906	204,845,788
2008	214	38,721,589	428	139,470,089	417	111,589,399	1,059	289,781,076
2009	255	83,697,271	161	42,079,390	263	66,032,084	679	191,808,746
2010	34	10,805,881	31	8,170,125	74	13,122,489	139	32,098,495
2011	23	5,741,933	92	7,235,231	41	7,027,890	156	20,005,054
2012	13	3,694,109	44	3,619,080	26	4,170,377	83	11,483,566
2013	7	2,821,875	29	2,619,739	13	3,686,085	49	9,127,700
2014	172	57,114,169	25	5,718,970	38	7,547,436	235	70,380,575
2015	307	104,057,536	108	17,620,828	70	15,103,528	485	136,781,892
2016	380	138,616,456	138	26,739,697	74	16,200,693	592	181,556,846
2017	290	128,080,426	181	45,274,878	204	49,375,869	675	222,731,173
2018	222	100,478,330	123	26,434,186	213	48,889,944	558	175,802,460
2019[2]	136	58,478,041	81	22,183,131	205	37,749,200	422	118,410,372

Source: Department of Veterans Affairs.

(1) Number of Contracts of Purchase originated does not include home improvement loans or construction loans not fully funded.

(2) As of December 31, 2018.

Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds (Dollar Amounts in Thousands)

Fiscal Year Ending June 30	Contracts of Purchase Funded During Year[1]	Contracts of Purchase Prepayments During Year	Other Principal Receipts-Losses During Year	Contracts of Purchase Balance at End of Year	Average Rate on all Outstanding Contracts of Purchase	Average of Monthly FHLMC 30-year Conventional Loan Rate	Annual Average Prepayment Rate	Annual Average Origination Rate
	Principal Flows				Rates			
1990	$ 225,596	$ 232,085	$ 96,639	$ 3,037,766	8.0%	10.1%	7.5%	7.3%
1991	229,583	191,895	92,722	2,982,732	8.0	9.9	6.4	7.6
1992	146,272	246,150	92,975	2,789,879	8.0	9.0	8.5	5.1
1993	121,861	273,817	105,629	2,532,294	8.0	8.0	10.3	4.6
1994	151,954	359,749	98,773	2,225,726	8.0	7.3	15.1	6.4
1995	371,039	111,984	74,706	2,410,075	7.8	8.7	4.8	16.0
1996	130,475	141,767	92,521	2,306,262	8.0	7.5	6.0	5.5
1997	140,199	111,254	106,027	2,229,180	8.0	7.9	4.9	6.2
1998	135,812	172,134	94,106	2,098,752	7.7	7.2	8.0	6.3
1999	255,534	183,776	101,254	2,069,256	6.9	6.9	8.8	12.3
2000	610,724	138,401	106,522	2,435,056	6.8	8.1	6.1	27.1
2001	469,119	189,902	91,033	2,623,241	6.8	7.5	7.5	18.5
2002	158,982	330,068	86,556	2,365,599	6.8	6.9	13.2	6.4
2003	183,496	701,785	74,643	1,772,667	6.7	5.9	33.9	8.9
2004	397,521	576,907	53,833	1,539,448	6.3	5.9	34.8	24.0
2005	291,186	272,044	70,564	1,488,026	5.9	5.8	18.0	19.2
2006	280,825	204,037	51,481	1,513,333	5.8	6.2	13.6	18.7
2007	204,846	132,207	50,403	1,535,569	5.8	6.4	8.7	13.4
2008	289,781	82,575	53,915	1,688,860	5.8	6.2	5.1	18.0
2009	191,809	84,010	56,756	1,739,903	5.9	5.6	4.9	11.2
2010	32,098	139,533	77,901	1,554,567	5.7	5.0	8.5	1.9
2011	20,005	123,520	74,199	1,376,853	5.7	4.6	8.4	1.4
2012	11,484	136,078	66,662	1,185,597	5.7	4.0	10.6	0.9
2013	9,128	187,623	54,740	952,362	5.6	3.5	17.6	0.9
2014	73,508	142,868	43,697	839,305	5.5	4.2	16.0	8.2
2015	143,538	129,325	32,669	820,849	5.2	3.9	15.6	17.3
2016	182,070	123,301	31,778	847,840	4.9	3.8	14.8	21.9
2017	217,397	122,236	29,821	913,180	4.6	3.9	13.9	24.7
2018	176,796	95,645	29,243	965,088	4.4	4.4	10.2	18.8
2019[2]	118,832	43,888	16,746	1,023,286	4.4	4.7	8.8	23.9
	$ 5,971,470	$ 5,980,564	$ 2,108,513					

Source: Department of Veterans Affairs.

(1) Number of Contracts of Purchase Funded includes disbursements for home improvement loans and constructions loans.

(2) As of December 31, 2018.

Reservation rates on new Contracts of Purchase for period:

Period	Veterans G.O. Bonds[1]	Pre-Ullman Funds[1]	Revenue Bonds
Prior to January 1, 1999, substantially all newly originated Contracts of Purchase have the same rate as the then outstanding Contracts of Purchase.			
January 1, 1999 through June 30, 2000	6.65%	6.65%	5.95%
July 1, 2000 through February 28, 2001	7.50	7.95	6.95
March 1, 2001 through May 31, 2001	6.50	7.95	6.40
June 1, 2001 through August 31, 2001	6.50	7.10	6.40
September 1, 2001 through April 1, 2002	6.25	6.50	6.00
April 2, 2002 through July 31, 2002	5.90	5.50	5.80
August 1, 2002 through December 1, 2002	5.50	6.00	5.80
December 2, 2002 through June 15, 2003	4.99	5.40	5.25
June 16, 2003 through September 1, 2003	4.25	4.50	4.50
September 1, 2003 through September 15, 2003	4.25	4.99	4.50
September 16, 2003 through May 5,2004	4.50	4.99	4.50
May 6, 2004 through June 1, 2004	4.75	5.25	4.75
June 2, 2004 through December 13, 2004	4.95	5.50	5.10
December 14, 2004 through April 3, 2005	4.95	5.50	5.50
April 4, 2005 through December 9, 2005	5.15	5.50	5.50
December 10, 2005 through February 5, 2006	5.50	5.50	5.50
February 6, 2006 through March 14, 2006	5.70	5.70	5.70
March 15, 2006 through April 25, 2006	6.00	6.00	6.00
April 26, 2006 through July 5, 2006	6.25	6.25	6.25
July 6, 2006 through December 19, 2006	6.50	6.50	6.50
December 20, 2006 through March 15, 2007	5.50	6.10	5.75
March 16, 2007 through July 9, 2007	5.50	6.10	5.25
July 10, 2007 through August 12, 2007	5.50	6.45	5.25
August 13, 2007 through October 14, 2007	5.50	6.55	5.25
October 15, 2007 through February 6, 2008	5.50	6.55	5.45
February 7, 2008 through June 25, 2008	5.50	6.10	5.45
June 26, 2008 through January 28, 2009	5.95	6.20	5.50
January 29, 2009 through February 13, 2011	5.95	6.20	5.75
February 14, 2011 through October 2, 2011	5.70	5.95	5.50
October 3, 2011 through February 29, 2012	5.50	5.95	5.25
March 1, 2012 through May 31, 2012	5.50	5.95	4.95
June 1, 2012 through July 31, 2012	4.95	5.95	4.60
August 1, 2012 through February 3, 2013	4.95	5.95	4.25
February 4, 2013 through February 28, 2013	4.50	5.50	4.25
March 1, 2013 through May 5, 2013	4.15	5.50	4.25
May 6, 2013 through November 30, 2014	3.90	5.50	4.25
December 1, 2014 through February 2, 2015	3.75	5.50	4.25
February 3, 2015 through June 14, 2015	3.50[2]/3.75	5.50	4.25
June 15, 2015 through December 31, 2015	3.50[2]/3.90	5.50	4.25
January 1, 2016 through February 7, 2016	3.25[2]/3.99	5.50	4.25
February 8, 2016 through May 1, 2016	3.25[2]/3.75	5.50	4.25
May 2, 2016 through June 30, 2016	3.00[2]/3.50	5.50	4.25
July 1, 2016 through December 31, 2016	3.00[2]/3.50	5.50	3.45
January 1, 2017 through December 3, 2017	3.00[2]/3.875	5.50	3.75
December 4, 2017 through February 28, 2018	3.00[2]/3.875	5.50	3.75
March 1, 2018 through April 30, 2018	3.00[2]/3.99	5.50	3.75
May 1, 2018 through May 31, 2018	3.00[2]/4.125	5.99	3.75
June 1, 2018 through June 30, 2018	3.25[2]/4.25	5.99	3.99
July 1, 2018 through July 31, 2018	3.25[2]/4.25	5.99	4.25
August 1, 2018 through September 30, 2018	3.50[2]/4.50	5.99	4.375
October 1, 2018 through October 31, 2018	3.75[2]/4.75	5.99	4.625
November 1, 2018 through December 31,2018	3.99[2]/4.875	5.99[3]	4.75

Source: Department of Veterans Affairs.

(1) Rates for Contracts of Purchase for mobile homes in mobile home parks are 1% higher than the applicable established rates.

(2) Rates for Contracts of Purchase with terms of up to 20 years.

(3) Until January 31, 2019 the Department has made and may continue to make available not more than a total of $15 million of Pre-Ullman Moneys to fund Contracts of Purchase, subject to certain qualifications, at an interest rate of 4.99%.

Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments

The following table shows amounts expected to be available to fund Contracts of Purchase from funds related to Veterans G.O. Bonds and Revenue Bonds. Additional moneys may become available to finance Contracts of Purchase through the future issuances of Veterans G.O. Bonds and Revenue Bonds. The Department has full discretion, subject to eligibility requirements and the requirements of the Internal Revenue Code of 1986, as amended (the "Federal Tax Code"), in applying the proceeds of Veterans G.O. Bonds, Revenue Bonds and other available moneys in the 1943 Fund to finance the Program in any order of priority it chooses. As of December 31, 2018, the Department had 87 pending applications for Contracts of Purchase in the aggregate amount of approximately $22,847,064.

Amounts Expected to be Available to Fund Contracts of Purchase[(1)(2)(3)]

	Pre-Ullman Moneys				QVMB Moneys				QMB Moneys			
	Amount On Deposit on Dec. 31, 2018	**Amounts Expected to be Deposited through April 30, 2019**	**Amounts Expected to be Applied to Contracts of Purchase through April 30, 2019**	**Amount Expected to be Available on April 30, 2019**	**Amount On Deposit on Dec. 31, 2018**	**Amounts Expected to be Deposited through April 30, 2019**	**Amounts Expected to be Applied to Contracts of Purchase through April 30, 2019**	**Amount Expected to be Available on April 30, 2019**	**Amount On Deposit on Dec. 31, 2018**	**Amounts Expected to be Deposited through April 30, 2019**	**Amounts Expected to be Applied to Contracts of Purchase through April 30, 2019**	**Amount Expected to be Available on April 30, 2019**
Veterans G.O. Bond Proceeds and Recycling Subaccounts												
Pre-Ullman Moneys.....	$ 4,928	$ 8,000	$ (10,500)	$ 2,428	$ 0	$ 0	$ 0	$ 0				
QVMB Reimbursement	0	0	0	0	3,010	11,310	0	14,320				
CJ G.O. Recycling	0	0	0	0	2,628	2,000	(2,500)	2,128				
CR G.O. Proceeds……….	0	0	0	0	11,294	0	(11,294)	0				
CS G.O. Proceeds……….	0	0	0	0	0	104,018*	(22,000)*	82,018*				
Total	**$ 4,928**	**$ 8,000**	**$ (10,500)**	**$ 2,428**	**$ 16,932**	**$ 117,328***	**$ (35,794)***	**$ 98,446***				
Revenue Bond Proceeds and Recycling Subaccounts												
QMB Reimbursement..	$ 0	$ 0	$ 0	$ 0					$ 7,047	$ 7,528	$ 0	$ 14,575
2016B..........................	0	0	0	0					464	0	(464)	0
2019A..........................	0	0	0	0					0	77,649	(48,920)	28,728
Total	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 7,511**	**$ 87,177**	**$ (49,384)**	**$ 43,303**
Grand Total	**$ 4,928**	**$ 8,000**	**$ (10,500)**	**$ 2,428**	**$ 16,932**	**$ 117,328***	**$ (35,794)***	**$ 98,446***	**$ 7,511**	**$ 87,177**	**$ (49,384)**	**$ 43,303**

Source: Department of Veterans Affairs.

* Preliminary, subject to change. To be determined upon the issuance of both the Offered Veterans G.O. Bonds.

(1) Amounts in thousands.

(2) Current or expected investment of funds is in the Surplus Money Investment Fund ("SMIF"), at a variable rate. Amounts invested in SMIF may be withdrawn and reinvested at any time.

(3) Amounts labeled as reimbursement and expected to be available on April 30, 2019 may either be used for Contracts of Purchase or other allowable purposes under the Resolution.

Cancellations and Delinquencies

Set forth in the tables below are (i) a comparative chart of delinquent, cancelled and repossessed Contracts of Purchase and certain comparative information regarding USDVA guaranteed loans during the same period, and a breakdown of delinquencies by county and origination date, (ii) distribution of delinquencies with respect to Contracts of Purchase by County and (iii) delinquencies with respect to Contracts of Purchase by origination date.

Percentage of Number of Contracts of Purchase in the Department's Portfolio which are Delinquent	**2007(1)**	**2008(1)**	**2009(1)**	**2010(1)**	**2011(1)**	**2012(1)**	**2013(1)**	**2014(1)**	**2015(1)**	**2016(1)**	**2017(1)**	**2018(1)**	**2018(6)**
30-60 days(2)(3)	2.68%	2.75%	3.30%	3.61%	3.43%	3.12%	3.70%	3.27%	2.74%	2.14%	1.80%	2.77%	2.88%
60+ days(2)(3)	1.13	1.64	3.30	3.68	3.72	3.72	3.09	2.42	1.84	1.43	1.67	1.66	2.14
Foreclosures in inventory (Cancelled Contracts)(3)(4)	0.15	0.29	0.58	0.85	0.69	0.89	1.12	0.30	0.45	0.29	0.24	0.15	0.20
Real Estate in inventory	0.06	0.21	0.55	0.62	0.85	0.71	0.47	0.37	0.17	0.34	0.04	0.23	0.09
Percentage of Number of USDVA Guaranteed Loans in the U.S. which are Delinquent(5)													
30-60 days	3.66	3.76	3.76	3.65	3.45	3.06	2.98	2.51	2.28	2.25	2.01	2.11	2.24
60+ days	2.44	2.90	4.01	3.83	3.33	3.38	2.99	2.70	2.31	2.03	1.67	1.80	1.81
Foreclosures in inventory	1.02	1.33	2.07	2.50	2.30	2.28	1.88	1.56	1.37	1.19	0.99	0.87	0.87
Percentage of Number of USDVA Guaranteed Loans in California which are Delinquent(5)													
30-60 days	2.56	2.64	2.57	2.55	2.37	2.16	2.08	1.81	1.64	1.59	1.39	1.59	1.69
60+ days	1.33	1.82	2.78	3.09	2.42	2.53	2.18	1.70	1.41	1.12	0.95	0.96	1.16
Foreclosures in inventory	0.44	0.82	1.50	1.90	1.40	1.32	0.73	0.60	0.51	0.46	0.38	0.36	0.39
Percentage of Number of Conventional Loans in the U.S. which are Delinquent(5)													
30-60 days	1.78	2.08	2.49	2.39	2.33	2.11	1.89	1.66	1.50	1.44	1.81	1.80	1.84
60+ days	0.85	1.65	3.52	4.27	3.04	2.59	1.96	1.81	1.50	1.24	1.66	1.64	1.52
Foreclosures in inventory	0.59	1.42	3.00	3.49	3.40	3.12	2.13	1.58	1.19	0.95	1.19	0.94	0.81
Percentage of Number of Conventional Loans in California which are Delinquent(5)													
30-60 days	1.28	1.83	2.34	2.15	2.03	1.79	1.57	1.29	1.20	1.08	1.34	1.35	1.37
60+ days	0.62	2.19	5.39	6.80	4.75	3.27	2.21	1.44	1.09	0.88	1.11	0.96	0.93
Foreclosures in inventory	0.41	1.96	4.25	3.91	3.01	2.53	1.22	0.69	0.56	0.37	0.46	0.37	0.31

Percentage of Number of Contracts of Purchase in the Department's Portfolio which are Delinquent, Subject to Repayment/Forbearance Agreements or Cancelled Contracts	**2007(1)**	**2008(1)**	**2009(1)**	**2010(1)**	**2011(1)**	**2012(1)**	**2013(1)**	**2014(1)**	**2015(1)**	**2016(1)**	**2017(1)**	**2018(1)**	**2018(6)**
30-60 days (Delinquent)(2)(3)	2.56%	2.58%	2.86%	3.18%	3.17%	2.99%	3.57%	3.08%	2.53%	1.98%	1.67%	2.64%	2.68%
30-60 days (Repayment/Forbearance Agreement)	0.12	0.17	0.44	0.43	0.26	0.13	0.13	0.19	0.21	0.16	0.13	0.13	0.20
Total	2.68	2.75	3.30	3.61	3.43	3.12	3.70	3.27	2.74	2.14	1.80	2.77	2.88
60+ days (Delinquent)(2)(3)	1.03	1.29	2.25	2.19	2.78	2.87	2.32	1.99	1.58	1.28	1.40	1.47	1.86
60+ days (Repayment/Forbearance Agreement)	0.10	0.35	1.05	1.49	0.94	0.85	0.77	0.43	0.26	0.15	0.27	0.19	0.28
Total	1.13	1.64	3.30	3.68	3.72	3.72	3.09	2.42	1.84	1.43	1.67	1.66	2.14
Foreclosures in Inventory (Cancelled Contracts) (3)(4)	0.15	0.26	0.56	0.80	0.62	0.84	1.05	0.30	0.45	0.29	0.24	0.15	0.20
"Repayment/Forbearance Agreement"	0.00	0.03	0.02	0.05	0.07	0.05	0.07	0.00	0.00	0.00	0.00	0.00	0.00
Total	0.15	0.29	0.58	0.85	0.69	0.89	1.12	0.30	0.45	0.29	0.24	0.15	0.20

Source: Department of Veterans Affairs.

(1) For the Fiscal Year ended June 30.

(2) The Department has adjusted the criteria used to identify delinquent Contracts of Purchase from $25 or more delinquent to over $3 delinquent.

(3) These figures include Contracts of Purchase that were the subject of forbearance or repayment agreements between the Department and the Contracts of Purchase holder. Data below represents the breakout of delinquent, repayment/forbearance agreements and cancelled Contracts of Purchase.

(4) Bankruptcies are included in cancelled Contracts of Purchase statistics and do not exceed in any period more than 1% of total cancellations in bankruptcy category. Federal bankruptcy law precludes repossession action of Contracts of Purchase when veteran is in bankruptcy proceedings until the automatic stay is lifted.

(5) Source: National Delinquency Survey published by the Mortgage Bankers Association of America (the "Survey"). Data reported for 2002, is for "Conventional Loans." In subsequent Surveys, loans are categorized as prime loans or otherwise based upon the Survey respondents' internal classifications.

(6) For Calendar Year ended December 31.

Distribution of Contracts of Purchase Delinquencies by County as of December 31, 2018[1][2]

County	Contracts of Purchase Delinquent 30 days	Contracts of Purchase Delinquent 60 days	Contracts of Purchase Delinquent 90+ days	Total Delinquent Contracts of Purchase	Total Delinquent Account Balance[3]
Riverside	30	12	7	49	$ 14,664
Sacramento	17	3	8	28	5,716
San Bernardino	14	3	6	23	3,979
Fresno	12	3	6	21	3,840
Los Angeles	9	2	5	16	3,582
Kern	7	5	4	16	2,518
All Other[4]	71	23	41	135	26,376
Total	160	51	77	288	$ 60,675

Source: Department of Veterans Affairs.
(1) The Department has adjusted the criteria used to identify delinquent Contracts of Purchase from $25 or more delinquent to over $3 delinquent.
(2) Includes REO and cancelled Contracts of Purchase.
(3) Amounts in thousands.
(4) "All Other" counties had fewer than 16 delinquent Contracts of Purchase outstanding.

Contracts of Purchase Delinquencies by Origination Date as of December 31, 2018[1][2]

Origination Year (Fiscal End June 30)	Contracts of Purchase Delinquent 30-60 days	Outstanding Balance of Contracts of Purchase Delinquent 30-60 days[3]	Contracts of Purchase Delinquent 60-90 days	Outstanding Balance of Contract of Purchase Delinquent 60-90 days[3]	Contracts of Purchase Delinquent 90+ days	Outstanding Balance of Contract of Purchase Delinquent 90+ days[3]	Total Contracts of Purchase Delinquent	Total Outstanding Balance of Delinquent Contracts of Purchase[3]
Pre-2007	71	$ 8,214	16	$ 1,484	34	$ 3,576	121	$ 13,274
2007	4	444	3	789	9	2,143	16	3,376
2008	6	1,187	0	0	3	244	9	1,431
2009	2	152	0	0	0	0	2	152
2010	0	0	0	0	0	0	0	0
2011	2	242	1	305	0	0	3	547
2012	1	88	0	0	2	183	3	271
2013	2	513	1	225	2	345	5	1,083
2014	4	1,105	1	234	1	107	6	1,446
2015	18	4,652	8	2,315	9	2,490	35	9,457
2016	19	6,796	7	2,278	10	3,163	36	12,237
2017	20	5,858	10	2,794	5	2,300	35	10,953
2018[4]	11	4,163	4	1,534	2	751	17	6,448
Total	160	$ 33,414	51	$ 11,958	77	$ 15,303	288	$ 60,675

Source: Department of Veterans Affairs.
(1) Includes REO and cancelled Contracts of Purchase.
(2) The Department has adjusted the criteria used to identify delinquent Contracts of Purchase from $25 or more delinquent to over $3 delinquent.
(3) Amounts in thousands.
(4) As of December 31, 2018.

Veterans G.O. Bonds and Revenue Bonds
Selected Information with Respect to Veterans G.O. Bonds and Revenue Bonds

Veterans G.O. Bonds

Series	Bonds Outstanding[1] as of Dec. 31, 2018	Expected Bonds Outstanding[2] as of April 30, 2019	Final Maturity Date of Series as of April 30, 2019	Next Optional Call as of April 30, 2019	Call Price on Such Date	Maximum Coupon subject to Optional Call	Bonds Subject to Special Redemption[3]
Veterans G.O. Bonds							
CJ	68,280,000	68,280,000	December 1, 2035	June 1, 2024	100	3.750	Excess Revenues
CK	145,595,000	145,595,000	December 1, 2040	December 1, 2024	100	5.000	Excess Revenues[4]
CL	118,960,000	118,960,000	December 1, 2034	December 1, 2024	100	5.000	Excess Revenues[4]
CM	98,175,000	98,175,000	December 1, 2036	December 1, 2024	100	3.880	Excess Revenues/PAC[5]
CN	90,595,000	90,595,000	December 1, 2046	December 1, 2025	100	3.500	Excess Revenues/PAC[6]
CQ	105,855,000	105,855,000	December 1, 2047	December 1, 2027	100	4.000	Excess Revenues/PAC[7]
CR	91,700,000	91,700,000	December 1, 2048	December 1, 2028	100*	4.000	Excess Revenues/Unexpended Proceeds/PAC[8]
CS	0	101,755,000*	--*	--*	--	--*	Excess Revenues/Unexpended Proceeds/PAC*
Sub-total	$ 719,160,000	$ 820,915,000*					
Commercial Paper Notes	$ 0	$ 0	N.A.	N.A.	N.A.	N.A.	N.A.
Total Veterans G.O. Bonds	$ 719,160,000	$ 820,915,000*					

Home Purchase Revenue Bonds
Revenue Bonds Issued to Refund Bonds Issued Prior to Mortgage Subsidy Bond Tax Act of 1980

Series	Bonds Outstanding[1] as of Dec. 31, 2018	Expected Bonds Outstanding[2] as of April 30, 2019	Final Maturity Date of Series as of April 30, 2019	Next Optional Call as of April 30, 2019	Call Price on Such Date	Maximum Coupon subject to Optional Call	Bonds Subject to Special Redemption[3]
2011 A	5,000,000	5,000,000	December 1, 2021	June 1, 2021	100%	3.500%	Excess Revenues
2012 A	155,145,000	155,145,000	December 1, 2025	June 1, 2021	100	3.500	Excess Revenues
Sub-total	$ 160,145,000	$ 160,145,000					

Revenue Bonds Issued as Qualified Mortgage Bonds under the Federal Tax Code

Series	Bonds Outstanding[1] as of Dec. 31, 2018	Expected Bonds Outstanding[2] as of April 30, 2019	Final Maturity Date of Series as of April 30, 2019	Next Optional Call as of April 30, 2019	Call Price on Such Date	Maximum Coupon subject to Optional Call	Bonds Subject to Special Redemption[3]
2016 A	44,440,000	44,440,000	June 1, 2029	June 1, 2026	100%	3.000%	Excess Revenues
2016 B	111,080,000	111,080,000	December 1, 2046	June 1, 2026	100	3.500	Excess Revenues/Unexpended Proceeds/PAC[9]
2019 A	0	78,155,000	December 1, 2049	June 1, 2028	100	4.000	Excess Revenues/Unexpended Proceeds/PAC[10]
Sub-total	$ 155,520,000	$ 233,675,000					
Total Revenue Bonds	**$ 315,665,000**	**$ 393,820,000**					

Source: Department of Veterans Affairs.

* Preliminary, subject to change. To be determined upon the issuance of such the Offered Veterans G.O. Bonds.

(1) With respect to Revenue Bonds, "Outstanding" is as defined in the Revenue Bond Resolution.

(2) Excludes application of any potential redemptions.

(3) Excess Revenues includes, but is not limited to, principal prepayments on Contracts of Purchase. The Department, subject to applicable bond authorizing resolutions, may apply Excess Revenues to redeem any Veterans G.O. Bonds or Revenue Bonds eligible for redemption, and has done so and may continue to do so.

(4) The Series CK Bonds maturing on December 1, 2029 and December 1, 2033 and the Series CL Bonds maturing on December 1, 2031 are not subject to special redemption from Excess Revenues prior to December 1, 2024 unless such special redemption prior to December 1, 2024 would be required to maintain the tax-exempt status of such Veterans G.O. Bonds.

(5) The Series CM Bonds maturing on December 1, 2031 are PAC Bonds.

(6) The Series CN Bonds maturing on December 1, 2045 are PAC Bonds.

(7) The Series CQ Bonds maturing on December 1, 2047 are PAC Bonds.

(8) The Series CR Bonds maturing on December 1, 2048 are PAC Bonds.

(9) The 2016 Series B Bonds maturing on December 1, 2045 are PAC Bonds.

(10) The 2019 Series A Bonds maturing on December 1, 2049 are PAC Bonds.

Additional Investments (as of December 31, 2018)

As noted above under "Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments," the Department invests nearly all of the cash of the 1943 Fund in SMIF. Amounts invested in SMIF may be withdrawn and reinvested at any time.

In connection with life and disability insurance, the Department has entered into an Experience Rating Refund Agreement with Standard Insurance Company ("Standard"), pursuant to which The Bank of New York Mellon, as trustee (the "BONY"), administers a claims fluctuation reserve account. At December 31, 2018, that account held approximately $18,390,650.22, all of which was invested in government securities. Under the Experience Rating Refund Agreement, the annual interest rate used in determining the experience rating refund is (i) the rate paid by BONY plus 0.50% if the interest rate paid by BONY on funds in the claims fluctuation reserve account is less than 2.00%, (ii) 2.50% if the interest rate paid by BONY on funds in the claims fluctuation reserve account is at least 2.00% but less than 2.50%, and (iii) the rate paid by BONY if the interest rate paid by BONY on funds in the claims fluctuation reserve account is 2.50% or more. The Department's Experience Rating Refund Agreement with Standard expires January 31, 2020.

All investments contain certain risks, some of which may be material. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. For moneys invested in SMIF these risks may be mitigated, but are not eliminated, by limitations imposed on the portfolio management process by the State Treasurer's investment policies, which may change from time to time.

APPENDIX E

DTC AND THE BOOK-ENTRY SYSTEM

The information in the following section entitled "DTC and the Book-Entry System" has been provided by DTC for use in securities offering documents, and the State and the Department take no responsibility for the accuracy or completeness thereof. The State and the Department cannot and do not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners either (a) payments of interest, principal or redemption proceeds with respect to the Offered Veterans G.O. Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Offered Veterans G.O. Bonds, or that they will so do on a timely basis or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange

Commission. More information about DTC can be found at www.dtcc.com. Nothing contained on such web site is incorporated herein.

Purchases of Offered Veterans G.O. Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Offered Veterans G.O. Bonds on DTC's records. The ownership interest of each actual purchaser of each Offered Veterans G.O. Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Offered Veterans G.O. Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Offered Veterans G.O. Bonds, except in the event that use of the book-entry system for the Offered Veterans G.O. Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The State Treasurer will not have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Offered Veterans G.O. Bonds.

Beneficial Owners of Offered Veterans G.O. Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Offered Veterans G.O. Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Offered Veterans G.O. Bond documents. For example, Beneficial Owners of Offered Veterans G.O. Bonds may wish to ascertain that the nominee holding the Offered Veterans G.O. Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Without limiting the generality of the foregoing, the State Treasurer and the Department have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership or interests in the Offered Veterans G.O. Bonds.

Principal, interest payments and redemption proceeds on the Offered Veterans G.O. Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State Treasurer, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the State Treasurer or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption proceeds, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State Treasurer or the Department, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The State Treasurer and the Department cannot and do not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments with respect to the Offered Veterans G.O. Bonds received by DTC or its nominee as the registered owner, or any redemption or other notices to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in the manner described in this Official Statement.

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

If the State Treasurer determines not to continue the DTC book-entry only system, or DTC discontinues providing its services with respect to the Offered Veterans G.O. Bonds and the State Treasurer does not select another qualified securities depository, the State Treasurer shall deliver physical Offered Veterans G.O. Bond certificates to the Beneficial Owners. The Offered

Veterans G.O. Bonds may thereafter be transferred upon the books of the State Treasurer by the registered owners, in person or by authorized attorney, upon surrender of Offered Veterans G.O. Bonds at the Office of the State Treasurer in Sacramento, California, accompanied by delivery of an executed instrument of transfer in a form approved by the State Treasurer and upon payment of any charges provided for in the Resolutions. Certificated Offered Veterans G.O. Bonds may be exchanged for Offered Veterans G.O. Bonds of other authorized denominations of the same aggregate principal amount and maturity at the Office of the State Treasurer in Sacramento, California, upon payment of any charges provided for in the Resolutions. No transfer or exchange of Offered Veterans G.O. Bonds will be made by the State Treasurer during the period between the record date and the next Interest Payment Date.

THE STATE TREASURER, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE OFFERED VETERANS G.O. BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS TO ONLY DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE OFFERED VETERANS G.O. BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Offered Veterans G.O. Bonds, payment of principal of and interest and other payments with respect to the Offered Veterans G.O. Bonds to Direct Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Offered Veterans G.O. Bonds and other related transactions by and between DTC, the Direct Participants, the Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Direct Participants, the Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the Participants, as the case may be.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE OFFERED VETERANS G.O. BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OF THE OFFERED VETERANS G.O. BONDS (OTHER THAN UNDER THE CAPTION “TAX MATTERS” IN THE OFFICIAL STATEMENT) SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE OFFERED VETERANS G.O. BONDS.

According to DTC, the foregoing information with respect to DTC has been provided for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

APPENDIX F

FORMS OF CONTINUING DISCLOSURE CERTIFICATES

STATE TREASURER'S DISCLOSURE CERTIFICATE

STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CS (Non-AMT)

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered as of ______________, by the Treasurer of the State of California (the "State Treasurer") in connection with the issuance of the above-referenced State of California Veterans General Obligation Bonds (the "Bonds") as authorized by the general obligation bond act described in Exhibit B (as amended, the "Bond Act"). The Bonds are being issued pursuant to that certain resolution adopted by the Veterans' Finance Committee of 1943 as described in Exhibit B (the "Resolution"), designated under the Bond Act. Pursuant to the Resolution, the State Treasurer, on behalf of the State of California (the "State"), covenants and agrees as follows:

SECTION 1. Nature of the Disclosure Certificate. This Disclosure Certificate is executed and delivered for the benefit of the Holders and Beneficial Owners (as defined below) of the Bonds from time to time, and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below), but shall not be deemed to create any monetary liability on the part of the State or the State Treasurer to any other persons, including Holders or Beneficial Owners of the Bonds based on the Rule. The sole remedy in the event of any failure of the State Treasurer to comply with this Disclosure Certificate shall be an action to compel performance of any act required hereunder.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the State Treasurer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean the State Treasurer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the State Treasurer and which has filed with the State Treasurer a written acceptance of such designation.

"Financial Obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term "Financial Obligation" does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"Holder" shall mean any person listed on the registration books of the State Treasurer as the registered owner of any Bonds.

"Listed Event" shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports or notices pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Official Statement" shall mean the Official Statement relating to the Bonds, dated _____________.

"Participating Underwriter" shall mean any of the original purchasers of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" shall mean the Securities and Exchange Commission.

"State" shall mean the State of California.

SECTION 3. Provision of Annual Reports; Additional Information.

(a) The State Treasurer on behalf of the State shall, or shall cause the Dissemination Agent to, not later than April 1 of each year in which the Bonds are outstanding, commencing with the report for the 2018-19 fiscal year (which is due not later than April 1, 2020), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the State may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date in accordance with Section 4(a). If the State's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f). The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to said date, the State Treasurer shall provide the Annual Report to the Dissemination Agent (if other than the State Treasurer). If the State Treasurer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the State Treasurer shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the State Treasurer) file a report with the State Treasurer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

(d) The State will promptly file the audited Basic Financial Statements of the State for the fiscal year ended June 30, 2018, when available, in the same manner as the Annual Report as set forth in Section 3(a).

SECTION 4. Content of Annual Reports. The Annual Report shall contain or include by reference the following:

(a) The audited Basic Financial Statements of the State for the fiscal year ended on the previous June 30, prepared in accordance with generally accepted accounting principles promulgated to apply to government entities from time to time by the Governmental Accounting Standards Board. If the State's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) Financial information relating to the State's General Fund budget for the fiscal year ended on the previous June 30 and information concerning the State budget for the fiscal year in which the Annual Report is issued. Such information shall describe the sources of revenues, the principal categories of expenditures, and changes in fund balances, a summary of expected State revenues and budgeted expenditures, and significant assumptions relating to revenue and expenditure expectations; including updating information of the type appearing in the following tables contained under the caption APPENDIX A – "THE STATE OF CALIFORNIA – CURRENT STATE BUDGET" in the Official Statement:

Tables Entitled

- General Fund Revenues, Expenditures, and Fund Balance (Budgetary Basis)

- General Fund Revenue by Sources and Expenditures by Function

(c) Information concerning the total amount of the State's authorized and outstanding debt, long-term lease obligations and other long-term liabilities as of the most recent June 30, which debt is supported by payments from the State's General Fund and which includes short-term debt. Such information shall include schedules of debt service for outstanding general obligation bonds and lease-purchase debt. This shall be accomplished by updating information of the type appearing in the following tables contained under the caption APPENDIX A – "THE STATE OF CALIFORNIA—STATE DEBT TABLES" in the Official Statement.

Tables Entitled

- Outstanding State Debt
- Authorized and Outstanding General Obligation Bonds
- General Obligation and Revenue Bonds—Summary of Debt Service Requirements
- Schedule of Debt Service Requirements for General Fund—Non-Self Liquidating Bonds—Fixed Rate
- Schedule of Debt Service Requirements for General Fund—Non-Self Liquidating Bonds—Variable Rate
- Schedule of Debt Service Requirements for Enterprise Fund—Self Liquidating Bonds—Fixed Rate
- Schedule of Debt Service Requirements for Lease-Revenue Debt – Fixed Rate
- State Public Works Board and Other Lease-Revenue Financing Outstanding Issues
- State Agency Revenue Bonds and Conduit Financing

Notwithstanding the foregoing, information referenced in this Section 4(c) will no longer be updated for any twelve-month period ended June 30 that commences after all of the debt, long-term lease obligations, other long-term liabilities and/or short-term debt referenced in the respective table, as applicable, is no longer outstanding.

(d) Financial information relating to the State referenced in section 4(b) and 4(c) may be updated from time to time, and such updates may involve displaying data in a different format or table or eliminating data that is no longer available.

(e) The Annual Report may consist of one or more documents. Any or all of the items listed above may be included in the Annual Report by reference to other documents that have been filed by the State with the MSRB, including any final official statement (in which case such final official statement must also be available from the MSRB). The State Treasurer shall clearly identify in the Annual Report each such document so included by reference.

SECTION 5. Reporting of Significant Events.

(f) The State Treasurer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties;

3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;

5. Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 – TEB);

6. Tender offers;

7. Defeasances;

8. Rating changes;

9. Bankruptcy, insolvency, receivership or similar event of the obligated person; or

10. Default, event of acceleration, termination event, modification of terms or other similar events under a Financial Obligation of the State, if any such event reflects financial difficulties.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or Federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The State Treasurer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;

2. Modifications to rights of Bond holders;

3. Optional, unscheduled or contingent Bond calls;

4. Release, substitution, or sale of property securing repayment of the Bonds;

5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

8. Incurrence of a Financial Obligation of the State or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the State, any of which affect security holders.

(c) The State Treasurer notes that Sections 5(a)(2), (3) and (4) and 5(b)(4) are not applicable to the Bonds.

(d) The State Treasurer shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3(a), as provided in Section 3(b).

(e) Whenever the State Treasurer obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the State Treasurer shall determine if such event would be material under applicable Federal securities laws.

(f) Any notice required to be given pursuant to subsection (a) or (b) above shall be filed with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notice of the Listed Event described in subsection (b)(3) need not be given under this subsection any earlier than the notice of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 6. <u>Termination of Reporting Obligation</u>. The State's obligations under Sections 3, 4 and 5 of this Disclosure Certificate shall terminate with respect to any Bonds upon the maturity, legal defeasance, prior redemption or acceleration of such Bonds.

SECTION 7. Dissemination Agent. The State Treasurer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out the obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State Treasurer pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the State Treasurer shall be the Dissemination Agent. The initial Dissemination Agent shall be the State Treasurer.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the State Treasurer may amend any provision of this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(g) If the amendment or waiver relates to the provisions of Section 3(a), 4, 5(a), (b), (d) or (f), or 8(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(h) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(i) The amendment or waiver either (i) is approved by the Holders of 60 percent of the Bonds outstanding or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

Notwithstanding the foregoing, the State may also amend this Disclosure Certificate without approval by the Holders to the extent permitted by rule, order or other official pronouncement of the SEC. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the State Treasurer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the State. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(b), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the State Treasurer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State Treasurer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State Treasurer shall not have any obligation under this Disclosure Certificate to update such information or include it in any Annual Report or future notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the State or State Treasurer to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the State or State Treasurer to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the State or State Treasurer to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity (except the right of the Dissemination Agent or any Holder or Beneficial Owner to enforce the provisions of this Disclosure Certificate on behalf of the Holders). This Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

SECTION 12. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the State Treasurer shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof, and the Holders of the Bonds shall retain all the benefits afforded to them hereunder. The State Treasurer hereby declares that he would have executed and delivered this Disclosure Certificate and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 13 Governing Law. The laws of the State shall govern this Disclosure Certificate, the interpretation thereof and any right or liability arising hereunder. Any action or proceeding to enforce or interpret any provision of this Disclosure Certificate shall be brought, commenced or prosecuted in any courts of the State located in Sacramento County, California.

[Signature Page to Follow]

IN WITNESS WHEREOF, the State Treasurer has executed this Disclosure Certificate as of the date first above written.

TREASURER OF THE STATE OF CALIFORNIA

By:__________________________________
Deputy Treasurer
For California State Treasurer Fiona Ma, CPA

EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: STATE OF CALIFORNIA

Name of Bond Issue: STATE OF CALIFORNIA
Veterans General Obligation Bonds,
Series CS (Non-AMT)

Date of Issuance: ______________

NOTICE IS HEREBY GIVEN that the State has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the State, dated the Date of Issuance. [The State anticipates that the Annual Report will be filed by ___________________.]

Dated:________________________________

STATE OF CALIFORNIA

By ________[to be signed only if filed]___

EXHIBIT B

Bond Series	Bond Act	Resolution Number	Date of Adoption of Veterans' Finance Committee Resolution
CS	Veterans' Bond Act of 2008	IV	March 16, 2016
CS	Veterans and Affordable Housing Bond Act of 2018	I	January 16, 2019

STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
SERIES CS (Non-AMT)

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Department Disclosure Certificate") is executed and delivered as of __________, by the Secretary of Veterans Affairs (the "Secretary) of the State of California Department of Veterans Affairs (the "Department") in connection with the issuance of the above-referenced State of California Veterans General Obligation Bonds (the "Bonds") as authorized by the general obligation bond acts described in Exhibit B (as amended, collectively, the "Bond Act"). The Bonds are being issued pursuant to those certain resolutions adopted by the Veterans' Finance Committee of 1943 as described in Exhibit B (collectively, the "Resolutions"), designated under the Bond Act. Pursuant to the Resolution, the Secretary, on behalf of the Department, covenants and agrees as follows:

SECTION 1. **Nature of the Disclosure Certificate.** This Department Disclosure Certificate is executed and delivered for the benefit of the Holders and Beneficial Owners (as defined below) of the Bonds from time to time, and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below), but shall not be deemed to create any monetary liability on the part of the Department or the State Treasurer to any other persons, including Holders or Beneficial Owners of the Bonds based on the Rule. The sole remedy in the event of any failure of the Department or the State Treasurer to comply with this Department Disclosure Certificate shall be an action to compel performance of any act required hereunder.

SECTION 2. **Definitions.** In addition to the definitions set forth in the Resolutions, which apply to any capitalized term used in this Department Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Financial Information" means, collectively, (1) financial information or operating data applicable to the Department's most recent Fiscal Year on and after the fiscal year ending on or after June 30, 2019 of the types included in the Official Statement in APPENDIX D thereto, and (2) the information regarding amendments to this Department Disclosure Certificate required pursuant to Section 7 of this Department Disclosure Certificate. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

"Audited Financial Statements" means annual financial statements, if any, of the 1943 Fund and the Pooled Self-Insurance Fund, audited by such auditor as shall then be required or permitted by State law. Audited Financial Statements shall be prepared in accordance with GAAP applied on a consistent basis; *provided, however,* that the Department may from time to time, in order to comply with Federal or State legal requirements, modify the basis upon which its financial statements are prepared. Notice of any such modification shall be provided to (i) the

State Treasurer and (ii) the MSRB, and shall include a reference to the specific Federal or State law or regulation describing such accounting basis.

"Beneficial Owner" shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Department Dissemination Agent" shall mean the Department, acting in its capacity as Department Dissemination Agent hereunder, or any successor Department Dissemination Agent designated in writing by the Department and which has filed with the Department a written acceptance of such designation.

"Financial Obligation" shall mean "Financial Obligation," as defined in the Rule, of the 1943 Fund and the Veterans Debenture Revenue Fund.

"Holder" shall mean any person listed on the registration books of the State Treasurer as the registered owner of any Bonds.

"Listed Event" shall mean any of the events listed in Section 4 of this Department Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports or notices pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"1943 Fund" shall mean the Veterans' Farm and Home Building Fund of 1943 established in the Treasury of the State by Section 988 of the State Military and Veterans Code.

"Official Statement" shall mean the Official Statement relating to the Bonds, dated __________.

"Participating Underwriter" shall mean any of the original purchasers of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" shall mean the Securities and Exchange Commission.

"State" shall mean the State of California.

"State Treasurer" shall mean the Treasurer of the State.

"Unaudited Financial Statements" shall mean the same as Audited Financial Statements, except that they shall not have been audited.

SECTION 3.1. **Provision of Annual Financial Information**

(a) The Department shall, or shall cause the Department Dissemination Agent to, provide Annual Financial Information with respect to each Fiscal Year to the State Treasurer and to the MSRB in the form required by the MSRB, by no later than April 1 of each year the Bonds are outstanding.

(b) The Department shall, or shall cause the Department Dissemination Agent to, provide, in a timely manner, notice of any failure by it to provide Annual Financial Information to the MSRB and the State Treasurer on or before the date required by Section 3.1(a) hereof in substantially the form attached as Exhibit A.

(c) Annual Financial Information shall be provided at least annually, *notwithstanding* any Fiscal Year longer than 12 calendar months. The Department shall, or shall cause the Department Dissemination Agent to, promptly notify the State Treasurer and the MSRB, of any change in its Fiscal Year.

(d) Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

SECTION 3.2. **Provision of Audited Financial Statements.** If not provided as part of Annual Financial Information by the date required by Section 3.1(a) hereof, the Department shall, or shall cause the Department Dissemination Agent to, provide Audited Financial Statements, when and if available, to the State Treasurer and to the MSRB.

SECTION 4. **Reporting of Significant Events.**

(e) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, in a timely manner not later than ten business days after the occurrence of the event:

1. Incurrence of a Financial Obligation of the Department, if material, or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the Department, any of which affect Holders, if material. or

2. Default, event of acceleration, termination event, modification of terms or other similar events under a Financial Obligation of the Department, if any such event reflects financial difficulties.

(f) Any notice required to be given pursuant to Section 4 above shall be filed with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 5. **Termination of Reporting Obligation.** The Department's obligations under Sections 3.1, 3.2 and 4 of this Department Disclosure Certificate shall terminate with respect to any Bonds upon the maturity, legal defeasance, prior redemption or acceleration of such Bonds.

SECTION 6. **Department Dissemination Agent.** The Department may, from time to time, appoint or engage a Department Dissemination Agent to assist it in carrying out the obligations under this Disclosure Certificate, and may discharge any such Department Dissemination Agent, with or without appointing a successor Department Dissemination Agent. The Department Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Department pursuant to this Disclosure Certificate. If at any time there is not any other designated Department Dissemination Agent, the Department shall be the Department Dissemination Agent. The initial Department Dissemination Agent shall be the Department.

SECTION 7. **Amendment; Waiver.** Notwithstanding any other provision of this Department Disclosure Certificate, the Department may amend any provision of this Department Disclosure Certificate, and any provision of this Department Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(g) If the amendment or waiver relates to the provisions of Section 3.1, 3.2, 4, 7(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(h) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(i) The amendment or waiver either (i) is approved by the Holders of 60 percent of the Bonds outstanding or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

Notwithstanding the foregoing, the Department may also amend this Department Disclosure Certificate without approval by the Holders to the extent permitted by rule, order or other official pronouncement of the SEC. In the event of any amendment or waiver of a provision of this Department Disclosure Certificate, the Department shall describe such amendment in the next Annual Financial Information, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the State. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 4, and (ii) the Audited Financial Information for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 8. **Additional Information.** Nothing in this Department Disclosure Certificate shall be deemed to prevent the Department from disseminating any other information, using the means of dissemination set forth in this Department Disclosure Certificate or any other means of communication, or including any other information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is required by this Department Disclosure Certificate. If the Department chooses to include any information in any Annual Financial Information or notice of occurrence of a Listed Event in addition to that which is specifically required by this Department Disclosure Certificate, the Department shall not have any obligation under this Department Disclosure Certificate to update such information or include it in any Annual Financial Information or future notice of occurrence of a Listed Event.

SECTION 9. **Default.** In the event of a failure of the Department to comply with any provision of this Department Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department to comply with its obligations under this Department Disclosure Certificate. The sole remedy under this Department Disclosure Certificate in the event of any failure of the Department to comply with this Department Disclosure Certificate shall be an action to compel performance.

SECTION 10. **Beneficiaries.** This Department Disclosure Certificate shall inure solely to the benefit of the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity (except the right of the Department Dissemination Agent or any Holder or Beneficial Owner to enforce the provisions of this Department Disclosure Certificate on behalf of the Holders). This Department Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

SECTION 11. **Partial Invalidity.** If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the Department shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof, and the Holders of the Bonds shall retain all the benefits afforded to them hereunder. The Secretary hereby declares that he would have executed and delivered this Department Disclosure Certificate and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 12. **Governing Law.** The laws of the State shall govern this Department Disclosure Certificate, the interpretation thereof and any right or liability arising hereunder. Any action or proceeding to enforce or interpret any provision of this Department Disclosure Certificate shall be brought, commenced or prosecuted in any courts of the State located in Sacramento County, California.

[Signature Page to Follow]

IN WITNESS WHEREOF, the Secretary has executed this Department Disclosure Certificate as of the date first above written.

SECRETARY OF THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA

By:________________________________

EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE [ANNUAL FINANCIAL INFORMATION/AUDITED FINANCIAL STATEMENTS]

Name of Issuer: STATE OF CALIFORNIA

Name of Bond Issue: STATE OF CALIFORNIA
Veterans General Obligation Bonds,
Series CS (Non-AMT)

Date of Issuance: __________

NOTICE IS HEREBY GIVEN that the Department has not provided an [Annual Financial Information/Audited Financial Statements] with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the Department, dated the Date of Issuance. [The Department anticipates that the [Annual Financial Information/Audited Financial Statements] will be filed by ______________________________.]

Dated:______________________________

DEPARTMENT OF VETERANS AFFAIRS OF
THE STATE OF CALIFORNIA

By ________[to be signed only if filed]___

EXHIBIT B

Bond Series	Bond Act	Resolution Number	Date of Adoption of Veterans' Finance Committee Resolution
CS	Veterans' Bond Act of 2008	IV	March 16, 2016
CS	Veterans and Affordable Housing Bond Act of 2018	I	January 16, 2019

APPENDIX G

CERTAIN FEDERAL TAX CODE REQUIREMENTS

The Federal Tax Code substantially restricts the use of proceeds of tax-exempt obligations used to finance mortgage loans for single family housing or to refund such obligations.

Those Federal Tax Code restrictions are not the same for all such tax-exempt bonds. There are three types of such tax-exempt bonds: (i) qualified mortgage bonds, which provide QMB Proceeds, (ii) qualified veterans' mortgage bonds, which provide QVMB Proceeds, and (iii) Pre-Ullman bonds, which provide Pre-Ullman Moneys. Tax-exempt Revenue Bonds may be either qualified mortgage bonds or Pre-Ullman bonds. ("Pre-Ullman bonds" are bonds issued before 1981, or bonds issued to refund such bonds.) Tax-exempt Veterans G.O. Bonds may be either qualified veterans' mortgage bonds or Pre-Ullman bonds. The principal Federal Tax Code restrictions relate to: (i) the use of proceeds of the bond issue, (ii) the yield on the financed mortgage loans and from certain non-mortgage investments related to the issue, (iii) for qualified mortgage bonds and qualified veterans' mortgage bonds, loan eligibility requirements, (iv) for qualified mortgage bonds, the availability of proceeds of the issue for financing housing located in "targeted areas," and (v) certain matters relating to the issue itself.

The Offered Veterans G.O. Bonds are qualified veterans' mortgage bonds, and the proceeds thereof are QVMB proceeds. See also "TAX MATTERS" in the forepart of this Official Statement for information regarding the requirements applicable to the Offered Veterans G.O. Bonds.

Failure to comply with the applicable provisions of the Federal Tax Code may result in interest on the applicable issue of bonds being included in gross income for Federal income tax purposes retroactive to the date of issuance thereof.

Loan Eligibility Requirements Imposed by the Federal Tax Code on QMB Proceeds and QVMB Proceeds

QMB Proceeds

The Federal Tax Code contains the following loan eligibility requirements with respect to QMB Proceeds, except that the requirements described under "First-Time Homebuyer Requirement," "Purchase Price Limitation," and "Other Requirements Imposed by the Federal Tax Code – Recapture Provision Applicable to Qualified Mortgage Bonds" do not apply to home improvement loans, and the requirements described under "Qualified Home Improvement Loans" do not apply to loans for the acquisition of single family homes. None of these requirements applies to Pre-Ullman bonds or qualified veterans' mortgage bonds.

Residence Requirement. The Federal Tax Code requires that each of the premises financed with the lendable proceeds of qualified mortgage bonds be a one-to-four-family residence, one unit of which can reasonably be expected to become the principal residence of the veteran within a reasonable time after the financing is provided. Certain documents adopted by the Department establish procedures to be followed in connection with Contracts of Purchase which finance the acquisition of single family homes in order to assure that interest paid on the qualified mortgage bonds not be included in gross income for Federal income tax purposes under the Federal Tax Code (the "Single Family Program Documents"). Certain documents adopted by the Department establish procedures to be followed in connection with Contracts of Purchase to finance home improvement loans intended to assure that interest paid on the qualified mortgage bonds is not included in gross income for Federal income tax purposes under the Federal Tax Code (the "Home Improvement Program Documents," together with the Single Family Program Documents, the "Program Documents").

First-Time Homebuyer Requirement. The Federal Tax Code requires that, subject to certain exceptions, the lendable proceeds of qualified mortgage bonds be used to provide financing to borrowers who have not had a present ownership interest in their principal residence during the three-year period prior to execution of the mortgage loan. Veterans are excluded from the foregoing requirement but may only receive financing once pursuant to such exception. All financing with respect to targeted area residences and residences on land possessed under certain contract for deed agreements is treated as satisfying the first time homebuyer requirement.

New Mortgage Requirement. The Federal Tax Code requires that, with certain limited exceptions, the lendable proceeds of qualified mortgage bonds finance new mortgage loans only and that no proceeds may be used to acquire or replace an existing mortgage loan, which would include the refinancing of a pre-existing mortgage loan.

Purchase Price Limitation. The Federal Tax Code requires that the purchase price of the residence financed with the lendable proceeds of qualified mortgage bonds may not exceed 90% of the average area purchase price applicable to such residence or 110% of the applicable average area purchase price in the case of residences located in targeted areas.

Income Limitation. The Federal Tax Code requires that all mortgage loans made from the lendable proceeds of qualified mortgage bonds be made only to borrowers whose family income does not exceed 115% (for mortgage loans made to families with fewer than three members, 100%) of the applicable median family income. An exception is provided for mortgage loans financed with the lendable proceeds of qualified mortgage bonds made with respect to targeted area residences that permits two-thirds in aggregate amount of such mortgage loans to be made with respect to borrowers whose family income does not exceed 140% (for mortgage loans made to families with fewer than three members, 120%) of the applicable median family income and one–third in aggregate amount of such loans to be made without regard to any income limitation.

Federal tax law permits higher income limits for persons financing residences located in certain "high housing cost areas." A high housing cost area is a statistical area for which the ratios of the area's average purchase price for single family houses to the area's median income exceed 120% of the same ratios determined on a national basis. An area is a high housing cost area only if the ratios for both new and existing houses meet the 120% test. In high housing cost areas, the veteran income limits are increased above 115% (or 100%, as applicable) by one percent for each percentage point (1%) by which the new or existing housing price ratio, whichever is smaller, exceeds 120%. However, the new limit cannot exceed 140% (or 120%, as applicable) of the income limits otherwise applicable. Certain areas of the State may qualify as high housing cost areas.

Family income includes income of all individuals executing both the note and mortgage and occupying the dwelling as their principal residence.

Requirements as to Assumptions. The Federal Tax Code provides that a mortgage loan may be assumed only if each of the then applicable residence requirements, first-time-homebuyer requirement, purchase price limitation, and income limitation is met with respect to such assumption.

Qualified Home Improvement Loans. The Federal Tax Code requires that a home improvement loan financed with the lendable proceeds of qualified mortgage bonds not exceed $15,000, be made only with respect to an owner-occupied residence, and finance alterations, repairs, and improvements on or in connection with an existing one-to-four-family residence by the owner thereof, but only if such alterations, repairs and improvements substantially protect or improve the basic livability or energy efficiency of the property.

General. Qualified mortgage bonds treated under the Federal Tax Code as one bond issue for Federal tax purposes ("qualified mortgage issue") are deemed to meet the loan eligibility requirements of the Federal Tax Code if (i) the issuer in good faith attempted to meet all the loan eligibility requirements before the mortgage loans were executed, (ii) any failure to comply with the loan eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the proceeds of the issue used to make mortgage loans was used to finance residences that met all such requirements at the time the mortgage loans were executed.

QVMB Proceeds

The Federal Tax Code requires that each mortgagor to whom financing is provided under a qualified veterans' mortgage bond issue have served on active duty and apply for financing before the date 25 years after the last date on which such veteran left active duty. The Department has established and has covenanted to comply with such requirements.

Generally, only the loan eligibility requirements stated above under "QMB Proceeds – Residence Requirement," "– New Mortgage Requirement" and "– Qualified Home Improvement Loans" (*except* the $15,000 maximum loan amount) apply to QVMB Proceeds.

Other Requirements Imposed by the Federal Tax Code

General. The Federal Tax Code provides that gross income for Federal income tax purposes does not include interest on a mortgage revenue bond if it is a qualified mortgage bond or a qualified veterans' mortgage bond. A qualified mortgage bond is a part of an issue of a state or political subdivision all the proceeds of which (net of amounts applied to any costs of issuance thereof and to fund a reasonably required reserve) are used to finance (or to refund bonds all of such net proceeds of which were used to finance) owner-occupied residences. A qualified veterans' mortgage bond is part of an issue 95 percent or more of the net proceeds of which are used to provide residences to veterans. In addition, in order to be a qualified mortgage bond or a qualified veterans' mortgage bond, a bond must be part of an issue that meets certain (i) general requirements, (ii) arbitrage restrictions on the use and investment of proceeds of the issue, and (iii) loan eligibility requirements set forth in the Federal Tax Code and as more fully described above under "Loan Eligibility Requirements Imposed by the Federal Tax Code."

Volume Limitation, Targeted Area and Required Reports. The first general requirement of the Federal Tax Code, applicable to qualified mortgage bonds, is that the aggregate amount of private activity bonds (exclusive of qualified veterans' mortgage bonds) that may be issued by the Department in any calendar year (or previous years' carried forward amount) must not exceed the portion of the private activity bond volume limit for the State for such calendar year that is allocated by the State to the Department. With respect to qualified veterans' mortgage bonds, a separate limit is based on statutory formulae. The second general requirement of the Federal Tax Code applicable to qualified mortgage bonds is that at least 20% of the lendable proceeds of an issue of bonds which are not refunding bonds (if such set-aside was satisfied with respect to the bonds being refunded) must be made available (and applied with reasonable diligence) for owner-financing of residences in targeted areas (as defined by the Federal Tax Code) for at least one year after the date on which such funds are first available for such owner-financing (the "targeted area requirement"). The third general requirement of the Federal Tax Code requires the issuer of qualified mortgage bonds and qualified veterans' mortgage bonds to file with the Internal Revenue Service reports on the issuance of its qualified mortgage bonds or qualified veterans' mortgage bonds following such issuance, as well as an annual qualified mortgage loan information report.

Yield Limitations and Rebate. The Federal Tax Code requires that the effective interest rate on mortgage loans financed with the lendable proceeds of qualified mortgage bonds and qualified veterans' mortgage bonds may not exceed the yield on the issue by more than 1.125% (1.50% for Pre-Ullman bonds), and that certain investment earnings on non-mortgage investments, calculated based upon the extent such investment earnings exceed the amount that would have been earned on such investments if the investments were invested at a yield equal to the yield on the issue, be rebated to the United States or to veterans. These requirements apply to both Revenue Bonds and Veterans G.O. Bonds, except that for Revenue Bonds, rebate is paid to the United States and that for Veterans G.O. Bonds, rebate, absent an election to pay to the United States, is paid to veterans. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Contracts of Purchase" for discussions of provisions of the Veterans Code which affect the Department's ability to establish and to change interest rates on Contracts of Purchase.

Recapture Provision Applicable to Qualified Mortgage Bonds. For certain mortgage loans made after December 31, 1990 from the lendable proceeds of qualified mortgage bonds issued after August 15, 1986 (which do not include the Offered Veterans G.O. Bonds), and for assumptions of such mortgage loans, the Federal Tax Code requires a payment to the United States from certain borrowers upon sale or other disposition of their homes (the "Recapture Provision"). The Recapture Provision requires that an amount determined to be the subsidy provided by a qualified mortgage bond financing to a borrower be paid to the United States on disposition of the residence (but not in excess of 50% of the gain realized by the borrower). The recapture amount (i) increases over the period of ownership, with full recapture occurring if the residence is sold between four and five full years after the closing of the mortgage loan and (ii) decline ratably to zero with respect to sales occurring between five and nine full years after the closing of the mortgage loan. An exception excludes from recapture part or all of the subsidy in the case of certain borrowers whose incomes are less than prescribed amounts at the time of the disposition. The Federal Tax Code requires an issuer to inform borrowers of certain information with respect to the Recapture Provision.

Required Redemptions. For qualified mortgage bonds issued after 1988, the Federal Tax Code requires redemption of certain qualified mortgage bonds issued after 1988 from unexpended proceeds required to be used to make mortgage loans that have not been used within

42 months from the date of issuance (or the date of issuance of the original bonds in the case of refundings of unexpended proceeds), except for a $250,000 de minimis amount. As a result, the redemption of Revenue Bonds that are qualified mortgage bonds from proceeds attributable to such Revenue Bonds not used to make Contracts of Purchase may be required. Additionally, for qualified mortgage bonds issued after 1988, the Federal Tax Code permits repayments (including prepayments) of principal of mortgage loans financed with the proceeds of an issue of such bonds to be used to make additional mortgage loans for only 10 years from the date of issuance of the bonds (or the date of issuance of the original bonds in the case of refundings), after which date such amounts must be used to redeem bonds, except for a $250,000 *de minimis* amount. As a result, the Department is required by the Federal Tax Code to redeem Revenue Bonds which are qualified mortgage bonds from repayments (including prepayments) of principal of certain Contracts of Purchase not later than the close of the semiannual period after the payment is received.

Compliance. The Federal Tax Code states that an issuer will be treated as meeting the targeted area requirement, the arbitrage restrictions on mortgage loans, and the recapture information requirements if it in good faith attempted to meet all such requirements and any failure to meet such requirements was due to inadvertent error after taking all reasonable steps to comply with such requirements.

APPENDIX H

PROPOSED FORM OF LEGAL OPINION OF ATTORNEY GENERAL

[Closing Date]

The Honorable Fiona Ma, CPA
State Treasurer
Sacramento, California

$
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CS (Non-AMT)

The Honorable Fiona Ma, CPA:

We have acted as counsel to the State of California (the "State") in connection with the issuance by the State of $__________ aggregate principal amount of State of California Veterans General Obligation Bonds, Series CS (the "Bonds"). The Bonds are all dated __________ and are issued as one series. The Bonds are authorized pursuant to the respective bond acts identified in Schedule A hereto, which is incorporated by reference (collectively, the "Bond Acts"). The Bonds are issued pursuant to the Bond Acts, Chapter 4 of Part 3 of Division 4 of Title 2 of the California Government Code, and resolutions adopted by the Veterans' Finance Committee of 1943 (the "Resolutions"), as identified in Schedule B hereto, which is incorporated by reference.

In such connection, we have examined the record of proceedings submitted to us relative to the issuance of the Bonds, including the Resolutions, certifications of officials of the State, and such other documents and matters deemed necessary by us to render the opinions set forth herein, although in doing so, we have not undertaken to verify independently and have assumed the accuracy of the factual matters represented, warranted or certified therein.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof and we disclaim any obligation to update this letter. We have neither undertaken to determine, nor to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. We have assumed the genuineness of all documents and signatures presented to us, the conformity to original documents and certificates of all documents and certificates submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents and certificates. Furthermore, we have assumed compliance with the agreements and covenants contained in the Resolutions.

We call attention to the fact that the rights and obligations under the Bonds and the Resolutions and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations contained in state law regarding legal remedies against the State. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, severability or waiver provisions contained in the foregoing documents. We express no opinion as to whether interest on the Bonds is excluded from gross income for federal income tax purposes or exempt from state personal income taxes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated __________ or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the State has lawful authority for the issuance of the Bonds, and the Bonds constitute the valid and binding general obligations of the State. The full faith and credit of the State is pledged to the punctual payment of the principal of and interest on the Bonds, as the principal and interest become due and payable. The Bonds are payable from the Veterans' Bonds Payment Fund and the General Fund of the State in accordance with the Bond Acts.

Sincerely,

Deputy Attorney General

For XAVIER BECERRA
Attorney General

SCHEDULE A

$____________________ aggregate principal amount of State of California Veterans General Obligation Bonds, Series CS, authorized under the Veterans' Bond Act of 2008

$____________________ aggregate principal amount of State of California Veterans General Obligation Bonds, Series CS, authorized under the Veterans and Affordable Housing Bond Act of 2018

SCHEDULE B

Bond Series	Bond Act	Resolution Number	Date of Adoption of Veterans' Finance Committee Resolution
CS	Veterans' Bond Act of 2008	IV	March 16, 2016
CS	Veterans and Affordable Housing Bond Act of 2018	I	January 16, 2019

APPENDIX I

PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL TO THE STATE

[Closing Date]

The Honorable Fiona Ma, CPA
State Treasurer
Sacramento, California

Ladies and Gentlemen:

We have acted as bond counsel to the State of California (the "State"), and in such capacity we have examined upon request copies of proceedings taken by the State in connection with the issuance of the State's $___________ aggregate principal amount of Veterans General Obligation Bonds, Series CS (the "Bonds") and the sale of the Bonds to the initial purchasers thereof.

The Bonds are issued pursuant to (i) the Veterans' Bond Acts identified in Schedule A hereto, which is incorporated by reference (collectively, as amended, the "Law"), each of which was approved by the electors of the State, (ii) Chapter 4 of Part 3 of Division 4 of Title 2 of the California Government Code, and (iii) resolutions (the "Resolutions") adopted by the Veterans' Finance Committee of 1943 and identified in Schedule B hereto, which is incorporated by reference.

The Bonds are dated, mature on the dates in the principal amounts, bear interest, if any, and are payable as provided in the Resolution. The Bonds are subject to redemption prior to maturity in whole or in part as provided in the Resolution.

The Department of Veterans Affairs of the State of California (the "Department") intends to issue its Home Purchase Revenue Bonds, 2019 Series A (the "2019 Revenue Bonds") on the date hereof. The Bonds and the 2019 Revenue Bonds are treated as a single issue for certain Federal tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"). Applicable Federal tax law establishes certain requirements that must be met subsequent to the issuance of the Bonds and the 2019 Revenue Bonds in order that interest on the Bonds not be included in gross income for Federal income tax purposes under the Code. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Department has adopted documents with respect to its program (the "Program Documents") that establish procedures under which, if followed, such requirements can be met. The State and the Department have covenanted in the Resolution and in tax certificates and other documents applicable to the issuance of the Bonds (collectively with the Program Documents, the "Documents"), to at all times perform all acts and things permitted by law and necessary and desirable in order to assure that interest paid on the Bonds shall not be included in gross income for Federal income tax purposes under the Federal Tax Code. In rendering this opinion, we have relied upon such covenants and have assumed compliance by the State and the Department with the provisions of such Documents.

In connection with the issuance of the Bonds, we have examined (a) a copy of the Resolution, and (b) such other opinions, documents, certificates and letters as we deem relevant and necessary in rendering this opinion.

From such examination, we are of the opinion that:

(1) The State has lawful authority for the issuance of the Bonds, and the Bonds constitute the valid and binding general obligations of the State. The full faith and credit of the State are pledged to the punctual payment of the principal of and interest on the Bonds, as the principal and interest become due and payable. The Bonds are payable from the Veterans' Bonds Payment Fund and the General Fund of the State in accordance with the Law.

(2) Under existing statutes and court decisions and assuming compliance with certain tax covenants described herein, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Federal Tax Code and is not treated as a preference item in calculating the alternative minimum tax under the Federal Tax Code.

(3) Interest on the Bonds is exempt from State personal income taxation under State law as of the issue date.

We express no opinion as to any other Federal, state or local tax consequences arising with respect to the Bonds, or the ownership or disposition thereof, except as stated in paragraphs (2) and (3) above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding Federal, state, or local tax matters, including, without limitation, exclusion from gross income for Federal income tax purposes of interest on the Bonds. We undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering materials relating to the Bonds and express herein no opinion relating thereto.

In rendering this opinion, we are advising you that the enforceability of the Bonds may be limited by bankruptcy, moratorium, insolvency, or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Very truly yours,

SCHEDULE A

$____________________________ aggregate principal amount of State of California Veterans General Obligation Bonds, Series CS, authorized under the Veterans' Bond Act of 2008

$___________________________ aggregate principal amount of State of California Veterans General Obligation Bonds, Series CS, authorized under the Veterans and Affordable Housing Bond Act of 2018

SCHEDULE B

Bond Series	Bond Act	Resolution Number	Date of Adoption of Veterans' Finance Committee Resolution
CS	Veterans' Bond Act of 2008	IV	March 16, 2016
CS	Veterans and Affordable Housing Bond Act of 2018	I	January 16, 2019

APPENDIX J

STATE OF CALIFORNIA COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2017

State of California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017

BETTY T. YEE

California State Controller's Office

STATE OF CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2017

Prepared by
The Office of the State Controller

BETTY T. YEE
California State Controller

Contents

REQUIRED SUPPLEMENTARY INFORMATION

COMBINING FINANCIAL STATEMENTS AND SCHEDULES – NONMAJOR AND OTHER FUNDS

STATISTICAL SECTION

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Introductory Section

BETTY T. YEE
California State Controller

BETTY T. YEE
California State Controller

March 21, 2018

To the Citizens, Governor, and Members of the Legislature of the State of California:

I am pleased to submit the State of California's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017. This report meets the requirements of Government Code section 12460 for an annual report prepared in accordance with accounting principles generally accepted in the United States and contains information to help readers gain a reasonable understanding of the state's financial activities.

California's fiscal health continues to improve since the Great Recession of 2009. For the fiscal year ended June 30, 2017, the state's revenue exceeded expenses by $9.4 billion for governmental activities, marking the fifth consecutive year the state's financial position improved. Governmental activities include most expenses normally associated with state government such as health and human services, education, transportation, corrections and rehabilitation programs, and general government administration.

While California's economy currently is vibrant and its coffers are full, we run the risk of becoming complacent. A fiscal crisis may very well be on our doorstep. Both the 2017-18 State Budget (enacted on June 27, 2017) and the Governor's proposed 2018-19 budget continue to build the Budget Stabilization Account (the state's rainy day fund). This emphasis on paying down accumulated debts and liabilities is an effort to counter the potential fiscal impact of federal policy changes on California and the potential end of economic expansion.

I can sum up the Governor's budgets in one word: smart. The federal tax measure likely will have a devastating impact on our state budget, which may mean less money for essential social services such as Medi-Cal, Medicare, and the children's health insurance program. It is wise to exercise caution with responsible short-term spending, boost rainy day fund reserves, and pay down debt. In addition, California must create a tax system that is sustainable for our ever-changing economy.

I extend my deep gratitude to all the government agencies for their efforts and support in submitting the required information for this CAFR. Thank you to the California State Auditor and her staff for maintaining the highest standards of professionalism in the management of the state's finances. Finally, I wish to thank my entire team for their skill, effort, and dedication in completing this financial report.

Sincerely,

Original signed by

BETTY T. YEE

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Report Overview

The State's management assumes responsibility for the accuracy, completeness, and fairness of information presented in the CAFR, including all disclosures, based on a comprehensive framework of internal controls established for this purpose. The internal control structure is designed to provide reasonable, but not absolute, assurance that the financial statements are free of material misstatements. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislature and the Governor.

The California State Auditor has issued an unmodified opinion on the financial statements for the fiscal year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The State of California also is required to undergo an annual single audit in conformity with the provisions of the United States Office of Management and Budget's Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. That report is issued separately.

The Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and contains an introduction, overview, and analysis of the financial statements. The MD&A also contains information regarding California's economy for the fiscal year ended June 30, 2017, and its economic performance as of December 31, 2017, for fiscal year 2017-18. The MD&A complements this transmittal letter and should be read in conjunction with it.

Profile of the State of California

The State of California was admitted to the Union on September 9, 1850. The State's population, as of 2017, is estimated to be almost 40 million residents. The State's government is divided into three branches: Executive, Legislative, and Judicial. Executive power is vested in the Governor. Other members of the Executive branch include the Lieutenant Governor, Attorney General, Secretary of State, State Treasurer, State Controller, Insurance Commissioner, and State Superintendent of Public Instruction. All officers of the Executive branch are elected to four-year terms. The Legislative branch of government is the State's law-making authority and is comprised of two houses: the Senate and the Assembly. The Judicial branch is charged with interpreting the laws of the State. It provides settlement of disputes between parties in controversy, determines the guilt or innocence of those accused of violating laws, and protects the rights of Californians.

California's government includes control agencies that help to regulate internal governmental operations. The State Controller's Office, the State's independent fiscal watchdog, ensures that the State's budget is spent properly, offers fiscal guidance to local governments, reports on the State's financial position, and uncovers fraud and abuse of taxpayer dollars. The Department of Finance, part of the Executive branch of government, establishes fiscal policies to carry out the State's programs and serves as the Governor's chief fiscal policy adviser. The California State Auditor promotes the efficient and effective management of public funds through independent evaluations of state and local governments.

The State of California provides a wide range of services to its citizens, including social, health, and human services; kindergarten through 12th grade (K-12) and higher education; transportation; business, consumer services, and housing; corrections and rehabilitation programs; and other general government services. The State also is financially accountable for legally separate entities (component units) that provide and support post-secondary education programs; provide financing for low and moderate income housing and other public needs; promote agricultural activities; and provide financial assistance to public agencies and small businesses. The State, through its related organizations (organizations for which the primary government is not financially accountable), provides services such as the operation of the statewide energy transmission grid; earthquake insurance for homeowners and renters; workers' compensation insurance; health insurance for individuals, families, and employees of small businesses; financing for pollution control and health facilities; and loans to students attending public and private nonprofit colleges and universities. The financial information of these institutions is not included in the State's financial statements.

The State Legislature approves an annual budget that contains estimates of revenues and expenditures for the ensuing fiscal year. This budget is the result of negotiations between the Governor and the Legislature. The State Controller's Office is statutorily responsible for controlling revenues due the primary government and for expenditures of each appropriation contained in the budget. The State's annual budget is submitted by the Governor no later than January 10 preceding the beginning of the fiscal year on July 1, and must be approved by the Legislature by June 15 each year. This annual budget serves as the foundation for the State's financial planning and control. Additional information on the budgetary basis of accounting can be found in Note 2, Budgetary and Legal Compliance, in the Budgetary Comparison Schedule at the end of the nonmajor governmental funds combining statements, and in the Required Supplementary Information section of the CAFR that follows the Notes to the Financial Statements.

Overview of the State's Economy

California's economy, the largest among the 50 states and one of the largest and 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. California's gross domestic product totaled $2.7 trillion at fiscal year-end and, as the nation's leading farm state, had over $46.0 billion in farm production. In 2016, California exported $163.6 billion in products; its two largest export markets are Mexico ($25.2 billion) and Canada ($16.2 billion). California's six largest exports are computer and electronic products, transportation equipment, machinery except electrical, chemicals, agricultural products, and miscellaneous manufactured commodities. California also enjoys one of the finest and most diverse collections of natural, cultural, and recreational resources in the nation. California's travel and tourism industry generated revenues of $126.3 billion, and state and local tax revenues of $10.3 billion, in 2016.

Budget Outlook

Fiscal Year 2017-18

Fiscal responsibility continues to be the focus for the 2017 Budget Act. To counter the potential fiscal impact of federal policy changes and the potential end of the current economic expansion, the budget emphasizes building reserves and paying down accumulated debts and liabilities. The January 2018 revised estimates project that fiscal year 2017-18 will end with General Fund revenue and transfers of $127.3 billion, expenditures of $126.5 billion, and total reserves of $12.6 billion—$8.4 billion in the Budget Stabilization Account (BSA) and $4.2 billion in the General Fund's Special Fund for Economic Uncertainties (SFEU) —which is $3.2 billion more than projected in June 2017 for the enacted budget. In addition to the $1.8 billion minimum annual debt reduction payment required by Proposition 2, the budget also includes a one-time supplemental payment to the California Public Employees' Retirement System (CalPERS) to help reduce

the State's net pension liability. The payment is funded through internal cash borrowing, and will be repaid by the General Fund and other funds that contribute to CalPERS. The Governor's additional key priorities in the 2017-18 budget are investing in education, counteracting the effects of poverty, and improving the State's roads and transportation infrastructure.

Fiscal Year 2018-19

The Governor released his proposed 2018-19 budget on January 10, 2018. Although California has passed seven consecutive on-time budgets, has experienced historic economic expansion, and has consistently kept spending in line with revenues, the Governor continues to focus on building reserves and enhancing California's fiscal stability. By the end of fiscal year 2018-19, the budget projects total reserves of $15.8 billion—$13.5 billion in the BSA, an amount that the Governor estimates to be the maximum balance allowed by the Constitution, and $2.3 billion in the SFEU. The 2018-19 budget estimates General Fund revenue of $129.8 billion, after a $5.0 billion transfer to the BSA, and expenditures of $131.7 billion.

The 2018-19 budget estimates show increased revenue from personal income taxes, sales and use taxes, and corporation taxes. Personal income taxes contribute the majority of General Fund revenue at 69.4% ($93.6 billion), sales and use taxes contribute 19.4% ($26.2 billion), and corporation taxes contribute 8.3% ($11.2 billion). However, the Governor's budget estimates were finalized prior to the enactment of the recent federal tax bill; a preliminary analysis of the impact on the State's economy and revenues will be included in the Governor's May Revision of the proposed 2018-19 budget.

Long-term Financial Planning

Long-term financial planning initiatives that will impact the State's long-term financial goals include:

- The 2018-19 Governor's Budget includes a five-year plan for infrastructure spending. The plan proposes spending $61.3 billion over the next five years, with the vast majority dedicated to the State's transportation system, including the high-speed rail system. The Road Repair and Accountability Act of 2017, enacted in April 2017, is expected to raise $52.5 billion of additional funding over the next 10 years for repairs and maintenance to the state highway system, and to improve critical transportation routes and corridors. The Governor's plan also addresses the infrastructure needs of K-12 schools and higher education systems, state parks, and certain state facilities.

- The State has continued to address its significant long-term liabilities associated with state employee pensions and other postemployment benefits (OPEB). In fiscal year 2017-18, the State will make a $6.0 billion supplemental contribution to CalPERS; the first two installments have already been paid and the final installment is expected to occur in April 2018. While the State continues to fund its current OPEB expenses on a "pay-as-you-go" basis, it has begun to prefund its future healthcare benefit costs by depositing agreed-upon employee and state employer contributions in an OPEB trust fund. The Governor estimates that the prefunding plan will eliminate the unfunded OPEB obligation over the next three decades.

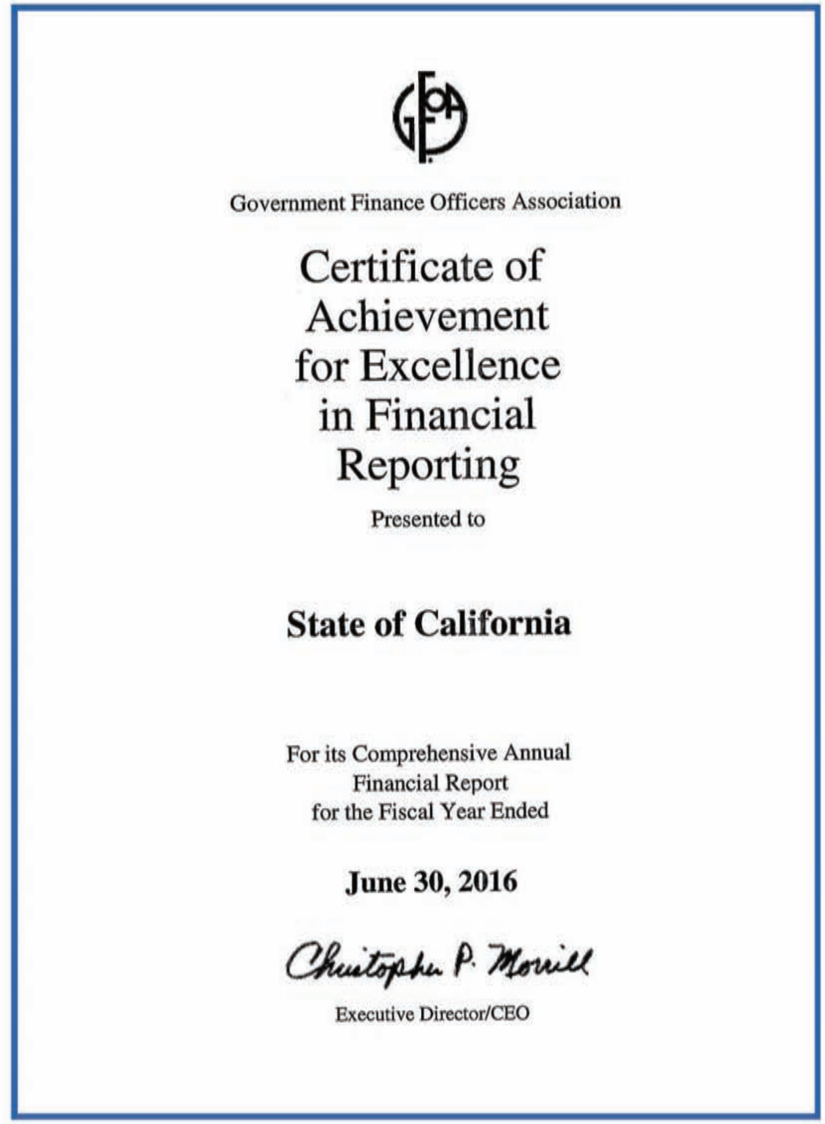
- California has historically been susceptible to wildfires and hydrologic variability. Extreme weather, intensified by climate change, has led to essentially a year-round fire season, with larger and more intense fires. In October and December 2017, large wildfires struck the State, destroying thousands of structures and burning over 500,000 acres. The total costs are estimated to be in the billions of dollars, and the full economic impacts will not be realized for years.

- In December 2017, the federal government enacted the Tax Cuts and Jobs Act, which permanently reduces taxes on corporations, temporarily reduces federal personal income tax rates, and makes significant changes to several mainstay deductions and exclusions. In the coming months, the State will examine how the changes in federal tax law will affect individual Californians, the State's thriving economy, and its own taxation strategies.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of California for its comprehensive annual financial report for the fiscal year ended June 30, 2016. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.


Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2016

Christopher P. Morrill

Executive Director/CEO

Principal Officials of the State of California

Executive Branch

Edmund G. Brown, Jr.
Governor

Gavin Newsom
Lieutenant Governor

Betty T. Yee
State Controller

Xavier Becerra
Attorney General

John Chiang
State Treasurer

Alex Padilla
Secretary of State

Tom Torlakson
Superintendent of Public Instruction

Dave Jones
Insurance Commissioner

Board of Equalization
George Runner, Member, First District
Fiona Ma, Member, Second District
Jerome E. Horton, Member, Third District
Diane L. Harkey, Member, Fourth District

Legislative Branch

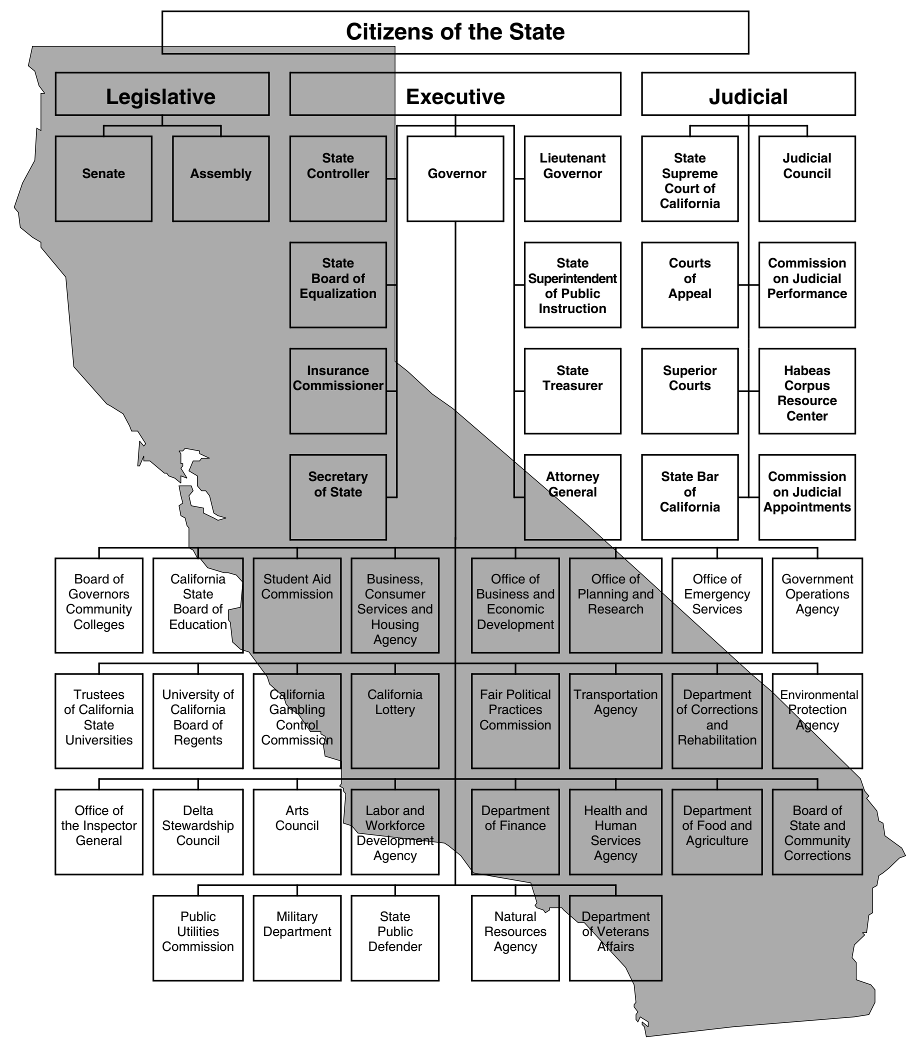
Toni G. Atkins
President pro Tempore, Senate

Anthony Rendon
Speaker of the Assembly

Judicial Branch

Tani G. Cantil-Sakauye
Chief Justice, State Supreme Court

Organization Chart of the State of California



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Financial Section

Independent Auditor's Report

THE GOVERNOR AND THE LEGISLATURE OF THE
STATE OF CALIFORNIA

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the State of California's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following:

Government-wide Financial Statements

- Certain governmental funds that, in the aggregate, represent five percent of the assets and deferred outflows, and less than one percent of the revenues of the governmental activities.
- Certain enterprise funds that, in the aggregate, represent 82 percent of the assets and deferred outflows, and 53 percent of the revenues of the business-type activities.
- The University of California and the California Housing Finance Agency that represent 92 percent of the assets and deferred outflows, and 94 percent of the revenues of the discretely presented component units.

Fund Financial Statements

- The Safe Drinking Water State Revolving fund, that represents 12 percent of the assets and deferred outflows of the Environmental and Natural Resources fund, a major governmental fund.
- The following major enterprise funds: Electric Power fund, Water Resources fund, State Lottery fund, and California State University fund.
- The Golden State Tobacco Securitization Corporation, the Public Building Construction, the Public Employees' Retirement, the State Teachers' Retirement, the State Water Pollution Control, and the 1943 Veterans Farm and Home Building funds, that represent 84 percent of the assets and deferred outflows, and 51 percent of the additions, revenues and other financing sources of the aggregate remaining fund information.
- The discretely presented component units noted above.

The related financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those funds and entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Golden State Tobacco Securitization Corporation, the Public Building Construction, the State Lottery, and the 1943 Veterans Farm and Home Building funds were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, and other required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of California's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

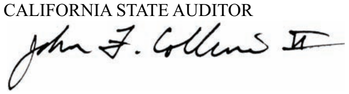
The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of other auditors, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 21, 2018 on our consideration of the State of California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the State of California's internal control over financial reporting and compliance.

CALIFORNIA STATE AUDITOR



JOHN F. COLLINS II, CPA
Deputy State Auditor

March 21, 2018

Management's Discussion and Analysis

The following Management's Discussion and Analysis is required supplementary information to the State of California's financial statements. It describes and analyzes the financial position of the State, providing an overview of the State's activities for the fiscal year ended June 30, 2017. We encourage readers to consider the information that we present here in conjunction with the information presented in the Controller's transmittal letter at the front of this report and in the State's financial statements and notes, which follow this section.

Financial Highlights – Primary Government

Government-wide Highlights

California's revenues continue to increase as the economy expands, but with fiscal uncertainty in the future, the administration has curbed discretionary spending and built reserves. For the fiscal year ended June 30, 2017, the State's general revenues increased by $8.0 billion (5.7%) over the prior year—significantly more than the 1.0% growth experienced in fiscal year 2015-16. Expenses and transfers for the State's governmental activities increased by $13.2 billion (5.3%) but were less than total revenues received, resulting in a $6.4 billion increase in the governmental activities' net position. Total revenues and transfers for the State's business-type activities also surpassed expenses by $2.7 billion in fiscal year 2016-17.

Net Position – The primary government ended fiscal year 2016-17 with a net deficit position of $21.3 billion, an improvement of $9.1 billion (29.9%). The total net deficit position is further reduced by $109.3 billion for net investment in capital assets and by $40.1 billion for restricted net position, yielding a negative unrestricted net position of $170.8 billion. Restricted net position is dedicated for specified uses and is not available to fund current activities. More than 69.7%, or $119.1 billion, of the negative $170.8 billion consists of unfunded, employee-related, long-term liabilities that are recognized as soon as an obligation occurs, even though payment will occur over many future periods (net pension liability, net other postemployment benefit obligation, and compensated absences). In addition, the State's outstanding bonded debt consists of $65.3 billion to build capital assets of school districts and other local governmental entities. Bonded debt reduces the State's unrestricted net position; however, local governments, not the State, own the capital assets that would normally offset this reduction.

Fund Highlights

Governmental Funds – As of June 30, 2017, the primary government's governmental funds reported a combined ending fund balance of $37.9 billion, an increase of $7.0 billion over the prior fiscal year. The unrestricted fund balance, comprised of committed, assigned, and unassigned balances, was $4.1 billion, an increase of $2.2 billion over the prior fiscal year's balance of $1.9 billion. The nonspendable and restricted fund balances were $124 million and $33.7 billion, respectively.

Proprietary Funds – As of June 30, 2017, the primary government's proprietary funds reported a combined ending net position of $6.7 billion, an increase of $2.5 billion over the prior fiscal year. The total net position is reduced by $2.7 billion for net investment in capital assets, expendable restrictions of $6.5 billion, and nonexpendable restrictions of $2 million, yielding a negative unrestricted net position of $2.5 billion, an improvement of $2.1 billion from the prior fiscal year.

Noncurrent Assets and Liabilities

As of June 30, 2017, the primary government's noncurrent assets totaled $160.6 billion, of which $140.7 billion is related to capital assets. State highway infrastructure assets of $75.1 billion represent the largest portion of the State's capital assets.

The primary government's noncurrent liabilities totaled $235.3 billion, which consists of $118.9 billion in unfunded employee-related future obligations, $76.0 billion in general obligation bonds, $30.0 billion in revenue bonds, and $10.4 billion in other noncurrent liabilities. During fiscal year 2016-17, the primary government's noncurrent liabilities increased by $13.8 billion (6.2%) over the previous fiscal year. The most significant changes were increases of $14.3 billion in net pension liability and $3.3 billion in net OPEB obligation, and a decrease of $3.1 billion in loans payable.

Overview of the Financial Statements

This discussion and analysis is an introduction to the section presenting the State's basic financial statements, which includes four components: (1) government-wide financial statements, (2) fund financial statements, (3) discretely presented component units financial statements, and (4) notes to the financial statements. This report also contains required supplementary information, and combining financial statements and schedules intended to furnish additional detail that supports the basic financial statements.

Government-wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the State's finances. The government-wide financial statements do not include fiduciary programs and activities of the primary government and component units because fiduciary resources are not available to support state programs.

The statements provide both short-term and long-term information about the State's financial position to help readers assess the State's economic condition at the end of the fiscal year. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, similar to methods used by most businesses. These statements take into account all revenues and expenses connected with the fiscal year, regardless of when the State received or paid the cash. The government-wide financial statements include two statements: the Statement of Net Position and the Statement of Activities.

- The *Statement of Net Position* presents all of the State's financial and capital resources in a format in which assets and deferred outflows of resources equal liabilities and deferred inflows of resources, plus net position. Over time, increases or decreases in net position indicate whether the financial position of the State is improving or deteriorating.

- The *Statement of Activities* presents information showing how the State's net position changed during the most recent fiscal year. The State reports changes in net position as soon as the event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, this statement reports revenues and expenses for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

The government-wide financial statements separate into different columns the three types of state programs and activities—governmental activities, business-type activities, and component units.

- *Governmental activities* are mostly supported by taxes, such as personal income and sales and use taxes, and intergovernmental revenues, primarily federal grants. Most services and expenses normally associated with state government fall into this activity category, including general government; education (public K–12 schools and institutions of higher education); health and human services; natural resources and environmental protection; business, consumer services, and housing; transportation; corrections and rehabilitation; and interest on long-term debt.

- *Business-type activities* typically recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business-type activities of the State of California include providing unemployment insurance programs, providing housing loans to California veterans, providing water to local water districts, providing services to California State University students, selling California State Lottery tickets, and selling electric power. These activities are conducted with minimal financial assistance from the governmental activities or general revenues of the State.

- *Component units* are organizations that are legally separate from the State, but for which the State is financially accountable, or whose relationship with the State is so significant that their exclusion would cause the State's financial statements to be misleading or incomplete. Various types of component units are presented; all are legally separate. However, blended component units function as part of the State's operations. Fiduciary component units are primarily the resources and operations of the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System. Discretely presented component units contain some form of accountability either from or to the State.

Most component units prepare their own separately issued financial statements. For information regarding obtaining the financial statements of the individual component units, refer to Note 1A, Reporting Entity.

Fund Financial Statements

The State of California, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal and contractual requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the State may be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- *Governmental funds* are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements. This approach is known as the *flow of current financial resources measurement focus* and the *modified accrual basis of accounting*. These governmental fund statements provide a detailed short-term view of the State's finances, enabling readers to determine whether adequate financial resources exist to meet the State's current needs.

Because governmental fund financial statements provide a narrower focus than do government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate comparison between governmental funds and governmental activities. Primary differences between the government-wide and fund-based statements relate to noncurrent assets, such as land and buildings, and noncurrent liabilities, such as bonded debt and amounts owed for net pension liability, compensated absences, and capital lease obligations. These amounts are reported in the government-wide statements but not in the fund-based statements.

- *Proprietary funds* show activities that operate more like those found in the private sector. The State of California has two proprietary fund types—enterprise funds and internal service funds.
    - *Enterprise funds* record activities for which a fee is charged to external users; they are presented as business-type activities in the government-wide financial statements.
    - *Internal service funds* accumulate and allocate costs internally among the State's various functions. For example, internal service funds provide public buildings construction, information technology, printing, fleet management, and architectural services primarily for state departments. As a result, their activity is considered governmental.
- *Fiduciary funds* account for resources held for the benefit of parties outside the State. Fiduciary funds and the activities of fiduciary component units are not reflected in the government-wide financial statements because the resources of these funds are not available to support state programs. The accounting used for fiduciary funds and similar component units is similar to that used for trusts.

Discretely Presented Component Units Financial Statements

The State has financial accountability for discretely presented component units, which have certain independent qualities and operate in a similar manner to private sector businesses. The activities of the discretely presented component units are classified as enterprise activities.

Notes to the Financial Statements

The notes to the financial statements in this publication provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements, which describe particular accounts in more detail, immediately follow the discretely presented component units financial statements.

Required Supplementary Information

A section of required supplementary information follows the notes to the basic financial statements in this publication. This section includes several schedules of information for the State's pension plans and the State's contributions to those plans; a schedule of funding progress for OPEB trust funds; information on infrastructure assets based on the modified approach; a budgetary comparison schedule; and a reconciliation of the budgetary basis and the GAAP basis fund balances for the major governmental funds presented in the governmental fund financial statements.

Combining Financial Statements and Schedules

The Combining Financial Statements and Schedules – Nonmajor and Other Funds section presents combining statements that provide separate financial statements for nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor component units as supplementary information. The basic financial statements present only summary information for these activities.

Government-wide Financial Analysis

Net Position

The primary government's combined net position (governmental and business-type activities) increased by $9.1 billion (29.9%) from a negative $30.4 billion to a negative $21.3 billion at June 30, 2017.

The primary government's $109.3 billion net investment in capital assets, such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets) comprise a significant portion of its net position. This amount of capital assets is net of any outstanding debt used to acquire those assets. The State uses capital assets when providing services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, the resources needed to repay this debt must come from other sources because the State cannot use the capital assets to pay off the liabilities.

Another $40.1 billion of the primary government's net position represents resources that are externally restricted as to how they may be used, such as resources pledged to debt service. The internally-imposed earmarking of resources is not presented in this publication as restricted net position. As of June 30, 2017, the primary government's combined unrestricted net deficit position was $170.8 billion—$169.5 billion for governmental activities and $1.3 billion for business-type activities.

A significant factor contributing to the unrestricted net deficit is that governments recognize a liability on the government-wide Statement of Net Position as soon as an obligation occurs, while financing and budgeting functions focus on when a liability will be paid. As of June 30, 2017, the primary government recognized $119.1 billion (69.7% of the $170.8 billion unrestricted net deficit) in unfunded employee-related obligations—net pension liability, net other postemployment benefits obligation, and compensated absences. In addition, the primary government recognized $65.3 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities, a common state practice nationwide. As the State does not own these capital assets, neither the assets nor the related bonded debt is included in the portion of net position reported as net investment in capital assets. Instead, the bonded debt is reported as a noncurrent liability that increases the State's unrestricted net deficit position. The State can expect continued deficits in the unrestricted net position of governmental activities as long as it has significant unfunded employee-related obligations and outstanding obligations for school districts and other local governmental entities.

Table 1 presents condensed financial information derived from the Statement of Net Position for the primary government.

Table 1

Net Position – Primary Government – Two-year Comparison
June 30, 2017 and 2016
(amounts in millions)

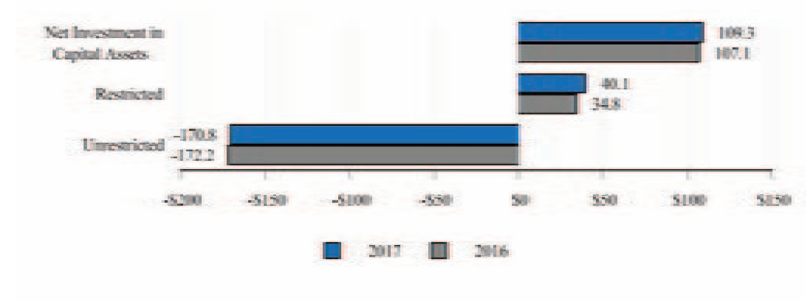
	Governmental Activities		Business-type Activities		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
ASSETS						
Current and other assets	$ 84,127	$ 78,452	$ 25,972	$ 25,226	$ 110,099	$ 103,678
Capital assets	129,996	126,859	10,670	9,849	140,666	136,708
Total assets	**214,123**	**205,311**	**36,642**	**35,075**	**250,765**	**240,386**
DEFERRED OUTFLOWS OF RESOURCES	17,173	7,726	2,350	1,328	19,523	9,054
Total assets and deferred outflows of resources	**$ 231,296**	**$ 213,037**	**$ 38,992**	**$ 36,403**	**$ 270,288**	**$ 249,440**
LIABILITIES						
Noncurrent liabilities	$ 209,370	$ 194,826	$ 25,888	$ 26,618	$ 235,258	$ 221,444
Other liabilities	47,837	47,847	4,700	4,127	52,537	51,974
Total liabilities	**257,207**	**242,673**	**30,588**	**30,745**	**287,795**	**273,418**
DEFERRED INFLOWS OF RESOURCES	2,714	5,249	1,121	1,085	3,835	6,334
Total liabilities and deferred inflows of resources	**259,921**	**247,922**	**31,709**	**31,830**	**291,630**	**279,752**
NET POSITION						
Net investment in capital assets	107,042	104,597	2,295	2,521	109,337	107,118
Restricted	33,832	29,061	6,309	5,759	40,141	34,820
Unrestricted	(169,499)	(168,543)	(1,321)	(3,707)	(170,820)	(172,250)
Total net position (deficit)	**(28,625)**	**(34,885)**	**7,283**	**4,573**	**(21,342)**	**(30,312)**
Total liabilities, deferred inflows of resources, and net position	**$ 231,296**	**$ 213,037**	**$ 38,992**	**$ 36,403**	**$ 270,288**	**$ 249,440**

Note: Prior-year adjustments recorded in the current year have not been reflected in the prior-year column.

Chart 1 presents a two-year comparison of the State's net position.

Chart 1

Net Position – Primary Government – Two-year Comparison
June 30, 2017 and 2016
(amounts in billions)



Note: Prior-year adjustments recorded in the current year have not been reflected in the 2016 amounts.

Changes in Net Position

The expenses of the primary government totaled $287.1 billion for the fiscal year ended June 30, 2017. Of this amount, $147.7 billion (49.9%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving $139.4 billion to be funded with general revenues (mainly taxes). The primary government's general revenues of $148.5 billion exceeded net unfunded expenses by $9.1 billion, resulting in a 29.9% increase in net position.

Table 2 presents condensed financial information derived from the Statement of Activities for the primary government.

Table 2

Changes in Net Position – Primary Government – Two-year Comparison
Years ended June 30, 2017 and 2016
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
REVENUES						
Program Revenues:						
Charges for services	$ 27,011	$ 27,422	$ 26,265	$ 25,427	$ 53,276	$ 52,849
Operating grants and contributions	89,497	86,629	1,805	1,765	91,302	88,394
Capital grants and contributions	3,028	1,480	61	67	3,089	1,547
General Revenues:						
Taxes	148,021	140,028	—	—	148,021	140,028
Investment and interest	149	132	—	—	149	132
Miscellaneous	326	305	—	—	326	305
Total revenues	**268,032**	**255,996**	**28,131**	**27,259**	**296,163**	**283,255**
EXPENSES						
Program Expenses:						
General government	17,400	16,686	—	—	17,400	16,686
Education	67,378	65,468	—	—	67,378	65,468
Health and human services	135,090	127,543	—	—	135,090	127,543
Natural resources and environmental protection	7,342	6,988	—	—	7,342	6,988
Business, consumer services, and housing	1,164	815	—	—	1,164	815
Transportation	12,947	12,121	—	—	12,947	12,121
Corrections and rehabilitation	13,087	11,875	—	—	13,087	11,875
Interest on long-term debt	4,191	4,232	—	—	4,191	4,232
Electric Power	—	—	945	728	945	728
Water Resources	—	—	1,223	1,087	1,223	1,087
State Lottery	—	—	6,272	6,316	6,272	6,316
Unemployment Programs	—	—	11,908	11,459	11,908	11,459
California State University	—	—	8,001	7,199	8,001	7,199
Other enterprise programs	—	—	155	151	155	151
Total expenses	**258,599**	**245,728**	**28,504**	**26,940**	**287,103**	**272,668**
Excess (deficiency) before transfers	**9,433**	**10,268**	**(373)**	**319**	**9,060**	**10,587**
Gain on early extinguishment of debt	31	41	—	—	31	41
Transfers	(3,083)	(2,800)	3,083	2,800	—	—
Change in net position	6,381	7,509	2,710	3,119	9,091	10,628
Net position, beginning	**(35,006)***	**(42,394)***	**4,573**	**1,454**	**(30,433)**	**(40,940)**
Net position (deficit), ending	**$ (28,625)**	**$ (34,885)**	**$ 7,283**	**$ 4,573**	**$ (21,342)**	**$ (30,312)**

*Restated

Note: Prior-year adjustments recorded in the current year have not been reflected in the prior-year column.

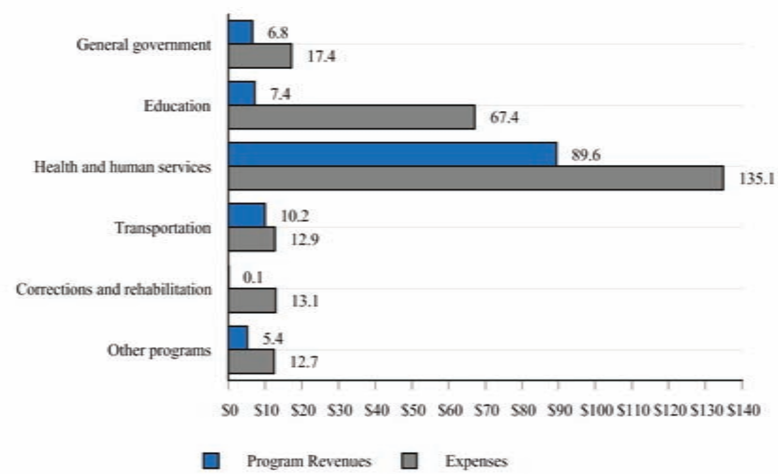
Governmental Activities

During fiscal year 2016-17, governmental activities' expenses and transfers totaled $261.6 billion. Program revenues totaling $119.5 billion, including $92.5 billion received in federal grants and contributions, funded 45.7% of expenses and transfers, leaving $142.1 billion to be funded with general revenues (mainly taxes). General revenues for governmental activities ($148.5 billion) exceeded net unfunded expenses and transfers, resulting in the governmental activities' net deficit position of $28.6 billion for the fiscal year ended June 30, 2017, an improvement of $6.4 billion (18.2%) from the prior year's net deficit position of $35.0 billion.

Chart 2 presents a comparison of governmental activities' expenses to related revenue by program.

Chart 2

Program Revenues and Expenses – Governmental Activities
Year ended June 30, 2017
(amounts in billions)



For the fiscal year ended June 30, 2017, total governmental activities' revenue was $268.0 billion, an increase of 4.7% over the prior year. General revenues increased by $8.0 billion (5.7%) to $148.5 billion, and program revenues increased by $4.0 billion (3.5%) to $119.5 billion. Personal income taxes increased by $5.4 billion over the prior year primarily due to increased capital gains from a strong stock market, representing a 6.7% increase compared to the fiscal year 2015-16 increase of 2.8%. Corporation taxes increased by $1.9 billion (20.8%) from the prior year, primarily due to the resolution of several multi-year taxpayer audits.

Overall expenses for governmental activities increased by $12.9 billion (5.2%) over the prior year. The largest increase in expenditures, $7.5 billion (5.9%), occurred in health and human services programs; the majority of the increase is attributable to the Department of Health Care Services, which administers the State's Medi-Cal program. Another significant increase of $1.9 billion (2.9%) was for education as a result of the Proposition 98 minimum funding guarantee; the increased spending was triggered by higher General Fund revenue.

Chart 3 presents the percentage of total expenses for each governmental activities program.

Chart 3

Expenses by Program
Year ended June 30, 2017
(as a percent)

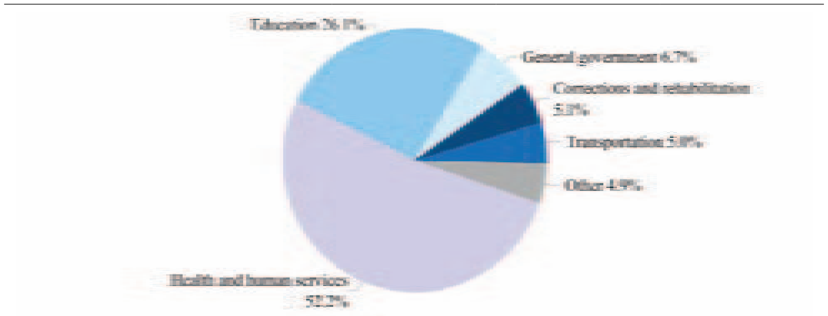
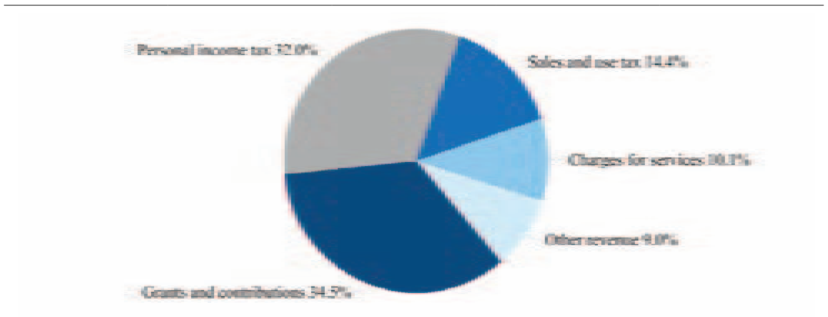


Chart 4 presents the percentage of total revenues by source for each governmental activities program.

Chart 4

Revenues by Source
Year ended June 30, 2017
(as a percent)



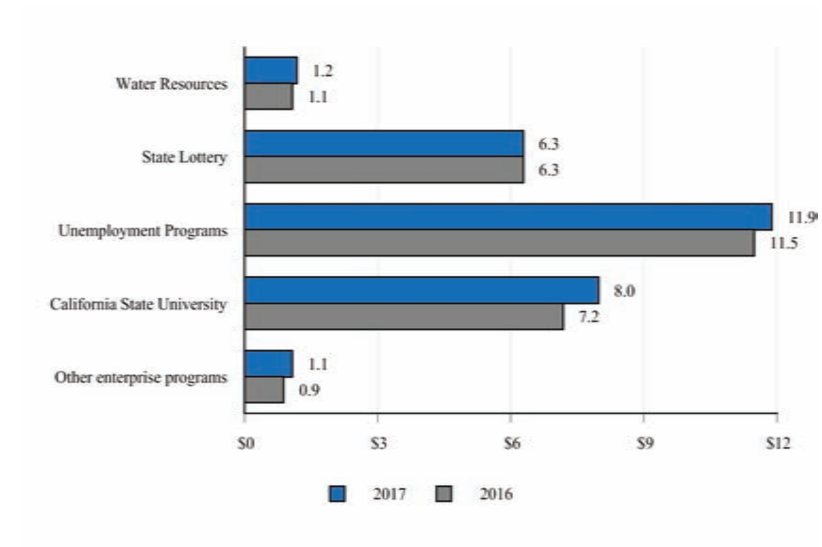
Business-type Activities

As of June 30, 2017, business-type activities' expenses totaled $28.5 billion. Program revenues of $28.1 billion, primarily generated from charges for services, and $3.1 billion in transfers, were sufficient to cover these expenses. As a result, the business-type activities' total net position of $7.3 billion increased by $2.7 billion (59.3%) over the prior year's net position of $4.6 billion.

Chart 5 presents a two-year comparison of the expenses of the State's business-type activities.

Chart 5

Expenses – Business-type Activities – Two-year Comparison
Years ended June 30, 2017 and 2016
(amounts in billions)



Fund Financial Analysis

The financial position of the State's governmental funds continued to improve in fiscal year 2016-17, with a combined fund balance of $7.0 billion over the prior year's ending fund balance. Governmental funds rely heavily on taxes to support the majority of the State's services and programs; both personal income and corporation taxes increased during the fiscal year. Proprietary funds' net position increased by $2.5 billion during fiscal year 2016-17—$2.7 billion increase in enterprise funds and $264 million decrease in internal service funds. The majority of the increase in the enterprise funds' net position was in the Unemployment Programs Fund, increasing its fund balance to $4.1 billion, which was caused by the State's declining unemployment rate.

Governmental Funds

As of June 30, 2017, the governmental funds' Balance Sheet reported $89.6 billion in assets, $51.7 billion in liabilities and deferred inflows of resources, and $37.9 billion in fund balance. Total assets of governmental funds increased by 8.9%, while total liabilities and deferred inflows of resources increased by 0.7%, resulting in a total fund balance increase of $7.0 billion (22.8%) over the prior year's balance.

Within the governmental funds' total fund balance, $124 million is classified as nonspendable, as this amount consists of long-term interfund receivables, loans receivable, and legal or contractual requirements. Additionally, $33.7 billion is classified as restricted for specific programs by external constraints such as debt covenants and contractual obligations, or by constitutional provisions or enabling legislation. Furthermore, of the total fund balance, $6.0 billion is classified as committed for specific purposes and $12 million is classified as assigned for specific purposes. The remaining unassigned balance of the governmental funds is a negative $1.9 billion, an improvement of $1.9 billion from the prior fiscal year.

The Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds reported $267.8 billion in revenues, $268.5 billion in expenditures, and a net $7.7 billion in receipts from other financing sources. The ending fund balance of the governmental funds for the fiscal year ended June 30, 2017, was $37.9 billion, a $7.0 billion increase over the prior year's ending fund balance of $30.9 billion.

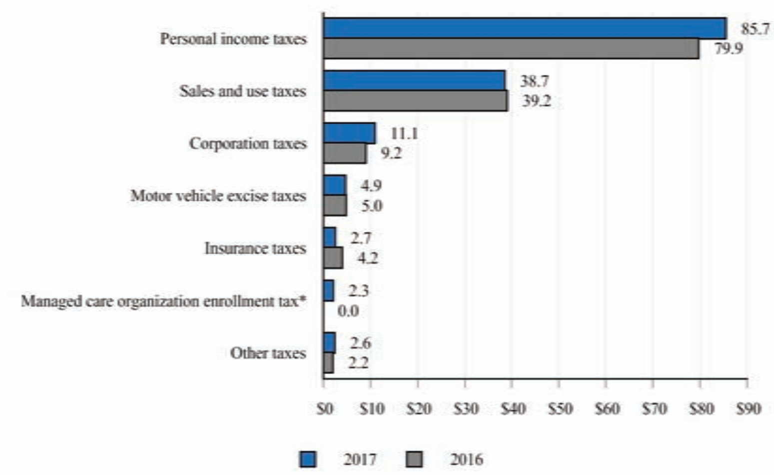
Governmental funds' revenue consists primarily of taxes (55.3%) and intergovernmental revenue (35.7%). Personal income taxes accounted for 57.9% of tax revenues and increased by $5.8 billion over the prior fiscal year. Sales and use taxes accounted for 26.2% of tax revenues and decreased by $394 million from the prior fiscal year. Corporation taxes accounted for 7.5% of tax revenues and increased by $1.9 billion over the prior fiscal year. Intergovernmental revenue, primarily from the federal government, increased by $4.6 billion (5.1%) over the prior fiscal year.

Governmental funds' expenditures increased by $13.3 billion (5.2%) over the prior fiscal year, primarily for health and human services, bond and commercial paper retirement, and education. The increase in health and human services expenditures of $7.2 billion (5.6%), is due primarily to increased costs associated with the in-home supportive services program, one-time payment of prescription drug rebates budgeted but not paid in the prior fiscal year, and increased Medi-Cal caseload under the Patient Protection and Affordable Care Act (federal health care reform). The $2.4 billion increase in bond and commercial paper retirement expenditures resulted from additional principal repayments from the current refunding of various general obligation bonds for future debt service savings. The $2.0 billion increase in education expenditures is to comply with constitutional requirements (Proposition 98) that provide a minimum funding guarantee to support California's K-12 schools and community colleges; the minimum funding guarantee increased as a result of increased General Fund revenue in fiscal year 2016-17.

Chart 6 presents a two-year comparison of governmental funds' tax revenues.

Chart 6

Governmental Funds Tax Revenue – Two-year Comparison
Years ended June 30, 2017 and 2016
(amounts in billions)

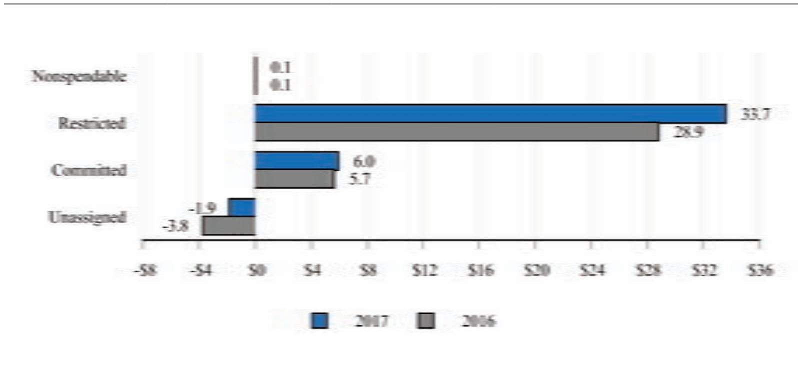


* New tax effective on July 1, 2016.

Chart 7 presents a two-year comparison of the components of the governmental funds' balance.

Chart 7

Governmental Funds – Components of Fund Balance – Two-year Comparison
Years ended June 30, 2017 and 2016
(amounts in billions)



Note: Assigned fund balance was $12 million, which rounds to zero when presented in billions.

The State's major governmental funds are the General Fund, the Federal Fund, the Transportation Fund, and the Environmental and Natural Resources Fund. The General Fund ended the fiscal year with a fund balance of $5.8 billion, an increase of $5.4 billion over the prior year's fund balance. The Federal Fund, the Transportation Fund, and the Environmental and Natural Resources Fund ended the fiscal year with fund balances of $228 million, $9.1 billion, and $10.7 billion, respectively. The nonmajor governmental funds ended the fiscal year with a total fund balance of $12.1 billion.

General Fund: As shown on the Balance Sheet, the General Fund (the State's main operating fund) ended fiscal year 2016-17 with assets of $26.4 billion; liabilities and deferred inflows of resources of $20.6 billion; and nonspendable, restricted, and committed fund balances of $104 million, $7.4 billion, and $181 million, respectively, leaving the General Fund with a negative unassigned fund balance of $1.9 billion. Total assets of the General Fund increased by $5.4 billion (26.0%) over the prior fiscal year, while total liabilities and deferred inflows of resources decreased by $11 million (0.1%). The General Fund's unassigned fund balance deficit decreased by $1.9 billion (50.2%).

As shown on the Statement of Revenue, Expenditures, and Changes in Fund Balances, the General Fund had an excess of revenues over expenditures of $8.9 billion ($125.1 billion in revenues and $116.2 billion in expenditures). Approximately $120.3 billion (96.1%) of General Fund revenue is derived from the State's largest three taxes—personal income taxes ($84.3 billion), sales and use taxes ($24.9 billion), and corporation taxes ($11.1 billion). As a result of fund classifications made to comply with generally accepted governmental accounting principles, a total of $309 million in revenue, essentially all from unemployment programs, is included in the General Fund. These revenues are not considered General Fund revenues for any budgetary purposes or for the State's Budgetary/Legal Basis Annual Report.

During fiscal year 2016-17, total General Fund revenue increased by $7.5 billion (6.4%). The increase is a result of increases in personal income taxes of $5.7 billion (7.3%) and in corporation taxes of $1.9 billion (20.7%). General Fund expenditures increased by $4.5 billion (4.0%). The largest increases were in education and health and human services expenditures, which were up $2.0 billion and $1.3 billion, respectively. The General Fund ended the fiscal year with a fund balance of $5.8 billion, an improvement of $5.4 billion from the prior year's ending fund balance of $362 million.

Federal Fund: The Federal Fund reports federal grant revenues and the related expenditures to support grant programs. The largest of these programs is for health and human services, which accounted for $77.4 billion (84.3%) of the total $91.8 billion in fund expenditures. The Medical Assistance program and the Temporary Assistance for Needy Families program are included in this program area. Education and transportation programs also constituted a large part of the fund's expenditures, amounting to $7.4 billion (8.1%) and $5.6 billion (6.1%) of the total, respectively. The Federal Fund's revenues increased by $4.4 billion, which was approximately the same amount of increase in the combined expenditures and transfers, resulting in a $20 million fund balance decrease from the prior year's ending fund balance of $248 million, to $228 million.

Transportation Fund: The Transportation Fund accounts for fuel taxes, bond proceeds, and other revenues used primarily for highway and passenger rail construction. The Transportation Fund's revenues decreased by $82 million (0.8%), while its expenditures decreased by $288 million (2.6%). Other financing sources provided net receipts of $1.3 billion. The Transportation Fund ended the fiscal year with a $9.1 billion fund balance, an increase of $549 million over the prior year.

Environmental and Natural Resources Fund: The Environmental and Natural Resources Fund accounts for fees, bond proceeds, and other revenues that are used for maintaining the State's natural resources and improving the environmental quality of its air, land, and water. The Environmental and Natural Resources Fund's revenues decreased by $830 million (15.1%), while its expenditures increased by $1.3 billion (25.8%). Other financing sources provided net receipts of $2.1 billion, mainly from bond proceeds. The Environmental and Natural Resources Fund ended the fiscal year with a $10.7 billion fund balance, an increase of $541 million (5.3%) over the prior year.

Proprietary Funds

Enterprise Funds: The total net position of the enterprise funds at June 30, 2017, was $7.3 billion—$2.7 billion greater than the prior year's net position of $4.6 billion. The Unemployment Programs Fund had an increase in net position of $2.5 billion to end the fiscal year with a balance of $4.1 billion. The California State University Fund and the nonmajor enterprise funds increased their net positions by $112 million and $128 million, respectively; while the State Lottery Fund decreased its net position by $59 million.

As shown on the proprietary funds' Statement of Net Position, total assets and deferred outflows of resources for the enterprise funds were $39.6 billion as of June 30, 2017. Of this amount, current assets totaled $13.5 billion, noncurrent assets totaled $23.8 billion, and deferred outflows of resources totaled $2.3 billion. The total liabilities and deferred inflows of resources for the enterprise funds was $32.3 billion. The two largest liabilities of the enterprise funds are $15.0 billion in revenue bonds payable and $8.8 billion in net pension liability. During fiscal year 2016-17, the State reduced by $2.7 billion the balance of the loans from the U.S. Department of Labor that covered prior-year deficits in the Unemployment Programs Fund, leaving a $385 million balance expected to be paid in fiscal year 2017-18.

Total net position consisted of four segments: net investment in capital assets of $2.3 billion, nonexpendable restricted net position of $2 million, restricted expendable net position of $6.3 billion, and unrestricted net deficit of $1.3 billion.

As shown on the Statement of Revenues, Expenses, and Changes in Fund Net Position of proprietary funds, the enterprise funds ended the year with operating revenues of $25.1 billion, operating expenses of $25.6 billion, and net revenues from other transactions of $78 million. The largest sources of operating revenue were unemployment and disability insurance receipts of $14.4 billion in the Unemployment Programs Fund, and lottery ticket sales of $6.2 billion collected by the State Lottery Fund. The largest operating expenses were distributions of $11.6 billion to beneficiaries by the Unemployment Programs Fund, personal services of $5.2 billion by the California State University Fund, and lottery prizes of $4.0 billion distributed by the State Lottery Fund.

Internal Service Funds: The total net deficit of the internal service funds was $632 million as of June 30, 2017. The net position consists of three segments: net investment in capital assets of $432 million, restricted expendable net position of $169 million, and unrestricted net deficit of $1.2 billion.

Fiduciary Funds

The State of California has four types of fiduciary funds: private purpose trust funds, pension and other employee benefit trust funds, investment trust funds, and agency funds. The private purpose trust funds ended the fiscal year with a net position of $7.9 billion. The pension and other employee benefit trust funds ended the fiscal year with a net position of $560.2 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with a net position of $22.8 billion. Agency funds act as clearing accounts and thus do not have a net position.

For the fiscal year ended June 30, 2017, the fiduciary funds' combined net position was $590.9 billion, a $53.8 billion increase over the prior year net position. The net position increase is attributed to a $57.1 billion increase in net investment income over the prior fiscal year in pension and other employee benefit trust funds.

General Fund Budget Highlights

The original General Fund budget of $121.0 billion was increased by $2.0 billion during fiscal year 2016-17. This increase is mainly composed of funding for health and human services. The funding for health and human services increased primarily due to Medi-Cal cost inflation, caseload growth, and program expansion. Beginning in January 2017, the State assumed a 5.0% share of the optional expansion cost previously fully paid by the federal government. During fiscal year 2016-17, the General Fund's actual budgetary basis expenditures were $119.9 billion, $3.1 billion less than the final budgeted amount of $123.0 billion.

Table 3 presents a summary of the General Fund original and final budgets.

Table 3

General Fund Original and Final Budgets
Year ended June 30, 2017
(amounts in millions)

	Original	Final	Increase/ (Decrease)
Budgeted amounts			
Business, consumer services, and housing	$ 77	$ 78	$ 1
Transportation	4	4	—
Natural resources and environmental protection	1,886	2,033	147
Health and human services	33,512	34,826	1,314
Corrections and rehabilitation	10,589	10,997	408
Education	62,305	62,303	(2)
General government:			
Tax relief	467	467	—
Debt service	5,415	5,415	—
Other general government	6,741	6,845	104
Total	**$ 120,996**	**$ 122,968**	**$ 1,972**

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2017, the State's investment in capital assets for its governmental and business-type activities amounted to $140.7 billion (net of accumulated depreciation/amortization). The State's capital assets include land, state highway infrastructure, collections, buildings and other depreciable property, intangible assets, and construction/development 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. Infrastructure assets are items that normally are immovable, such as roads and bridges, and can be preserved for a greater number of years than can most capital assets.

As of June 30, 2017, the State's capital assets increased $4.0 billion, or 2.9% over the prior fiscal year. The majority of the increase occurred in state highway infrastructure, and buildings and other depreciable property.

Additional information on the State's capital assets can be found in Note 7.

Table 4 presents a summary of the primary government's capital assets for governmental and business-type activities.

Table 4

Capital Assets – Primary Government – Two-year Comparison
June 30, 2017 and 2016
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	$ 19,716	$ 19,383	$ 258	$ 245	$ 19,974	$ 19,628
State highway infrastructure	75,071	73,463	—	—	75,071	73,463
Collections – nondepreciable	23	23	22	16	45	39
Buildings and other depreciable property	31,115	29,616	13,718	12,743	44,833	42,359
Intangible assets – amortizable	2,076	2,032	421	336	2,497	2,368
Less: accumulated depreciation/amortization	(14,304)	(13,400)	(5,616)	(5,244)	(19,920)	(18,644)
Construction/development in progress	15,871	15,316	1,750	1,639	17,621	16,955
Intangible assets – nonamortizable	428	426	117	114	545	540
Total	**$ 129,996**	**$ 126,859**	**$ 10,670**	**$ 9,849**	**$ 140,666**	**$ 136,708**

Note: Prior-year adjustments recorded in the current year have not been reflected in the prior-year column.

Modified Approach for Infrastructure Assets

The State has elected to use the modified approach for capitalizing infrastructure assets of the state highway system (state roadways and bridges). Under the modified approach, the State does not report depreciation expense for its roads and bridges but capitalizes all costs that add to their capacity and efficiency. All maintenance and preservation costs are expensed. Under the modified approach, the State maintains an asset management system to demonstrate that the infrastructure is preserved at or above established condition levels. During fiscal year 2016-17, the actual amount spent on preservation was 53.2% of the estimated budgeted amount needed to maintain the infrastructure assets at established condition levels. Although the amount spent fell short of the budgeted amount, the assessed condition of the State's bridges and roadways is better than the established condition baselines, with 96.6% of bridge deck area judged to be of fair or better quality and 84.1% of lane miles judged to be of fair or better quality in the last completed pavement-condition survey. The State is responsible for maintaining 49,645 lane miles and 12,976 bridges.

The Required Supplementary Information includes additional information on how the State uses the modified approach for infrastructure assets; it also presents the established condition standards, condition assessments, and preservation costs.

Debt Administration

At June 30, 2017, the State had total bonded debt outstanding of $111.3 billion. Of this amount, $79.5 billion (71.4%) represents general obligation bonds, which are backed by the full faith and credit of the State. The current portion of general obligation bonds outstanding is $3.5 billion and the long-term portion is

$76.0 billion. The remaining $31.8 billion (28.6%) of bonded debt outstanding represents revenue bonds, which are secured solely by specified revenue sources. The current portion of revenue bonds outstanding is $1.9 billion and the long-term portion is $29.9 billion.

During the fiscal year, the State issued $9.0 billion in new 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.

Table 5 presents a summary of all the primary government's long-term obligations for governmental and business-type activities.

Table 5

Long-term Obligations – Primary Government – Two-year Comparison
Years ended June 30, 2017 and 2016
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Government-wide noncurrent liabilities						
General obligation bonds	$ 75,329	$ 75,854	$ 667	$ 736	$ 75,996	$ 76,590
Revenue bonds payable	16,088	16,530	13,869	12,905	29,957	29,435
Total bonded debt	91,417	92,384	14,536	13,641	105,953	106,025
Net pension liability/obligation	77,278	64,294	8,787	7,462	86,065	71,756
Net other postemployment benefits obligation	28,181	24,967	978	851	29,159	25,818
Mandated cost claims payable	2,453	2,764	—	—	2,453	2,764
Loans payable	—	—	385	3,112	385	3,112
Compensated absences payable	3,511	3,777	205	201	3,716	3,978
Workers' compensation benefits payable	3,642	3,528	4	3	3,646	3,531
Capital lease obligations	359	345	310	346	669	691
Commercial paper	1,158	771	147	47	1,305	818
Other noncurrent liabilities	1,372	1,996	921	955	2,293	2,951
Total noncurrent liabilities	**209,371**	**194,826**	**26,273**	**26,618**	**235,644**	**221,444**
Current portion of long-term obligations	5,940	4,777	2,289	2,278	8,229	7,055
Total long-term obligations	**$ 215,311**	**$ 199,603**	**$ 28,562**	**$ 28,896**	**$ 243,873**	**$ 228,499**

Note: Prior-year adjustments recorded in the current year have not been reflected in the prior-year column.

During the fiscal year ended June 30, 2017, the primary government's total long-term obligations increased by $15.4 billion over the prior year's balance. The largest increases were $14.3 billion in net pension liability and $3.3 billion in OPEB obligation because the State does not fully fund these benefits. The largest decrease was $2.7 billion in loans payable to the U.S. Department of Labor for prior-year shortfalls in the unemployment program.

Note 9, Long-term Obligations, and Notes 10 through 16 include additional information on the State's long-term obligations.

In August 2016, Fitch Ratings raised the State's general obligation rating to "AA-" from "A+", stating that the upgrade reflected a combination of positive credit developments for the State, including Fitch's revised criteria for U.S. state and local governments released in April 2016. In addition, Fitch specifically stated, "California is fundamentally better positioned to withstand a future economic downturn than has been the case in prior recessions due to numerous institutional improvements." During fiscal year 2016-17, the ratings from Standard and Poor's Rating Services and Moody's Investors Service remained unchanged at "AA-" and "Aa3", respectively.

Economic Condition and Future Budgets

The Economy for the Fiscal Year Ending June 30, 2017

California, and the United States as a whole, continued to experience economic growth during fiscal year 2016-17. California's real gross domestic product (GDP) increased by 4.3% during the year and totaled $2.7 trillion at year end. As in the past few years, the State's economic output grew faster than the nation's GDP, which increased by only 3.9% during fiscal year 2016-17.

California's unemployment rate dipped to 4.7% in June 2017, compared to 5.5% in June 2016. Total nonfarm employment increased by 259,600 jobs during fiscal year 2016-17, with eight out of California's 11 industry sectors experiencing job growth. In some areas of California, the job market is considered at "full employment," where the labor market is at or near capacity without causing significant price inflation. All of these factors translate to 2.5 million more Californians in the workplace, compared to the low point of the economic downturn in early 2010.

California's personal income rose 4.1% in fiscal year 2016-17, outperforming the national increase of 2.7%. In addition to an increase in California's workforce, two other factors contributed to the State's personal income growth. First, due to California's much tighter job market, employers raised pay to attract and retain workers. Second, at the beginning of 2017, the minimum wage in California was increased to either $10 or $10.50 per hour, depending on the number of employees of a business. The minimum wage will continue to increase each year until it reaches $15 per hour in 2023 for all businesses.

California's real estate market showed continued growth during fiscal year 2016-17, with the number of residential building permits issued increasing by 10.7%, to nearly 108,000 units, compared to the prior fiscal year. However, commercial construction permits fell 4.0% from the prior year. The median price of homes in California increased during the fiscal year by 7.0%, higher than the 5.4% increase in the prior fiscal year. The State's median home price in June 2017 was over $555,000, more than double the national median price of $263,000.

Economic Outlook for Fiscal Year 2016-17 as of December 31, 2017

California's economy continued to improve during the first half of the fiscal year beginning July 1, 2017. The State's unemployment rate fell to 4.3% in December 2017—establishing a new record low in a series dating back to the beginning of 1976—and the State added 278,900 jobs since June 30, 2017, with 10 out of 11 industry sectors experiencing job growth. The number of jobs added in the first six months of fiscal year 2017-18 already exceeds the total jobs added in the prior fiscal year. Average wages are beginning to rise, but at a slower rate than in previous periods of low unemployment due, in part, to the retirement of baby boomers; retirees tend to be paid higher than workers just starting their careers. California's personal income for the quarter ending September 2017 was 0.6% higher than in June 2017; however, this represents a slower growth rate than the 0.9% increase during the same quarter in 2016.

Consumer prices are slowly beginning to move modestly higher as commodity prices stabilize and wages continue to rise. Inflation in California rose 2.5% in fiscal year 2016-17 and, according to the California Department of Finance (DOF), is expected to increase by 3.1% in fiscal year 2017-18 and 2.9% in fiscal year 2018-19. In comparison, national inflation rose 1.8% in fiscal year 2016-17, and is expected to increase by 2.1% in fiscal year 2017-18 and 2.2% in fiscal year 2018-19.

In the real estate industry, housing inflation rose 4.9% in California and 3.3% in the nation during 2017. Median home prices in California averaged $549,600 in December 2017, a 7.6% increase over the previous December, but a decrease of 1.1% since June 2017. California is experiencing the lowest housing inventory level in 13 years. The number of housing permits issued are starting to grow at a faster rate, but there is still a shortage of available homes as a result of years of permits lagging behind population growth. According to the DOF, housing permits issued by local authorities are expected to remain well below levels needed to account for population growth over the next few years. This situation will continue to cause housing costs to grow, increasing overall inflation for California.

California's 2017-18 Budget

California's 2017-18 Budget Act was enacted on June 27, 2017. The Budget Act appropriated $183.3 billion —$125.1 billion from the General Fund, $54.9 billion from special funds, and $3.3 billion from bond funds. When the budget was enacted, the General Fund's budgeted expenditures increased by $3.7 billion, or 3.0% over last year's General Fund budget. The General Fund's revenues were projected to be $125.9 billion after a $1.8 billion transfer to the Budget Stabilization Account (BSA), the State's rainy day fund. General Fund revenue comes predominantly from taxes, with personal income taxes expected to provide 70.0% of total revenue. California's major taxes (personal income, sales and use, and corporation taxes) are projected to supply approximately 97.3% of the General Fund's resources in fiscal year 2017-18. The General Fund was projected to end fiscal year 2017-18 with $9.9 billion in total reserves—$8.5 billion in the BSA and $1.4 billion in the General Fund's Special Fund for Economic Uncertainties (SFEU). In addition to the required minimum annual transfer to the BSA, Proposition 2 requires the General Fund to make an equivalent minimum annual amount of debt reduction payments; the 2017-18 spending plan included $1.8 billion of debt reduction expenditures.

In January 2018, the proposed 2018-19 Governor's Budget provided revised estimates of fiscal year 2017-18 General Fund revenues, expenditures, and reserves. The revised estimates project General Fund revenue of $127.3 billion, expenditures of $126.5 billion, and total year-end reserves of $12.6 billion—$8.4 billion in the BSA and $4.2 billion in the SFEU—which is $3.2 billion more than projected in June 2017 for the enacted budget. As of January 1, 2018, actual General Fund cash receipts for the first half of fiscal year 2017-18 surpassed estimates used in preparing the enacted budget with total receipts showing $4.0 billion, or 7.4%, over the estimates. Increased receipts resulted in a decrease in the General Fund's need for temporary borrowing compared to cash flow estimates prepared for the 2017-18 Budget Act by $2.4 billion, leaving a balance as of December 31, 2017, of $16.1 billion in outstanding loans, comprised entirely of internal borrowing from special funds.

The 2017-18 spending plan increased total state expenditures by $12.2 billion over the 2016-17 level primarily in education, transportation, and health and human services programs. The General Fund had a $2.1 billion increase in education spending to meet the Proposition 98 guaranteed minimum funding level for K-12 schools and community colleges, $475 million for universities and additional financial aid to students, and $310 million in childcare and preschool programs.

The increase in transportation spending is mainly attributed to the implementation of the Road Repair and Accountability Act of 2017, which increased existing fuel excise taxes and created two new vehicle charges.

For fiscal year 2017-18, the projected $2.8 billion of increased revenue will be mainly spent on the maintenance and rehabilitation of state highways and local streets and roads, and on transit-related projects. In addition, the 2017-18 spending plan allocates an estimated $2.6 billion in cap-and-trade auction revenues to certain transportation and housing programs; to other programs intended to reduce emissions from vehicles, heavy-duty equipment, and agricultural activities; and to fund forestry and fire prevention activities. The increase in health and human services spending results from the allocation of $1.3 billion from increased tax revenue on tobacco products to the State's Medi-Cal programs and a $400 million increase in General Fund assistance to counties for in-home supportive services costs.

The 2017-18 spending plan includes a one-time $6.0 billion supplemental payment to CalPERS to help reduce the State's net pension liability. The supplemental payment will be made using a loan from the State's internal investment pool, which is described in Note 3, Deposits and Investments. The General Fund's share of the loan repayment will begin in fiscal year 2017-18 and will be counted towards the minimum annual debt reduction payments required by Proposition 2 over the expected term of the loan. The remaining balance of the loan will be repaid from special funds that contribute to CalPERS, and which will benefit from the loan.

California's 2018-19 Budget

The Governor released his proposed 2018-19 budget on January 10, 2018. The Governor's budget assumes continued economic expansion and projects a healthy one-time surplus; however, as economic expansions do not last forever, the Governor's proposed budget places a high priority on building the State's reserves. The Governor forecasts that a moderate recession could reduce projected annual state revenue growth by over $20.0 billion for several consecutive years. The Governor cautions that the State also faces uncertainty regarding the federal government's fiscal policy, including the ramifications of the recently enacted federal tax bill, which was not factored into the 2018-19 budget. Additional priorities of the Governor's proposed budget include providing more money for K-12 schools and higher education, counteracting the effects of poverty, combating climate change, strengthening the State's infrastructure, supporting job creation, and paying down debts and liabilities.

The 2018-19 Governor's Budget projects General Fund revenues of $134.8 billion ($129.8 billion after transfers), an increase of $5.9 billion (4.6%) over estimated 2017-18 revenues. General Fund expenditures are budgeted at $131.7 billion, an increase of $5.2 billion (4.1%) over estimated 2017-18 totals. Most of the increase in expenditures can be attributed to meeting the Proposition 98 guaranteed minimum funding level for K-12 schools and community colleges, and caseload growth primarily in health and human services, including the Medi-Cal program. The Governor proposes a transfer of $5.0 billion from the General Fund to the BSA, $3.5 billion more than the statutorily-required minimum. After this transfer, the balance in the BSA would be $13.5 billion, an amount that the Governor estimates to be the fiscal year 2018-19 constitutional maximum at 10% of General Fund tax revenue. Combined with the projected balance of $2.3 billion in the SFEU, the State's total reserves at the end of fiscal year 2018-19 would be $15.8 billion.

The Legislative Analyst's Office (LAO), California's nonpartisan fiscal and policy advisor, concurs with the Governor's priority of building the State's reserves in light of economic and federal budget uncertainty. The LAO estimates that the State will receive more General Fund revenue than the 2018-19 Governor's Budget estimate. In addition, the LAO notes that recently-enacted federal legislation extended a higher level of federal cost sharing for certain health and human services programs that may result in less state expenditures for those programs than budgeted.

Future Changes in Retiree Health Care Reporting

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, amending accounting and financial reporting standards for defined benefit OPEB for employers and plan sponsors nationwide. The State of California provides health and dental benefits to its retirees through a substantive defined benefit plan. The State has funded the cost of providing these benefits to retirees primarily on a "pay-as-you-go" basis. In February 2010, through the collective bargaining process, the State began to prefund its future healthcare benefit costs by depositing agreed-upon employee and state employer contributions in an OPEB trust fund.

CalPERS, as administrator of the California Employers' Retiree Benefit Trust Fund (CERBTF), the trust fund established to receive OPEB prefunding contributions from the State and other public entities, implemented GASB Statement No. 74 in its separately issued financial statements beginning with its report for the fiscal year ended June 30, 2016. GASB Statement No. 74 required CalPERS to present two financial statements for the CERBTF—a statement of fiduciary net position and a statement of changes in fiduciary net position, expanded note disclosure, and additional required supplementary information. The CERBTF financial statements are included in this report in the fiduciary fund statements as a pension and other employee benefit trust fund.

GASB Statement No. 75 implementation requires additional actuarial and accounting information to be reported in the State's CAFR for the fiscal year ending June 30, 2018. This statement requires the State to record a net OPEB liability (NOL) in its financial statements and to significantly change its postemployment health care benefits note disclosure and required supplementary information.

The impact of these new standards on the State's financial statements is similar to the impact in 2015 for changes made to comply with new accounting and reporting standards relating to pension plans, but the change for OPEB will have an even greater effect. Although these changes are significant to the financial statements, the State's recent budgetary commitment to prefund retiree healthcare benefits will lessen the future economic and budgetary impacts, as investment income on these contributions will help offset the State's future costs for providing these benefits.

The following major changes will occur in the State's CAFR for the fiscal year ending June 30, 2018:

- The State's NOL will be presented in the government-wide Statement of Net Position. The NOL represents an amount equal to the State's total OPEB liability (TOL) less its share of the fiduciary net position in the CERBTF. The State's TOL is an actuarial accrued liability that reflects the present value of future healthcare benefits earned by state employees in prior fiscal years.

- The State's OPEB expense reported in the government-wide Statement of Activities will reflect the change in the NOL that occurred during the fiscal year. The annual OPEB expense consists of service costs, plan administration costs, interest on the TOL, changes in the TOL related to changes in benefit terms, other amortized expenses, and changes in plan fiduciary net position. These expenses are offset by employee contributions and expected investment income.

- The notes to the financial statements will be revised to include newly-required disclosures including information about the measurement of and changes in the NOL; sensitivity of the NOL to changes in the discount rate and the healthcare cost trend rates; and other annual changes.

- The required supplementary information related to OPEB will change dramatically. The Schedule of Funding Progress will be discontinued, and the information required by the new standards will grow to include sets of 10-year schedules.

The accounting changes needed to implement GASB Statement No. 75 will require the restatement of the beginning net position in the government-wide financial statements as of July 1, 2017. The amount of this restatement is currently being calculated.

Requests for Information

The State Controller's Office designed this financial report to provide interested parties with a general overview of the State of California's finances. Address questions concerning the information provided in this report or requests for additional information via email to the State Controller's Office, State Accounting and Reporting Division at StateGovReports@sco.ca.gov. This report is also available on the State Controller's Office's website at www.sco.ca.gov.

Basic Financial Statements

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Government-wide Financial Statements

Statement of Net Position

June 30, 2017
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and pooled investments	$ 35,186,647	$ 7,820,089	$ 43,006,736	$ 2,820,694
Amount on deposit with U.S. Treasury	—	11,730	11,730	—
Investments	607,262	2,080,478	2,687,740	8,477,085
Restricted assets:				
Cash and pooled investments	638,075	1,033,576	1,671,651	386,587
Investments	—	—	—	47,996
Due from other governments	—	100,385	100,385	—
Net investment in direct financing leases	36,877	11,055	47,932	—
Receivables (net)	19,848,799	2,006,463	21,855,262	4,565,340
Internal balances	272,508	(272,508)	—	—
Due from primary government	—	—	—	204,062
Due from other governments	20,068,777	234,313	20,303,090	123,896
Prepaid items	218,010	55,981	273,991	5,001
Inventories	79,801	16,671	96,472	226,995
Recoverable power costs (net)	—	106,000	106,000	—
Other current assets	45,253	6,601	51,854	379,000
Total current assets	77,002,009	13,210,834	90,212,843	17,236,656
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	176,851	716,720	893,571	34,934
Investments	—	361,913	361,913	80,329
Loans receivable	—	1,276,297	1,276,297	—
Investments	—	2,446,159	2,446,159	28,321,247
Net investment in direct financing leases	289,525	241,333	530,858	—
Receivables (net)	2,076,165	418,821	2,494,986	2,523,282
Loans receivable	4,581,163	3,586,044	8,167,207	3,104,780
Recoverable power costs (net)	—	2,467,000	2,467,000	—
Long-term prepaid charges	2,030	1,222,745	1,224,775	—
Capital assets:				
Land	19,715,991	258,295	19,974,286	1,318,690
State highway infrastructure	75,071,022	—	75,071,022	—
Collections – nondepreciable	22,627	22,086	44,713	468,308
Buildings and other depreciable property	31,115,033	13,717,614	44,832,647	51,543,464
Intangible assets – amortizable	2,075,973	420,480	2,496,453	1,029,465
Less: accumulated depreciation/amortization	(14,304,302)	(5,616,235)	(19,920,537)	(25,042,875)
Construction/development in progress	15,870,690	1,750,443	17,621,133	2,560,457
Intangible assets – nonamortizable	428,676	117,068	545,744	5,411
Other noncurrent assets	—	23,920	23,920	221,663
Total noncurrent assets	137,121,444	23,430,703	160,552,147	66,169,155
Total assets	**214,123,453**	**36,641,537**	**250,764,990**	**83,405,811**
DEFERRED OUTFLOWS OF RESOURCES	17,172,864	2,350,512	19,523,376	5,623,947
Total assets and deferred outflows of resources	**$ 231,296,317**	**$ 38,992,049**	**$ 270,288,366**	**$ 89,029,758**

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	$ 24,823,392	$ 468,035	$ 25,291,427	$ 3,295,919
Due to component units	204,062	—	204,062	—
Due to other governments	6,887,502	132,040	7,019,542	—
Revenues received in advance	1,595,429	375,215	1,970,644	1,348,905
Tax overpayments	5,144,945	—	5,144,945	—
Deposits	489,888	—	489,888	858,006
Contracts and notes payable	1,036	—	1,036	9,457
Unclaimed property liability	937,822	—	937,822	—
Interest payable	1,166,841	64,976	1,231,817	36,850
Securities lending obligations	—	—	—	1,121,899
Benefits payable	—	457,305	457,305	—
Current portion of long-term obligations	5,940,497	2,674,355	8,614,852	4,025,103
Other current liabilities	645,346	528,147	1,173,493	1,397,983
Total current liabilities	47,836,760	4,700,073	52,536,833	12,094,122
Noncurrent liabilities:				
Lottery prizes and annuities	—	684,997	684,997	—
Compensated absences payable	3,510,653	205,082	3,715,735	354,494
Workers' compensation benefits payable	3,642,228	3,639	3,645,867	445,251
Commercial paper and other borrowings	1,158,080	147,365	1,305,445	200
Capital lease obligations	358,964	309,716	668,680	422,661
General obligation bonds payable	75,329,254	666,999	75,996,253	—
Revenue bonds payable	16,087,416	13,868,527	29,955,943	20,321,545
Mandated cost claims payable	2,453,039	—	2,453,039	—
Net other postemployment benefits obligation	28,181,028	978,204	29,159,232	147,636
Net other postemployment benefits liability	—	—	—	19,290,424
Net pension liability	77,278,086	8,786,887	86,064,973	10,987,614
Revenues received in advance	—	10,840	10,840	—
Other noncurrent liabilities	1,371,771	225,301	1,597,072	2,010,815
Total noncurrent liabilities	209,370,519	25,887,557	235,258,076	53,980,640
Total liabilities	**257,207,279**	**30,587,630**	**287,794,909**	**66,074,762**
DEFERRED INFLOWS OF RESOURCES	2,714,215	1,121,317	3,835,532	6,315,880
Total liabilities and deferred inflows of resources	**$ 259,921,494**	**$ 31,708,947**	**$ 291,630,441**	**$ 72,390,642**

(continued)

Statement of Net Position (continued)

June 30, 2017
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
NET POSITION				
Net investment in capital assets	$ 107,042,274	$ 2,295,270	$ 109,337,544	$ 13,922,202
Restricted:				
Nonexpendable – endowments	—	1,746	1,746	6,420,741
Expendable:				
Endowments and gifts	—	—	—	11,254,940
General government	3,902,047	210,549	4,112,596	—
Education	829,516	140,220	969,736	1,304,254
Health and human services	4,758,357	170,828	4,929,185	—
Natural resources and environmental protection	4,741,159	1,917,575	6,658,734	—
Business, consumer services, and housing	4,022,533	22,465	4,044,998	—
Transportation	8,829,656	6,778	8,836,434	—
Corrections and rehabilitation	35,542	2,017	37,559	—
Unemployment programs	—	3,836,786	3,836,786	—
Indenture	—	—	—	576,548
Statute	—	—	—	1,636,242
Other purposes	6,713,422	—	6,713,422	29,016
Total expendable	33,832,232	6,307,218	40,139,450	14,801,000
Unrestricted	(169,499,683)	(1,321,132)	(170,820,815)	(18,504,827)
Total net position (deficit)	**(28,625,177)**	**7,283,102**	**(21,342,075)**	**16,639,116**
Total liabilities, deferred inflows of resources, and net position	**$ 231,296,317**	**$ 38,992,049**	**$ 270,288,366**	**$ 89,029,758**

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Statement of Activities

Year Ended June 30, 2017
(amounts in thousands)

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
					Primary Government			
FUNCTIONS/PROGRAMS	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**	**Component Units**
Primary government								
Governmental activities:								
General government	$ 17,400,482	$ 5,825,533	$ 929,306	$ —	$ (10,645,643)		$ (10,645,643)	
Education	67,377,805	74,548	7,413,197	—	(59,890,060)		(59,890,060)	
Health and human services	135,090,171	11,638,503	77,917,754	—	(45,533,914)		(45,533,914)	
Natural resources and environmental protection	7,342,079	3,998,751	424,586	—	(2,918,742)		(2,918,742)	
Business, consumer services, and housing	1,163,511	844,445	84,406	—	(234,660)		(234,660)	
Transportation	12,947,296	4,611,244	2,603,508	3,027,780	(2,704,764)		(2,704,764)	
Corrections and rehabilitation	13,086,499	17,988	124,533	—	(12,943,978)		(12,943,978)	
Interest on long-term debt	4,191,283	—	—	—	(4,191,283)		(4,191,283)	
Total governmental activities	258,599,126	27,011,012	89,497,290	3,027,780	(139,063,044)		(139,063,044)	
Business-type activities:								
Electric Power	945,000	945,000	—	—		$ —	—	
Water Resources	1,223,340	1,223,340	—	—		—	—	
State Lottery	6,271,875	6,213,074	—	—		(58,801)	(58,801)	
Unemployment Programs	11,907,623	14,437,094	—	—		2,529,471	2,529,471	
California State University	8,001,396	3,224,919	1,805,406	—		(2,971,071)	(2,971,071)	
State Water Pollution Control Revolving	17,112	75,912	—	61,027		119,827	119,827	
Housing Loan	62,885	52,842	—	—		(10,043)	(10,043)	
Other enterprise programs	75,397	93,177	—	—		17,780	17,780	
Total business-type activities	28,504,628	26,265,358	1,805,406	61,027		(372,837)	(372,837)	
Total primary government	**$ 287,103,754**	**$ 53,276,370**	**$ 91,302,696**	**$ 3,088,807**	**$ (139,063,044)**	**$ (372,837)**	**$ (139,435,881)**	
Component Units								
University of California	34,270,286	21,777,538	9,422,754	86,776				$ (2,983,218)
California Housing Finance Agency	208,118	95,432	—	—				(112,686)
Nonmajor component units	2,125,925	1,079,450	639,510	12,142				(394,823)
Total component units	**$ 36,604,329**	**$ 22,952,420**	**$ 10,062,264**	**$ 98,918**				**$ (3,490,727)**
General revenues:								
Personal income taxes					$ 85,712,013	$ —	$ 85,712,013	$ —
Sales and use taxes					38,726,332	—	38,726,332	—
Corporation taxes					11,128,198	—	11,128,198	—
Motor vehicle excise tax					4,878,953	—	4,878,953	—
Insurance taxes					2,719,489	—	2,719,489	—
Managed care organization enrollment tax					2,282,313	—	2,282,313	—
Other taxes					2,574,456	—	2,574,456	—
Investment and interest income (loss)					149,135	—	149,135	3,485,177
Escheat					325,755	—	325,755	—
Other					—	—	—	2,657,655
Gain on early extinguishment of debt					30,986	—	30,986	—
Transfers					(3,083,437)	3,083,437	—	—
Total general revenues and transfers					**145,444,193**	**3,083,437**	**148,527,630**	**6,142,832**
Change in net position					6,381,149	2,710,600	9,091,749	2,652,105
Net position (deficit) – beginning					**(35,006,326)***	**4,572,502**	**(30,433,824)**	**13,987,011 ***
Net position (deficit) – ending					**$ (28,625,177)**	**$ 7,283,102**	**$ (21,342,075)**	**$ 16,639,116**

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

Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2017

(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
ASSETS						
Cash and pooled investments	$ 5,932,023	$ 434,218	$ 6,246,820	$ 8,395,418	$ 12,693,507	$ 33,701,986
Investments	—	—	—	—	607,262	607,262
Receivables (net)	15,943,068	19,729	965,131	463,973	4,448,651	21,840,552
Due from other funds	2,988,748	—	1,051,914	443,322	1,012,426	5,496,410
Due from other governments	1,352,536	17,736,504	4,946	55,306	907,934	20,057,226
Interfund receivables	96,998	—	2,242,064	439,800	497,267	3,276,129
Loans receivable	39,520	221,070	—	1,598,440	2,722,133	4,581,163
Other assets	15,127	—	15,175	—	14,951	45,253
Total assets	**$ 26,368,020**	**$ 18,411,521**	**$ 10,526,050**	**$ 11,396,259**	**$ 22,904,131**	**$ 89,605,981**
LIABILITIES						
Accounts payable	$ 1,563,360	$ 938,497	$ 416,165	$ 399,149	$ 702,260	$ 4,019,431
Due to other funds	4,850,321	15,190,227	138,624	28,232	5,479,605	25,687,009
Due to component units	194,265	—	—	—	9,797	204,062
Due to other governments	2,098,435	1,945,607	217,832	51,680	3,617,882	7,931,436
Interfund payables	3,394,432	—	20,656	14,790	50,574	3,480,452
Revenues received in advance	359,582	75,924	18,028	190,985	124,278	768,797
Tax overpayments	5,144,945	—	—	—	—	5,144,945
Deposits	2,374	—	2,854	826	482,272	488,326
Unclaimed property liability	937,822	—	—	—	—	937,822
Other liabilities	322,308	13,899	548,022	6,298	128,794	1,019,321
Total liabilities	**18,867,844**	**18,164,154**	**1,362,181**	**691,960**	**10,595,462**	**49,681,601**
DEFERRED INFLOWS OF RESOURCES	1,689,790	19,488	75,605	36,580	194,210	2,015,673
Total liabilities and deferred inflows of resources	**20,557,634**	**18,183,642**	**1,437,786**	**728,540**	**10,789,672**	**51,697,274**
FUND BALANCES						
Nonspendable	103,903	—	—	—	20,172	124,075
Restricted	7,429,825	227,879	9,051,465	6,419,569	10,534,476	33,663,214
Committed	180,755	—	50,133	4,249,968	1,547,778	6,028,634
Assigned	—	—	—	—	12,033	12,033
Unassigned	(1,904,097)	—	(13,334)	(1,818)	—	(1,919,249)
Total fund balances	**5,810,386**	**227,879**	**9,088,264**	**10,667,719**	**12,114,459**	**37,908,707**
Total liabilities, deferred inflows of resources, and fund balances	**$ 26,368,020**	**$ 18,411,521**	**$ 10,526,050**	**$ 11,396,259**	**$ 22,904,131**	**$ 89,605,981**

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

(amounts in thousands)

Total fund balances – governmental funds		**$ 37,908,707**
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	19,713,909	
State highway infrastructure	75,071,022	
Collections – nondepreciable	22,627	
Buildings and other depreciable property	30,496,098	
Intangible assets – amortizable	2,006,797	
Less: accumulated depreciation/amortization	(13,797,021)	
Construction/development in progress	15,083,113	
Intangible assets – nonamortizable	428,676	
		129,025,221
• 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.		2,015,673
• 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.		(8,729,385)
• 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.		(5,313,374)
• Deferred inflows and outflows of resources related to pension transactions are not reported in the funds.		13,503,236
• 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.		553,155
• General obligation bonds and related accrued interest totaling $74,878,319, revenue bonds totaling $6,784,696, and commercial paper totaling $1,158,080 are not due and payable in the current period and are not reported in the funds.		(82,821,095)
• The following liabilities are not due and payable in the current period and are not reported in the funds:		
Compensated absences	(3,374,318)	
Capital leases	(416,468)	
Net pension liability	(76,017,824)	
Net other postemployment benefits obligation	(27,486,214)	
Mandated cost claims	(2,453,039)	
Workers' compensation	(3,600,656)	
Proposition 98 funding guarantee	(440,003)	
Pollution remediation obligations	(969,393)	
Other noncurrent liabilities	(9,400)	
		(114,767,315)
Net position of governmental activities		**$ (28,625,177)**

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Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2017

(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
REVENUES						
Personal income taxes	$ 84,253,851	$ —	$ —	$ —	$ 1,484,054	$ 85,737,905
Sales and use taxes	24,921,347	—	427,333	—	13,393,035	38,741,715
Corporation taxes	11,125,198	—	—	—	—	11,125,198
Motor vehicle excise taxes	80,033	—	4,674,274	57,649	66,997	4,878,953
Insurance taxes	2,427,851	—	—	—	291,638	2,719,489
Managed care organization enrollment tax	—	—	—	—	2,282,313	2,282,313
Other taxes	604,685	—	—	158,893	1,802,350	2,565,928
Intergovernmental	—	92,505,515	—	—	3,204,269	95,709,784
Licenses and permits	5,563	—	4,460,973	441,286	3,205,720	8,113,542
Charges for services	298,997	—	146,249	128,746	286,249	860,241
Fees	242,054	—	20,631	2,575,522	7,646,908	10,485,115
Penalties	288,560	67	35,611	75,271	687,310	1,086,819
Investment and interest	106,614	—	39,339	74,972	97,577	318,502
Escheat	325,638	—	2	—	1,974	327,614
Other	441,253	—	81,810	1,167,464	1,243,630	2,934,157
Total revenues	**125,121,644**	**92,505,582**	**9,886,222**	**4,679,803**	**35,694,024**	**267,887,275**
EXPENDITURES						
Current:						
General government	5,177,883	956,915	518,262	143,595	10,454,065	17,250,720
Education	59,445,776	7,393,711	3,987	2,677	378,645	67,224,796
Health and human services	32,975,439	77,411,341	2,344	80,154	23,902,816	134,372,094
Natural resources and environmental protection	1,652,353	252,264	249,374	4,310,057	248,790	6,712,838
Business, consumer services, and housing	29,732	76,530	95,881	85,158	816,393	1,103,694
Transportation	3,888	5,619,898	9,079,331	297,439	7,083	15,007,639
Corrections and rehabilitation	10,574,249	124,533	—	—	1,577,609	12,276,391
Capital outlay	988,680	—	—	199,865	50,155	1,238,700
Debt service:						
Bond and commercial paper retirement	2,583,630	9,360	683,216	1,072,282	5,016,062	9,364,550
Interest and fiscal charges	2,828,409	2,030	11,984	18,862	1,124,985	3,986,270
Total expenditures	**116,260,039**	**91,846,582**	**10,644,379**	**6,210,089**	**43,576,603**	**268,537,692**
Excess (deficiency) of revenues over (under) expenditures	8,861,605	659,000	(758,157)	(1,530,286)	(7,882,579)	(650,417)
OTHER FINANCING SOURCES (USES)						
General obligation bonds and commercial paper issued	—	—	2,118,245	1,227,295	979,535	4,325,075
Refunding debt issued	—	—	693,570	1,070,045	5,210,610	6,974,225
Payment to refund long-term debt	—	—	(406,247)	(660,166)	(1,871,868)	(2,938,281)
Premium on bonds issued	52,438	—	133,342	218,253	905,221	1,309,254
Remarketing bonds issued	—	—	100,000	—	—	100,000
Payment to remarket long-term debt	—	—	(100,000)	—	—	(100,000)
Capital leases	988,680	—	—	—	—	988,680
Transfers in	876,015	—	30,026	228,620	3,451,538	4,586,199
Transfers out	(5,330,080)	(678,955)	(1,261,432)	(13,136)	(268,024)	(7,551,627)
Total other financing sources (uses)	**(3,412,947)**	**(678,955)**	**1,307,504**	**2,070,911**	**8,407,012**	**7,693,525**
Net change in fund balances	5,448,658	(19,955)	549,347	540,625	524,433	7,043,108
Fund balances (deficit) – beginning	**361,728**	**247,834**	**8,538,917**	**10,127,094**	**11,590,026 ***	**30,865,599**
Fund balances – ending	**$ 5,810,386**	**$ 227,879**	**$ 9,088,264**	**$ 10,667,719**	**$ 12,114,459**	**$ 37,908,707**

* Restated

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		**$ 7,043,108**

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	6,153,315	
Disposal of assets	(2,476,315)	
Depreciation expense, net of asset disposal	(902,207)	
		2,774,793

- Some revenues in the Statement of Activities do not provide current financial resources and, therefore, are unavailable in governmental funds. 111,957

- 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. (264,406)

- 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	(9,046,715)	(652,995)	(1,599,590)	(11,299,300)	
Premium on debt issued	(1,220,421)	(88,832)	—	(1,309,253)	
Accreted interest	—	(43,167)	—	(43,167)	
Principal repayments	7,334,755	817,069	1,212,725	9,364,549	
Payments to refund long-term debt	2,938,281	—	—	2,938,281	
Related expenses not reported in governmental funds:					
Gain on debt extinguishment	—	30,986	—	30,986	
Premium/discount amortization	249,410	18,292	—	267,702	
Deferred gain/loss on refunding	(13,008)	(9,958)	—	(22,966)	
Prepaid insurance	—	(114)	—	(114)	
Accrued interest	(4,247)	218	—	(4,029)	
	238,055	71,499	(386,865)		(77,311)

(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	247,704	
Capital leases	(46,286)	
Net pension liability	(1,102,815)	
Net other postemployment benefits obligation	(3,115,936)	
Mandated cost claims	311,430	
Workers' compensation	(115,020)	
Proposition 98 funding guarantee	556,737	
Pollution remediation obligations	52,461	
Other noncurrent liabilities	4,733	
		(3,206,992)

Change in net position of governmental activities	**$ 6,381,149**

(concluded)

Statement of Net Position

Proprietary Funds

June 30, 2017

(amounts in thousands)

			Business-type Activities – Enterprise Funds					Governmental Activities
	Electric Power	**Water Resources**	**State Lottery**	**Unemployment Programs**	**California State University**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
ASSETS								
Current assets:								
Cash and pooled investments	$ —	$ 808,769	$ 703,106	$ 3,946,163	$ 1,305,571	$ 1,056,480	$ 7,820,089	$ 1,484,661
Amount on deposit with U.S. Treasury	—	—	—	11,730	—	—	11,730	—
Investments	—	—	55,769	—	2,024,709	—	2,080,478	—
Restricted assets:								
Cash and pooled investments	590,000	—	—	—	—	443,576	1,033,576	638,075
Due from other governments	—	—	—	—	—	100,385	100,385	—
Net investment in direct financing leases	—	—	—	—	11,055	—	11,055	483,991
Receivables (net)	—	106,676	503,249	1,183,464	178,750	34,324	2,006,463	23,920
Due from other funds	6,000	2,552	1,546	13,876	5,713	3,540	33,227	597,429
Due from other governments	—	35,253	—	38,905	—	160,155	234,313	11,551
Prepaid items	—	—	—	—	55,969	12	55,981	218,010
Inventories	—	5,011	8,788	—	—	2,872	16,671	79,801
Recoverable power costs (net)	106,000	—	—	—	—	—	106,000	—
Other current assets	—	—	6,601	—	—	—	6,601	—
Total current assets	702,000	958,261	1,279,059	5,194,138	3,581,767	1,801,344	13,516,569	3,537,438
Noncurrent assets:								
Restricted assets:								
Cash and pooled investments	582,000	133,976	—	—	744	—	716,720	176,851
Investments	302,000	59,913	—	—	—	—	361,913	—
Loans receivable	—	—	—	—	—	1,276,297	1,276,297	—
Investments	—	—	757,789	—	1,670,406	17,964	2,446,159	—
Net investment in direct financing leases	—	—	—	—	241,333	—	241,333	7,939,983
Receivables (net)	—	—	—	81,350	337,471	—	418,821	—
Interfund receivables	—	95,136	—	234,001	—	1,600	330,737	32,045
Loans receivable	—	11,934	—	—	77,243	3,496,867	3,586,044	—
Recoverable power costs (net)	2,467,000	—	—	—	—	—	2,467,000	—
Long-term prepaid charges	—	1,217,868	4,877	—	—	—	1,222,745	1,134
Capital assets:								
Land	—	156,934	15,894	—	84,195	1,272	258,295	2,082
Collections – nondepreciable	—	—	—	—	22,086	—	22,086	—
Buildings and other depreciable property	—	4,787,477	269,053	26,868	8,615,306	18,910	13,717,614	618,935
Intangible assets – amortizable	—	39,385	—	244,118	135,296	1,681	420,480	69,176
Less: accumulated depreciation/amortization	—	(2,117,138)	(99,238)	(43,126)	(3,338,619)	(18,114)	(5,616,235)	(507,281)
Construction/development in progress	—	1,095,997	—	—	654,259	187	1,750,443	787,577
Intangible assets – nonamortizable	—	111,007	—	—	6,061	—	117,068	—
Other noncurrent assets	—	—	—	—	21,959	1,961	23,920	—
Total noncurrent assets	3,351,000	5,592,489	948,375	543,211	8,527,740	4,798,625	23,761,440	9,120,502
Total assets	**4,053,000**	**6,550,750**	**2,227,434**	**5,737,349**	**12,109,507**	**6,599,969**	**37,278,009**	**12,657,940**
DEFERRED OUTFLOWS OF RESOURCES	119,000	282,685	39,351	66,352	1,829,367	13,757	2,350,512	465,535
Total assets and deferred outflows of resources	**$ 4,172,000**	**$ 6,833,435**	**$ 2,266,785**	**$ 5,803,701**	**$ 13,938,874**	**$ 6,613,726**	**$ 39,628,521**	**$ 13,123,475**

(continued)

Statement of Net Position (continued)

Proprietary Funds

June 30, 2017

(amounts in thousands)

			Business-type Activities – Enterprise Funds					Governmental Activities
	Electric Power	Water Resources	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
LIABILITIES								
Current liabilities:								
Accounts payable	$ 2,000	$ 147,651	$ 54,881	$ 3	$ 260,895	$ 2,590	$ 468,020	$ 457,688
Due to other funds	—	52,292	386,378	195,227	6	2,584	636,487	149,858
Due to other governments	—	95,350	—	36,666	—	24	132,040	69,379
Revenues received in advance	—	—	2,726	55,310	317,108	71	375,215	826,632
Deposits	—	—	—	—	—	—	—	1,562
Contracts and notes payable	—	—	—	—	—	—	—	19,018
Interest payable	29,000	11,491	—	—	—	24,485	64,976	101,195
Benefits payable	—	—	—	457,305	—	—	457,305	—
Current portion of long-term obligations	779,000	192,602	936,779	385,137	318,784	62,053	2,674,355	626,300
Other current liabilities	—	—	246	46,205	481,695	1	528,147	22,940
Total current liabilities	810,000	499,386	1,381,010	1,175,853	1,378,488	91,808	5,336,545	2,274,572
Noncurrent liabilities:								
Interfund payables	—	—	—	—	—	—	—	158,459
Lottery prizes and annuities	—	—	684,997	—	—	—	684,997	—
Compensated absences payable	40	25,313	—	49,679	120,666	9,384	205,082	144,776
Workers' compensation benefits payable	—	—	2,093	—	—	1,546	3,639	41,572
Commercial paper and other borrowings	—	147,165	—	—	200	—	147,365	—
Capital lease obligations	—	—	—	—	309,716	—	309,716	—
General obligation bonds payable	—	54,065	—	—	—	612,934	666,999	—
Revenue bonds payable	3,349,000	2,887,798	—	—	6,312,020	1,319,709	13,868,527	9,146,693
Net other postemployment benefits obligation	6,960	262,390	68,280	198,402	425,888	16,284	978,204	694,814
Net pension liability	6,000	556,748	132,963	314,405	7,733,925	42,846	8,786,887	1,260,262
Revenues received in advance	—	—	—	—	10,840	—	10,840	—
Other noncurrent liabilities	—	92,292	—	—	94,060	38,949	225,301	31,355
Total noncurrent liabilities	3,362,000	4,025,771	888,333	562,486	15,007,315	2,041,652	25,887,557	11,477,931
Total liabilities	**4,172,000**	**4,525,157**	**2,269,343**	**1,738,339**	**16,385,803**	**2,133,460**	**31,224,102**	**13,752,503**
DEFERRED INFLOWS OF RESOURCES	—	1,102,850	280	716	17,394	77	1,121,317	2,785
Total liabilities and deferred inflows of resources	**4,172,000**	**5,628,007**	**2,269,623**	**1,739,055**	**16,403,197**	**2,133,537**	**32,345,419**	**13,755,288**
NET POSITION								
Net investment in capital assets	—	825,218	185,709	227,860	1,052,547	3,936	2,295,270	432,340
Restricted:								
Nonexpendable – endowments	—	—	—	—	1,746	—	1,746	—
Expendable:								
Construction	—	—	—	—	23,594	—	23,594	169,018
Debt service	—	380,210	—	—	67,956	157,601	605,767	—
Security for revenue bonds	—	—	—	—	—	1,376,682	1,376,682	—
Lottery	—	—	87,373	—	—	—	87,373	—
Unemployment programs	—	—	—	3,836,786	—	—	3,836,786	—
Other purposes	—	—	—	—	48,670	328,346	377,016	—
Total expendable	—	380,210	87,373	3,836,786	140,220	1,862,629	6,307,218	169,018
Unrestricted	—	—	(275,920)	—	(3,658,836)	2,613,624	(1,321,132)	(1,233,171)
Total net position (deficit)	**—**	**1,205,428**	**(2,838)**	**4,064,646**	**(2,464,323)**	**4,480,189**	**7,283,102**	**(631,813)**
Total liabilities, deferred inflows of resources, and net position	**$ 4,172,000**	**$ 6,833,435**	**$ 2,266,785**	**$ 5,803,701**	**$ 13,938,874**	**$ 6,613,726**	**$ 39,628,521**	**$ 13,123,475**

(concluded)

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

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

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

Proprietary Funds

Year Ended June 30, 2017

(amounts in thousands)

	Business-type Activities – Enterprise Funds							Governmental Activities
	Electric Power	Water Resources	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
OPERATING REVENUES								
Unemployment and disability insurance	$ —	$ —	$ —	$ 14,410,450	$ —	$ —	$ 14,410,450	$ —
Lottery ticket sales	—	—	6,233,468	—	—	—	6,233,468	—
Power sales	(29,000)	85,089	—	—	—	—	56,089	—
Student tuition and fees	—	—	—	—	2,185,443	—	2,185,443	—
Services and sales	—	1,138,251	—	—	547,580	104,052	1,789,883	2,802,643
Investment and interest	—	—	—	—	—	107,670	107,670	10,515
Rent	—	—	—	—	—	108	108	437,203
Grants and contracts	—	—	—	—	71,277	—	71,277	—
Other	—	—	—	—	208,480	1,971	210,451	—
Total operating revenues	**(29,000)**	**1,223,340**	**6,233,468**	**14,410,450**	**3,012,780**	**213,801**	**25,064,839**	**3,250,361**
OPERATING EXPENSES								
Lottery prizes	—	—	3,963,453	—	—	—	3,963,453	—
Power purchases (net of recoverable power costs)	(42,000)	339,993	—	—	—	—	297,993	—
Personal services	—	367,083	91,254	184,019	5,168,665	36,851	5,847,872	891,258
Supplies	—	—	18,037	—	1,454,430	37,266	1,509,733	10,306
Services and charges	13,000	177,842	649,656	87,017	—	35,695	963,210	2,036,439
Depreciation	—	77,265	16,890	11,585	330,187	468	436,395	56,092
Scholarships and fellowships	—	—	—	—	844,019	—	844,019	—
Distributions to beneficiaries	—	—	—	11,615,853	—	—	11,615,853	—
Interest expense	—	—	—	—	—	31,604	31,604	402,506
Amortization of long-term prepaid charges	—	—	—	—	—	—	—	238
Other	—	57,066	—	9,149	—	350	66,565	—
Total operating expenses	**(29,000)**	**1,019,249**	**4,739,290**	**11,907,623**	**7,797,301**	**142,234**	**25,576,697**	**3,396,839**
Operating income (loss)	—	204,091	1,494,178	2,502,827	(4,784,521)	71,567	(511,858)	(146,478)
NONOPERATING REVENUES (EXPENSES)								
Donations and grants	—	—	—	—	1,805,406	—	1,805,406	—
Private gifts	—	—	—	—	54,526	—	54,526	—
Investment and interest income (loss)	974,000	—	(20,488)	26,644	52,662	7,405	1,040,223	1,911
Interest expense and fiscal charges	(974,000)	(105,768)	(33,580)	—	(204,095)	(12,458)	(1,329,901)	(16)
Lottery payments for education	—	—	(1,499,005)	—	—	—	(1,499,005)	—
Other	—	(98,323)	94	—	104,951	23	6,745	(1,939)
Total nonoperating revenues (expenses)	**—**	**(204,091)**	**(1,552,979)**	**26,644**	**1,813,450**	**(5,030)**	**77,994**	**(44)**
Income (loss) before capital contributions and transfers	—	—	(58,801)	2,529,471	(2,971,071)	66,537	(433,864)	(146,522)
Capital contributions	—	—	—	—	—	61,027	61,027	125
Transfers in	—	—	—	—	3,083,437	—	3,083,437	4,500
Transfers out	—	—	—	—	—	—	—	(122,509)
Change in net position	—	—	(58,801)	2,529,471	112,366	127,564	2,710,600	(264,406)
Total net position (deficit) – beginning	**—**	**1,205,428**	**55,963**	**1,535,175**	**(2,576,689)**	**4,352,625**	**4,572,502**	**(367,407)***
Total net position (deficit) – ending	**$ —**	**$ 1,205,428**	**$ (2,838)**	**$ 4,064,646**	**$ (2,464,323)**	**$ 4,480,189**	**$ 7,283,102**	**$ (631,813)**

* Restated

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2017

(amounts in thousands)

	Business-type Activities – Enterprise Funds							Governmental Activities
	Electric Power	Water Resources	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers/employers	$ (29,000)	$ 1,249,998	$ 6,212,840	$ 14,443,793	$ 2,741,517	$ 350,987	$ 24,970,135	$ 24,337
Receipts from interfund services provided	—	—	—	18,243	—	3,855	22,098	4,052,759
Payments to suppliers	(10,000)	(437,278)	(231,547)	(81,792)	(1,470,971)	(59,572)	(2,291,160)	(1,540,577)
Payments to employees	(2,000)	(367,083)	(61,791)	(143,903)	(4,951,651)	(37,626)	(5,564,054)	(787,420)
Payments for interfund services used	—	—	(23,189)	—	—	(645)	(23,834)	—
Payments for Lottery prizes	—	—	(4,392,367)	—	—	—	(4,392,367)	—
Claims paid to other than employees	—	—	(433,649)	(11,596,122)	—	—	(12,029,771)	(469,277)
Other receipts (payments)	16,000	21,044	377,943	(53,149)	(644,992)	(559,896)	(843,050)	(443,429)
Net cash provided by (used in) operating activities	**(25,000)**	**466,681**	**1,448,240**	**2,587,070**	**(4,326,097)**	**(302,897)**	**(152,003)**	**836,393**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Changes in interfund receivables and loans receivable	—	1,034	—	74,232	38,846	—	114,112	(6,682)
Changes in interfund payables and loans payable	—	—	—	(2,727,041)	(840)	—	(2,727,881)	14,382
Receipt of bond charges	914,000	—	—	—	—	—	914,000	—
Proceeds from general obligation bonds	—	—	—	—	—	169,559	169,559	—
Retirement of general obligation bonds	—	—	—	—	—	(43,775)	(43,775)	—
Proceeds from revenue bonds	1,000	—	—	—	64,457	529,467	594,924	—
Retirement of revenue bonds	(690,000)	—	—	—	(59,164)	(143,950)	(893,114)	—
Payment to refund long-term debt	(27,000)	—	—	—	—	—	(27,000)	—
Interest received	—	—	—	—	29,080	—	29,080	—
Interest paid	(215,000)	—	—	—	(19,561)	(21,046)	(255,607)	(16)
Transfers in	—	—	—	—	3,083,437	—	3,083,437	4,500
Transfers out	—	—	—	—	—	—	—	(122,509)
Grants received	—	—	—	—	1,927,553	61,009	1,988,562	—
Lottery payments for education	—	—	(1,543,256)	—	—	—	(1,543,256)	—
Net cash provided by (used in) noncapital financing activities	**(17,000)**	**1,034**	**(1,543,256)**	**(2,652,809)**	**5,063,808**	**551,264**	**1,403,041**	**(110,325)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Acquisition of capital assets	—	(416,936)	(38,693)	(3,659)	(654,079)	(275)	(1,113,642)	(927,313)
Proceeds from sale of capital assets	—	—	68	9,248	1,969	94	11,379	2,403
Proceeds from notes payable and commercial paper	—	200,379	—	—	—	—	200,379	—
Principal paid on notes payable and commercial paper	—	(95,990)	—	—	—	—	(95,990)	—
Proceeds from capital leases	—	—	—	—	1,757	—	1,757	—
Payment on capital leases	—	—	—	—	(559,892)	—	(559,892)	—
Retirement of general obligation bonds	—	(46,745)	—	—	—	—	(46,745)	—
Proceeds from revenue bonds	—	330,700	—	—	1,403,131	—	1,733,831	1,479,114
Retirement of revenue bonds	—	(134,185)	—	—	(86,874)	—	(221,059)	(1,800,546)
Interest paid	—	(40,069)	—	—	—	—	(40,069)	—
Grants received	—	—	—	—	41,772	—	41,772	—
Net cash provided by (used in) capital and related financing activities	**—**	**(202,846)**	**(38,625)**	**5,589**	**147,784**	**(181)**	**(88,279)**	**(1,246,342)**
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchase of investments	—	(102,111)	(13,915)	—	(9,904,594)	(1,332)	(10,021,952)	—
Proceeds from maturity and sale of investments	—	102,111	87,670	(19)	9,636,678	525	9,826,965	—
Earnings on investments	24,000	11,247	21,719	26,644	54,491	5,659	143,760	1,911
Net cash provided by (used in) investing activities	**24,000**	**11,247**	**95,474**	**26,625**	**(213,425)**	**4,852**	**(51,227)**	**1,911**
Net increase (decrease) in cash and pooled investments	(18,000)	276,116	(38,167)	(33,525)	672,070	253,038	1,111,532	(518,363)
Cash and pooled investments – beginning	**1,190,000**	**666,629**	**741,273**	**3,979,688**	**634,245**	**1,247,018**	**8,458,853**	**2,817,950**
Cash and pooled investments – ending	**$ 1,172,000**	**$ 942,745**	**$ 703,106**	**$ 3,946,163**	**$ 1,306,315**	**$ 1,500,056**	**$ 9,570,385**	**$ 2,299,587**

(continued)

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2017

(amounts in thousands)

			Business-type Activities – Enterprise Funds					Governmental Activities
	Electric Power	Water Resources	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES								
Operating income (loss)	$ —	$ 204,091	$ 1,494,178	$ 2,502,827	$ (4,784,521)	$ 71,567	$ (511,858)	$ (146,478)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation	—	77,265	16,890	11,585	330,187	468	436,395	56,092
Provisions and allowances	—	—	19,520	—	—	855	20,375	—
Amortization of premiums and discounts	—	—	—	—	—	(295)	(295)	(85,086)
Amortization of long-term prepaid charges and credits	—	7,631	—	—	—	—	7,631	238
Other	—	21,044	36	—	(76,406)	(11,237)	(66,563)	14,221
Change in account balances:								
Receivables	—	13,025	(61,600)	22,602	(20,024)	1,145	(44,852)	73,066
Due from other funds	—	—	(1)	10,394	(30,431)	(141)	(20,179)	(83,886)
Due from other governments	—	3,343	—	(2,175)	—	(1,737)	(569)	1,280
Prepaid items	—	—	3,858	5,223	(7,327)	(12)	1,742	(28,544)
Inventories	—	161	(1,723)	—	—	(441)	(2,003)	(2,693)
Net investment in direct financing leases	—	—	—	—	—	—	—	458,802
Recoverable power costs (net)	(26,000)	—	—	—	—	—	(26,000)	—
Other current assets	—	—	(1,289)	—	—	1,835	546	—
Loans receivable	—	—	—	—	—	(359,206)	(359,206)	—
Deferred outflow of resources	1,000	—	—	(37,323)	(914,528)	(5,349)	(956,200)	(142,346)
Accounts payable	—	54,362	12,690	2	20,572	240	87,866	38,601
Due to other funds	—	12,922	(19,851)	(41,352)	—	127	(48,154)	59,738
Due to other governments	—	799	—	(541)	—	20	278	1,283
Deposits	—	—	—	—	—	—	—	415
Contracts and notes payable	—	—	—	—	—	—	—	10,239
Interest payable	—	—	—	—	—	(571)	(571)	(7,311)
Revenues received in advance	—	—	(133)	10,741	24,373	20	35,001	351,990
Other current liabilities	—	—	508	7,917	2,261	190	10,876	(3,333)
Benefits payable	—	—	—	19,731	24,465	672	44,868	3,986
Lottery prizes and annuities	—	—	(51,033)	—	—	—	(51,033)	—
Compensated absences payable	—	—	—	(4,747)	18,239	(1,220)	12,272	(15,089)
Other noncurrent liabilities	—	72,038	36,190	86,975	1,212,816	782	1,408,801	301,747
Deferred inflow of resources	—	—	—	(4,789)	(125,773)	(609)	(131,171)	(20,539)
Total adjustments	(25,000)	262,590	(45,938)	84,243	458,424	(374,464)	359,855	982,871
Net cash provided by (used in) operating activities	**$ (25,000)**	**$ 466,681**	**$ 1,448,240**	**$ 2,587,070**	**$ (4,326,097)**	**$ (302,897)**	**$ (152,003)**	**$ 836,393**
								(concluded)
Noncash investing, capital, and financing activities:								
Long-term debt retirement from bond issuance	$ 565,000	$ 97,430	$ —	$ —	$ —	$ —	$ 662,430	$ —
Amortization/defeasance of bond premium and discount	74,000	34,541	—	—	28,040	—	136,581	—
Issuance of notes receivable through proceeds from long-term debt	—	—	—	—	68,915	—	68,915	—
Unrealized loss on investments	—	—	57,379	—	—	—	57,379	—
Amortization of deferred loss on refundings	31,000	11,109	—	—	6,114	—	48,223	—
Unclaimed lottery prizes directly allocated to another entity	—	—	46,521	—	—	—	46,521	—
Interest accreted on annuitized prizes	—	—	33,580	—	—	—	33,580	—
Change in accrued capital asset purchases	—	—	—	—	16,724	—	16,724	—
Interest accreted on zero coupon bonds	—	—	15,636	—	—	—	15,636	—
Contributed capital assets	—	—	—	—	14,801	—	14,801	—
Acquisition of capital assets through capital lease obligations	—	—	—	—	9,092	—	9,092	—
Other miscellaneous noncash transactions	1,000	—	—	—	5,916	842	7,758	—

Statement of Fiduciary Net Position

Fiduciary Funds and Similar Component Units

June 30, 2017

(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment	Agency
ASSETS				
Cash and pooled investments	$ 116,408	$ 2,144,203	$ 22,864,579	$ 4,477,249
Investments, at fair value:				
Short-term	—	35,128,322	—	—
Equity securities	3,945,139	271,743,637	—	—
Debt securities	2,414,142	133,315,958	—	—
Real estate	239,299	62,186,041	—	—
Securities lending collateral	—	22,972,901	—	—
Other	1,127,103	58,036,723	—	—
Total investments	7,725,683	583,383,582	—	—
Receivables (net)	89,032	9,913,354	—	3,733,442
Due from other funds	16,857	696,336	—	19,633,095
Due from other governments	—	15,241	—	37,166
Loans receivable	—	2,823,149	—	4,328
Other assets	167,893	857,989	—	37,070
Total assets	**8,115,873**	**599,833,854**	**22,864,579**	**$ 27,922,350**
DEFERRED OUTFLOWS OF RESOURCES	—	71,284	—	
Total assets and deferred outflows of resources	**8,115,873**	**599,905,138**	**22,864,579**	
LIABILITIES				
Accounts payable	56,914	3,646,492	—	$ 18,013,174
Due to other governments	—	170,734	51,758	7,844,568
Tax overpayments	—	—	—	832
Benefits payable	—	376,593	—	—
Revenues received in advance	—	—	—	794
Deposits	172,799	—	—	1,179,722
Securities lending obligations	—	22,959,651	—	—
Loans payable	—	2,824,259	—	—
Other liabilities	317	9,703,313	—	883,260
Total liabilities	**230,030**	**39,681,042**	**51,758**	**$ 27,922,350**
DEFERRED INFLOWS OF RESOURCES	—	540	—	
Total liabilities and deferred inflows of resources	**230,030**	**39,681,582**	**51,758**	
NET POSITION				
Restricted for pension and other postemployment benefits	—	545,222,149	—	
Held in trust for:				
Deferred compensation participants	—	14,990,010	—	
Pool participants	—	—	22,812,821	
Individuals, organizations, or other governments	7,885,843	11,397	—	
Total net position	**$ 7,885,843**	**$ 560,223,556**	**$ 22,812,821**	

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, 2017

(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment
ADDITIONS			
Contributions:			
Employer	$ —	$ 20,560,390	$ —
Plan member	—	8,400,801	—
Non-employer	—	2,478,230	—
Total contributions	—	31,439,421	—
Investment income:			
Net appreciation (depreciation) in fair value of investments	376,935	53,969,711	—
Interest, dividends, and other investment income	341,823	7,864,572	164,238
Less: investment expense	(3,409)	(1,357,380)	—
Net investment income	715,349	60,476,903	164,238
Receipts from depositors	4,026,756	—	24,031,499
Other	—	114,296	—
Total additions	**4,742,105**	**92,030,620**	**24,195,737**
DEDUCTIONS			
Distributions paid and payable to participants	—	37,985,506	162,667
Refunds of contributions	—	342,846	—
Administrative expense	7	666,364	1,571
Interest expense	—	57,958	—
Payments to and for depositors	3,679,759	389,424	23,930,836
Total deductions	**3,679,766**	**39,442,098**	**24,095,074**
Change in net position	1,062,339	52,588,522	100,663
Net position – beginning	**6,823,504**	**507,635,034**	**22,712,158**
Net position – ending	**$ 7,885,843**	**$ 560,223,556**	**$ 22,812,821**

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

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

Discretely Presented Component Units Financial Statements

Statement of Net Position

Discretely Presented Component Units – Enterprise Activity

June 30, 2017

(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
ASSETS				
Current assets:				
Cash and pooled investments	$ 457,470	$ 1,202,611	$ 1,160,613	$ 2,820,694
Investments	7,941,751	32,268	503,066	8,477,085
Restricted assets:				
Cash and pooled investments	—	—	386,587	386,587
Investments	—	—	47,996	47,996
Receivables (net)	4,035,092	194,757	335,491	4,565,340
Due from primary government	204,062	—	—	204,062
Due from other governments	123,896	—	—	123,896
Prepaid items	—	477	4,524	5,001
Inventories	226,995	—	—	226,995
Other current assets	342,789	1,163	35,048	379,000
Total current assets	13,332,055	1,431,276	2,473,325	17,236,656
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	—	—	34,934	34,934
Investments	—	—	80,329	80,329
Investments	25,965,036	277,722	2,078,489	28,321,247
Receivables (net)	2,278,897	—	244,385	2,523,282
Loans receivable	—	2,779,626	325,154	3,104,780
Capital assets:				
Land	1,162,911	—	155,779	1,318,690
Collections – nondepreciable	459,956	—	8,352	468,308
Buildings and other depreciable property	49,463,683	1,286	2,078,495	51,543,464
Intangible assets – amortizable	1,018,271	—	11,194	1,029,465
Less: accumulated depreciation/amortization	(23,955,218)	(634)	(1,087,023)	(25,042,875)
Construction/development in progress	2,520,150	—	40,307	2,560,457
Intangible assets – nonamortizable	—	—	5,411	5,411
Other noncurrent assets	170,244	5,652	45,767	221,663
Total noncurrent assets	59,083,930	3,063,652	4,021,573	66,169,155
Total assets	**72,415,985**	**4,494,928**	**6,494,898**	**83,405,811**
DEFERRED OUTFLOWS OF RESOURCES	5,549,644	25,123	49,180	5,623,947
Total assets and deferred outflows of resources	**$ 77,965,629**	**$ 4,520,051**	**$ 6,544,078**	**$ 89,029,758**

(continued)

Statement of Net Position (continued)

Discretely Presented Component Units – Enterprise Activity

June 30, 2017

(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
LIABILITIES				
Current liabilities:				
Accounts payable	$ 2,523,830	$ 51,259	$ 720,830	$ 3,295,919
Revenues received in advance	1,263,295	—	85,610	1,348,905
Deposits	627,780	228,227	1,999	858,006
Contracts and notes payable	—	—	9,457	9,457
Interest payable	—	32,826	4,024	36,850
Securities lending obligations	1,121,899	—	—	1,121,899
Current portion of long-term obligations	3,862,773	80,959	81,371	4,025,103
Other current liabilities	1,146,845	84,565	166,573	1,397,983
Total current liabilities	10,546,422	477,836	1,069,864	12,094,122
Noncurrent liabilities:				
Compensated absences payable	340,353	—	14,141	354,494
Workers' compensation benefits payable	409,007	—	36,244	445,251
Commercial paper and other borrowings	—	—	200	200
Capital lease obligations	160,671	—	261,990	422,661
Revenue bonds payable	17,838,435	2,018,112	464,998	20,321,545
Net other postemployment benefits obligation	—	33,335	114,301	147,636
Net other postemployment benefits liability	19,290,424	—	—	19,290,424
Net pension liability	10,739,355	53,160	195,099	10,987,614
Other noncurrent liabilities	1,367,377	150,535	492,903	2,010,815
Total noncurrent liabilities	50,145,622	2,255,142	1,579,876	53,980,640
Total liabilities	**60,692,044**	**2,732,978**	**2,649,740**	**66,074,762**
DEFERRED INFLOWS OF RESOURCES	6,286,094	8,833	20,953	6,315,880
Total liabilities and deferred inflows of resources	**66,978,138**	**2,741,811**	**2,670,693**	**72,390,642**
NET POSITION				
Net investment in capital assets	13,342,824	652	578,726	13,922,202
Restricted:				
Nonexpendable – endowments	5,222,499	—	1,198,242	6,420,741
Expendable:				
Endowments and gifts	11,244,201	—	10,739	11,254,940
Education	281,627	—	1,022,627	1,304,254
Indenture	—	576,548	—	576,548
Statute	—	1,251,054	385,188	1,636,242
Other purposes	—	—	29,016	29,016
Total expendable	11,525,828	1,827,602	1,447,570	14,801,000
Unrestricted	(19,103,660)	(50,014)	648,847	(18,504,827)
Total net position	**10,987,491**	**1,778,240**	**3,873,385**	**16,639,116**
Total liabilities, deferred inflows of resources, and net position	**$ 77,965,629**	**$ 4,520,051**	**$ 6,544,078**	**$ 89,029,758**

(concluded)

Statement of Activities

Discretely Presented Component Units – Enterprise Activity

Year Ended June 30, 2017

(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
OPERATING EXPENSES				
Personal services	$ 21,561,102	$ 39,796	$ 533,073	$ 22,133,971
Scholarships and fellowships	728,594	—	68,666	797,260
Supplies	3,239,587	—	10,513	3,250,100
Services and charges	292,447	45,953	1,333,410	1,671,810
Department of Energy laboratories	1,139,232	—	—	1,139,232
Depreciation	1,909,870	192	76,848	1,986,910
Interest expense and fiscal charges	721,328	75,535	32,633	829,496
Other	4,678,126	46,642	70,782	4,795,550
Total operating expenses	**34,270,286**	**208,118**	**2,125,925**	**36,604,329**
PROGRAM REVENUES				
Charges for services	21,777,538	95,432	1,079,450	22,952,420
Operating grants and contributions	9,422,754	—	639,510	10,062,264
Capital grants and contributions	86,776	—	12,142	98,918
Total program revenues	**31,287,068**	**95,432**	**1,731,102**	**33,113,602**
Net revenues (expenses)	(2,983,218)	(112,686)	(394,823)	(3,490,727)
GENERAL REVENUES				
Investment and interest income (loss)	2,951,457	295,417	238,303	3,485,177
Other	2,162,444	(266)	495,477	2,657,655
Total general revenues	**5,113,901**	**295,151**	**733,780**	**6,142,832**
Change in net position	2,130,683	182,465	338,957	2,652,105
Net position – beginning	**8,856,808 ***	**1,595,775 ***	**3,534,428 ***	**13,987,011**
Net position – ending	**$ 10,987,491**	**$ 1,778,240**	**$ 3,873,385**	**$ 16,639,116**

* 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, 2017:

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for the fiscal year ended June 30, 2017, establishes financial reporting standards for postemployment benefit plans other than pension plans (other postemployment benefits or OPEB) to improve the usefulness of information included in the financial statements of state and local governments related to these plans. This Statement supersedes GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Implementation of GASB Statement No. 74 resulted in additional note disclosures and required supplementary information related to OPEB plans.

GASB Statement No. 77, *Tax Abatement Disclosures*, is effective for the fiscal year ended June 30, 2017. The objective of this Statement is to provide financial statement users with information about the nature and magnitude of tax abatement programs and agreements that reduce the State's tax revenues. Implementation of GASB Statement No. 77 resulted in identification of certain types of tax abatement programs that in aggregate had an immaterial impact on the State's total tax revenues for the fiscal year ended June 30, 2017.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is effective for the fiscal year ended June 30, 2017. This Statement amends the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, to exclude pensions provided to employees of state or local governmental employers through cost-sharing multiple-employer defined benefit pension plans that are not state or local government pension plans. This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information. Implementation of GASB Statement No. 78 had no impact on the financial statements for the fiscal year ended June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, effective for the fiscal year ended June 30, 2017, clarifies the financial statement presentation requirements for certain component units by requiring blending of a component unit incorporated as a not-for-profit entity in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the State's financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14.*

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No.68, and No. 73*, effective for the fiscal year ended June 30, 2017, addresses certain issues that have been raised with respect to GASB Statements No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No.25*; No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*; and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contributions requirements. Implementation of GASB Statement No. 82 had no impact on the financial statements for the fiscal year ended June 30, 2017.

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 the following four pension plans and an other employee benefit trust fund: the State Teachers' Retirement Plan, a defined benefit retirement 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 deferred compensation fund. 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, 2016).

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, 2017, CADA had total assets and deferred outflows of resources of $35.6 million, total liabilities and deferred inflows of resources of $23.2 million, and total net position of $12.4 million. Total revenues for the fiscal year were $11.8 million and expenses were $11.6 million, resulting in an increase in net position of $0.2 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 Program 2.0, the California Competes Tax Credit, and the Low-Income Housing Tax Credit.

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, which was recently updated by the provisions of GASB Statement No. 72, *Fair Value Measurement and Application.* 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 three 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 obligation (OPEB), 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*: The University of California, a discretely presented component unit, reports changes in its net retiree health benefit liability that were not included in its retiree health benefits expense as deferred outflows of resources. Also, employer contributions subsequent to the measurement date of the net retiree health benefit liability are reported as deferred outflows of resources.

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.

- *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*: The University of California reports the changes in its net retiree health benefit liability that were not included in pension expense as deferred inflows of resources.

- *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 is reported as a deferred inflow of resources.

M. Abnormal Account Balances

In fiscal year 2016-17, the Water Resources Electric Power Fund had a net refund of $29 million in power charges revenue. The refund resulted from lower power sales, return of prior year over-collection, and return of reserves as lower levels of reserve were required. During fiscal year 2016-17, the fund returned $29 million through adjustments to power charges and through separate monthly payments to its ratepayers.

N. Nonmajor Enterprise Segment Information

Two 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.

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

O. 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, 2017, the government-wide financial statements show restricted net position for the primary government of $40.1 billion, of which $8.4 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, 2017, the Budget Stabilization Account had a restricted fund balance of $6.7 billion.

P. Restatement of Beginning Fund Balances and Net Position

1. Fund Financial Statements

The beginning fund balance of *nonmajor governmental funds* decreased by $58 million for the movement of a housing assistance program from the Financing for Local Governments and the Public Fund to the California Housing Finance Agency, a discretely presented component unit.

The beginning net position of the *internal service funds* increased by $90 million for the allocation of net pension liability and related amounts from the Service Revolving Fund to the unallocated total reported only within governmental activities in the government-wide financial statements. An additional $53 million was reallocated from the Service Revolving Fund to other internal service funds.

The beginning net position of the *discretely presented component units* decreased by $8.0 billion. This decrease is primarily the result of the University of California's implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Further information related to this restatement is included in the University's separately issued financial statements, which can be obtained from the University on its website at www.ucop.edu. The University's $8.1 billion decrease was offset by a $58 million increase in the California Housing Finance Agency for the movement of a housing assistance program from a nonmajor governmental fund and a $110 million increase in the

Financing Authorities consolidated nonmajor component unit segment for a previously unreported financial assistance program for small businesses.

2. Government-wide Financial Statements

The beginning net position of *governmental activities* decreased by $121 million. In addition to the $58 million decrease described in the previous section for nonmajor governmental funds, the restatement also includes a $63 million decrease for overstated capital assets. As internal service funds are also included in *governmental activities* in the government-wide financial statements, there is no impact to *governmental activities* for the allocation of net pension liability and related amounts described in the previous section for internal service funds.

The beginning net position of *component units* was restated as described in the previous section for discretely presented component units.

Q. 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, 2017, increased spending authority for the budgetary/legal basis-reported General Fund and the Environmental and Natural Resources Funds, and decreased spending authority for Transportation 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, 2017, these discretely presented component units and related organizations account for approximately 3.5% 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, 2017, totaling approximately $6.4 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. The California Government Code requires that collateral pledged for demand and time deposits be deposited with the State Treasurer.

As of June 30, 2017, the State Treasurer's Office had on deposit with a fiscal agent amounts totaling $24 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 $88 million in interest revenue received by the General Fund from the pooled investment program in fiscal year 2016-17 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, 2017
(amounts in thousands)

		Fair Value Measurements Using	
	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Pooled Investments			
U.S. Treasury bills and notes	$ 33,297,173	$ 33,297,173	$ —
U.S. Agency bonds and discount notes	11,353,758	11,353,758	—
Supranational debentures and discount notes	1,594,981	1,594,981	—
Small Business Administration loans	872,312	872,312	—
Mortgage-backed securities	40,715	40,715	—
Certificates of deposit	15,294,086	—	15,294,086
Bank notes	599,802	—	599,802
Commercial paper	8,235,999	—	8,235,999
Total pooled investments at fair value	**71,288,826**	**$ 47,158,939**	**$ 24,129,887**
Other primary government investments			
U.S. Treasuries and agencies	2,866,955	$ 1,381,784	$ 1,485,171
Commercial paper	93,451	—	93,451
Corporate debt securities	1,017,548	135,868	881,680
Repurchase agreements	10,391	—	10,391
Other	932,386	638,750	293,636
Total other primary government investments at fair value	**4,920,731**	**$ 2,156,402**	**$ 2,764,329**
Investments measured at the net asset value (NAV)			
Money market funds/2a-7 money market funds	375,081		
Total investments measured at the NAV	**375,081**		
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	22,802,325		
Less: other trust and agency funds	2,050,572		
Less: discretely presented component units and related organizations	2,515,730		
Total primary government investments	**$ 49,416,011**		

[1] Reported at carrying value.

As of June 30, 2017, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 203 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, 2017, 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, 2017, structured notes and medium-term asset-backed securities comprised approximately 2.4% of the pooled investments. A portion of the structured notes was callable agency securities which represented 0.2% 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 0.7% 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 $5.6 billion of time deposits and $646 million of internal loans to state funds. Repurchase agreements of the California State University system mature in three 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, 2017, only $41 million, or 0.1% of the total pooled investments, was invested in mortgage-backed securities.

Table 3

Schedule of Investments – Primary Government – Interest Rate Risk
June 30, 2017
(amounts in thousands)

	Fair Value at Year End	Weighted Average Maturity (in years)
Pooled investments		
U.S. Treasury bills and notes	$ 33,297,173	0.86
U.S. Agency bonds and discount notes	11,353,758	0.42
Supranational debentures and discount notes	1,594,981	0.62
Small Business Administration loans	872,312	0.25
Mortgage-backed securities	40,715	2.18
Certificates of deposit	15,294,086	0.25
Bank notes	599,802	0.27
Commercial paper	8,235,999	0.13
Total pooled investments	**71,288,826**	
Other primary government investments		
U.S. Treasuries and agencies	2,866,955	2.78
Commercial paper	93,451	1.36
Guaranteed investment contracts	200,000	4.83
Corporate debt securities	1,017,548	1.27
Repurchase agreements	10,391	0.01
Other	1,307,467	1.88
Total other primary government investments	**5,495,812**	
Funds outside primary government included in pooled investments		
Less: investment trust funds	22,802,325	
Less: other trust and agency funds	2,050,572	
Less: discretely presented component units and related organizations	2,515,730	
Total primary government investments	**$ 49,416,011**	

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, 2017
(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	$	8,214,938
A-1/P-1/F-1	AA/Aa/AA		27,813,735
A-2/P-2/F-2	A/A/A		1,049,953
Not rated			40,715
Not applicable			34,169,485
Total pooled investments		**$**	**71,288,826**
Other primary government investments			
A-1+/P-1/F-1+	AAA/Aaa/AAA	$	949,401
A-1/P-1/F-1	AA/Aa/AA		2,809,982
A-2/P-2/F-2	A/A/A		1,031,024
A-3/P-3/F-3	BBB/Baa/BBB		20,892
B/NP/B	BB/Ba/BB		5,212
Not rated			679,301
Total other primary government investments		**$**	**5,495,812**

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, 2017, 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, 2017, the State had investments in the Federal Home Loan Mortgage Corporation totaling 6.4% and the Federal Home Loan Bank totaling 6.5% 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 96.6% 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 92.7% 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 can be obtained from the University 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, 2017
(amounts in thousands)

	Taxes	Licenses, Permits, and Fees	Lottery Retailers	Unemployment Programs	California State University	Other	Total
Current governmental activities							
General Fund	$ 15,025,921	$ —	$ —	$ —	$ —	$ 917,147	$ 15,943,068
Federal Fund	—	—	—	—	—	19,729	19,729
Transportation Fund	466,681	439,448	—	—	—	59,002	965,131
Environmental and Natural Resources Fund	16,829	388,136	—	—	—	59,008	463,973
Nonmajor governmental funds	923,577	3,084,637	—	—	—	440,437	4,448,651
Internal service funds	—	—	—	—	—	23,920	23,920
Adjustment:							
Unavailable revenue[1]	(1,454,268)	(45,807)	—	—	—	(515,598)	(2,015,673)
Total current governmental activities	**$ 14,978,740**	**$ 3,866,414**	**$ —**	**$ —**	**$ —**	**$ 1,003,645**	**$ 19,848,799**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ 1,454,268**	**$ 45,807**	**$ —**	**$ —**	**$ —**	**$ 576,090** [2]	**$ 2,076,165**
Current business-type activities							
Water Resources Fund	$ —	$ —	$ —	$ —	$ —	$ 106,676	$ 106,676
State Lottery Fund	—	—	503,249	—	—	—	503,249
Unemployment Programs Fund	—	—	—	1,183,464	—	—	1,183,464
California State University	—	—	—	—	178,750	—	178,750
Nonmajor enterprise funds	—	—	—	—	—	34,324	34,324
Total current business-type activities	**$ —**	**$ —**	**$ 503,249**	**$ 1,183,464**	**$ 178,750**	**$ 141,000**	**$ 2,006,463**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ —**	**$ —**	**$ —**	**$ 81,350**	**$ 337,471**	**$ —**	**$ 418,821**

[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 $60 million that were not included in the governmental fund financial statements.

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, 2017
(amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Governments	Loans Receivable	Total
Primary government					
Debt service	$ 1,803,809	$ 361,913	$ 100,385	$ 1,276,297	$ 3,542,404
Construction	725,380	—	—	—	725,380
Operations	35,000	—	—	—	35,000
Other	1,033	—	—	—	1,033
Total primary government	**2,565,222**	**361,913**	**100,385**	**1,276,297**	**4,303,817**
Discretely presented component units					
Debt service	369,261	128,325	—	—	497,586
Other	52,260	—	—	—	52,260
Total discretely presented component units	**421,521**	**128,325**	**—**	**—**	**549,846**
Total restricted assets	**$ 2,986,743**	**$ 490,238**	**$ 100,385**	**$ 1,276,297**	**$ 4,853,663**

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 $8.1 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
2018	$ 24,864	$ 32,698	$ 57,562	$ 24,662
2019	15,986	26,183	42,169	20,452
2020	15,978	13,369	29,347	20,468
2021	15,960	12,754	28,714	20,419
2022	15,966	12,739	28,705	20,662
2023-2027	79,580	63,453	143,033	108,545
2028-2032	78,923	50,276	129,199	93,894
2033-2037	47,047	1,390	48,437	45,575
2038-2042	—	—	—	14,885
2043-2047	—	—	—	6,765
Total minimum lease payments	**294,304**	**212,862**	**507,166**	**376,327**
Less: unearned income	129,130	51,634	180,764	123,939
Net investment in direct financing leases	**165,174**	**161,228**	**326,402**	**252,388**
Less: current portion	11,907	24,970	36,877	11,055
Noncurrent net investment in direct financing leases	**$ 153,267**	**$ 136,258**	**$ 289,525**	**$ 241,333**

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, 2017
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets not being depreciated/amortized				
Land	$ 19,370,355 *	$ 570,959	$ 225,323	$ 19,715,991
State highway infrastructure	73,462,607	1,787,402	178,987	75,071,022
Collections	22,627	—	—	22,627
Construction/development in progress	15,219,442 *	3,652,993	3,001,745	15,870,690
Intangible assets	426,186	2,613	123	428,676
Total capital assets not being depreciated/amortized	**108,501,217**	**6,013,967**	**3,406,178**	**111,109,006**
Capital assets being depreciated/amortized				
Buildings and improvements	23,929,432 *	1,251,919	25,441	25,155,910
Infrastructure	737,665	12,485	11,463	738,687
Equipment and other depreciable assets	4,993,483 *	421,399	194,446	5,220,436
Intangible assets	2,014,052 *	103,812	41,891	2,075,973
Total capital assets being depreciated/amortized	**31,674,632**	**1,789,615**	**273,241**	**33,191,006**
Less accumulated depreciation/amortization for:				
Buildings and improvements	8,289,931 *	615,362	20,665	8,884,628
Infrastructure	376,994	28,892	11,462	394,424
Equipment and other depreciable assets	4,008,253 *	357,374	190,800	4,174,827
Intangible assets	703,926 *	184,574	38,077	850,423
Total accumulated depreciation/amortization	**13,379,104**	**1,186,202**	**261,004**	**14,304,302**
Total capital assets being depreciated/amortized, net	**18,295,528**	**603,413**	**12,237**	**18,886,704**
Governmental activities, capital assets, net	**$ 126,796,745**	**$ 6,617,380**	**$ 3,418,415**	**$ 129,995,710**
Business-type activities				
Capital assets not being depreciated/amortized				
Land	$ 244,725	$ 13,596	$ 26	$ 258,295
Collections	16,206	5,880	—	22,086
Construction/development in progress	1,639,244	1,015,044	903,845	1,750,443
Intangible assets	113,531	4,420	883	117,068
Total capital assets not being depreciated/amortized	**2,013,706**	**1,038,940**	**904,754**	**2,147,892**
Capital assets being depreciated/amortized				
Buildings and improvements	11,543,285	915,315	68,897	12,389,703
Infrastructure	372,849	60,187	3,503	429,533
Equipment and other assets	827,310	91,259	20,191	898,378
Intangible assets	336,460	88,320	4,300	420,480
Total capital assets being depreciated/amortized	**13,079,904**	**1,155,081**	**96,891**	**14,138,094**
Less accumulated depreciation/amortization for:				
Buildings and improvements	4,499,062	316,043	38,761	4,776,344
Infrastructure	100,346	21,616	2,606	119,356
Equipment and other assets	488,619	79,543	18,929	549,233
Intangible assets	156,370	19,193	4,261	171,302
Total accumulated depreciation/amortization	**5,244,397**	**436,395**	**64,557**	**5,616,235**
Total capital assets being depreciated/amortized, net	**7,835,507**	**718,686**	**32,334**	**8,521,859**
Business-type activities, capital assets, net	**$ 9,849,213**	**$ 1,757,626**	**$ 937,088**	**$ 10,669,751**

* 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, 2017
(amounts in thousands)

	Amount
Governmental activities	
General government	$ 268,631
Education	172,157
Health and human services	124,742
Natural resources and environmental protection	66,451
Business, consumer services, and housing	13,840
Transportation	194,011
Corrections and rehabilitation	290,278
Internal service funds (charged to the activities that utilize the fund)	56,092
Total governmental activities	**1,186,202**
Business-type activities	436,395
Total primary government	**$ 1,622,597**

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, 2017
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets not being depreciated/amortized				
Land	$ 1,316,721	$ 12,008	$ 10,039	$ 1,318,690
Collections	445,459 *	26,348	3,499	468,308
Construction/development in progress	3,091,841	39,103	570,487	2,560,457
Intangible assets	5,214 *	250	53	5,411
Total capital assets not being depreciated/amortized	**4,859,235**	**77,709**	**584,078**	**4,352,866**
Capital assets being depreciated/amortized				
Buildings and improvements	36,991,094	2,684,417	109,457	39,566,054
Infrastructure	750,187	31,118	—	781,305
Equipment and other depreciable assets	10,743,771 *	763,978	311,644	11,196,105
Intangible assets	921,040 *	143,013	34,588	1,029,465
Total capital assets being depreciated/amortized	**49,406,092**	**3,622,526**	**455,689**	**52,572,929**
Less accumulated depreciation/amortization for:				
Buildings and improvements	14,904,643	1,202,830	42,343	16,065,130
Infrastructure	372,093	25,832	—	397,925
Equipment and other depreciable assets	7,688,491	601,831	244,853	8,045,469
Intangible assets	403,744	156,417	25,810	534,351
Total accumulated depreciation/amortization	**23,368,971**	**1,986,910**	**313,006**	**25,042,875**
Total capital assets being depreciated/amortized, net	**26,037,121**	**1,635,616**	**142,683**	**27,530,054**
Capital assets, net	**$ 30,896,356**	**$ 1,713,325**	**$ 726,761**	**$ 31,882,920**

* Reclassified

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, 2017
(amounts in thousands)

	General Government	Education	Health and Human Services	Natural Resources and Environmental Protection	Transportation	Other	Total
Governmental activities							
General Fund	$ 8,232	$ 309,288	$ 672,857	$ 204,649	$ —	$ 368,334	$ 1,563,360
Federal Fund	93,235	225,040	311,127	51,606	219,179	38,310	938,497
Transportation Fund	1,894	7,543	5	9,131	397,579	13	416,165
Environmental and Natural Resources Fund	7,716	37	85	303,889	87,109	313	399,149
Nonmajor governmental funds	563,850	7,047	113,330	5,916	254	11,863	702,260
Internal service funds	251,088	—	177,261	15,484	—	13,855	457,688
Adjustment:							
Fiduciary funds	790,198	746,730	18,743,383	—	65,962	—	20,346,273
Total governmental activities	**$ 1,716,213**	**$ 1,295,685**	**$ 20,018,048**	**$ 590,675**	**$ 770,083**	**$ 432,688**	**$ 24,823,392**
Business-type activities							
Electric Power Fund	$ —	$ —	$ —	$ 2,000	$ —	$ —	$ 2,000
Water Resources Fund	—	—	—	147,651	—	—	147,651
State Lottery Fund	54,881	—	—	—	—	—	54,881
Unemployment Programs Fund	—	—	3	—	—	—	3
California State University	—	260,895	—	—	—	—	260,895
Nonmajor enterprise funds	28	248	138	566	—	1,610	2,590
Adjustment:							
Fiduciary funds	—	—	—	—	—	15	15
Total business-type activities	**$ 54,909**	**$ 261,143**	**$ 141**	**$ 150,217**	**$ —**	**$ 1,625**	**$ 468,035**

NOTE 9: LONG-TERM OBLIGATIONS

As of June 30, 2017, the primary government had long-term obligations totaling $243.9 billion. Of that amount, $8.6 billion is due within one year. Governmental activities had a net increase in long-term obligations of $15.7 billion. Significant increases included $13.0 billion in net pension liability and $3.2 billion in net other postemployment benefits obligation. Significant decreases included $331 million in revenue bonds payable, $263 million in compensated absences payable, and $243 million in general obligation 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, 2017, the pollution remediation obligations decreased by $53 million to $970 million. 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, 2017, the State estimates that remediation costs at Stringfellow will total $426 million. At BKK Landfill, an obligating event has occurred that will probably result in 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 $14 million owed to the University of California, Technology Services Revolving Fund notes payable of $35 million, and Water Resources Revolving Fund notes payable of $14 million. The 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 net pension liabilities, the Proposition 98 funding guarantee, lawsuits, and reimbursement of costs incurred by local agencies and school districts for costs mandated by the State.

Business-type activities had a net decrease in long-term obligations of $334 million. Significant decreases included $2.7 billion in loans payable to the U.S. Department of Labor for prior-year shortfalls in the Unemployment Programs Fund. Significant increases included $1.3 billion in net pension liability and $1.0 billion in revenue bonds payable.

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Table 12 summarizes the changes in long-term obligations during the fiscal year ended June 30, 2017.

Table 12

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due Within One Year	Noncurrent Liabilities
Governmental activities						
Compensated absences payable	$ 3,783,366	$ 1,456,903	$ 1,719,696	$ 3,520,573	$ 9,920	$ 3,510,653
Workers' compensation benefits payable	3,936,438	534,339	433,122	4,037,655	395,427	3,642,228
Commercial paper and other borrowings	771,215	1,599,590	1,212,725	1,158,080	—	1,158,080
Capital lease obligations	370,182	104,065	57,779	416,468	57,504	358,964
General obligation bonds outstanding	74,941,755	9,046,715	10,150,630	73,837,840	3,195,650	70,642,190
Premiums	4,101,540	1,220,421	359,684	4,962,277	275,213	4,687,064
Total general obligation bonds payable	79,043,295	10,267,136	10,510,314	78,800,117	3,470,863	75,329,254
Revenue bonds outstanding	15,932,639	1,935,275	2,465,739	15,402,175	679,616	14,722,559
Accreted interest	512,663	43,167	30,986	524,844	—	524,844
Premiums	765,617	285,666	98,385	952,898	112,873	840,025
Discounts	(420)	—	(403)	(17)	(5)	(12)
Total revenue bonds payable	17,210,499	2,264,108	2,594,707	16,879,900	792,484	16,087,416
Mandated cost claims payable	2,942,150	344,519	323,597	2,963,072	510,033	2,453,039
Net other postemployment benefits obligation	24,967,059	5,564,686	2,350,717	28,181,028	—	28,181,028
Net pension liability	64,294,029	23,637,072	10,653,015	77,278,086	—	77,278,086
Other long-term obligations:						
Proposition 98 funding guarantee	1,214,740	—	171,457	1,043,283	603,280	440,003
Pollution remediation obligations	1,023,358	14,417	67,915	969,860	78,847	891,013
Other	45,967	34,860	17,933	62,894	22,139	40,755
Total other long-term obligations	2,284,065	49,277	257,305	2,076,037	704,266	1,371,771
Total governmental activities	**$ 199,602,298**	**$ 45,821,695**	**$ 30,112,977**	**$ 215,311,016**	**$ 5,940,497**	**$ 209,370,519**
Business-type activities						
Loans payable	$ 3,112,178	$ —	$ 2,727,041	$ 385,137	$ 385,137	$ —
Lottery prizes and annuities	1,677,469	4,374,913	4,438,888	1,613,494	928,497	684,997
Compensated absences payable	356,874	137,425	124,305	369,994	164,912	205,082
Workers' compensation benefits payable	3,282	524	167	3,639	—	3,639
Commercial paper and other borrowings	47,416	400,504	300,155	147,765	400	147,365
Capital lease obligations	389,385	9,917	45,849	353,453	43,737	309,716
General obligation bonds outstanding	792,260	—	90,520	701,740	36,755	664,985
Premiums	3,625	—	192	3,433	—	3,433
Discounts	(1,516)	—	(97)	(1,419)	—	(1,419)
Total general obligation bonds payable	794,369	—	90,615	703,754	36,755	666,999
Revenue bonds outstanding	12,779,178	2,808,615	1,934,620	13,653,173	1,008,480	12,644,693
Premiums	1,149,246	303,339	149,388	1,303,197	78,851	1,224,346
Discounts	(50)	(505)	(43)	(512)	—	(512)
Total revenue bonds payable	13,928,374	3,111,449	2,083,965	14,955,858	1,087,331	13,868,527
Net other postemployment benefits obligation	850,827	204,298	76,921	978,204	—	978,204
Net pension liability	7,462,215	2,405,100	1,080,428	8,786,887	—	8,786,887
Other long-term obligations	273,776	28,502	38,551	263,727	27,586	236,141
Total business-type activities	**$ 28,896,165**	**$ 10,672,632**	**$ 11,006,885**	**$ 28,561,912**	**$ 2,674,355**	**$ 25,887,557**

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, 2016, included the primary government and certain discretely presented component units; 1,439 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, 2015 Actuarial Valuation Report, which may be found at www.CalPERS.ca.gov/docs/forms-publications/2015-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 ten 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, 2016 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, 2016

	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol	Total PERF Plans
Inactive employees or beneficiaries currently receiving benefits	186,382	13,421	23,680	36,757	8,813	**269,053**
Inactive employees entitled to but not yet receiving benefits	54,854	3,319	6,186	6,798	401	**71,558**
Active employees	207,772	20,216	32,783	47,100	7,417	**315,288**
Total	**449,008**	**36,956**	**62,649**	**90,655**	**16,631**	**655,899**

***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, 2016.

Table 14

Contribution Rates – PERF Plans
June 30, 2016

	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol
Average active employee rate	6.669 %	7.807 %	10.433 %	11.310 %	10.448 %
Employer rate of annual payroll	25.153	18.656	19.192	38.910	46.673
Total	**31.822 %**	**26.463 %**	**29.625 %**	**50.220 %**	**57.121 %**

***Actuarial Methods and Assumptions*:** The total pension liability for PERF plans was measured as of June 30, 2016 (measurement date), by rolling forward the total pension liability determined by the June 30, 2015 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, 2015
Actuarial cost method:	Entry age normal in accordance with the requirements of GASB 68
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.65% 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 7.65% 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 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% 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-2016.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 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	Current Target Allocation	Real Return Years 1 – 10 [1]	Real Return Years 11+ [2]
Global equity	47.0 %	5.25 %	5.71 %
Global fixed income	19.0	0.99	2.43
Inflation sensitive	6.0	0.45	3.36
Private equity	12.0	6.83	6.95
Real estate	11.0	4.50	5.13
Infrastructure and forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
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 December 2016, the CalPERS Board of Administration voted to lower the discount rate used in its actuarial assumptions from 7.5% to 7.0% (net of 0.15% administrative expenses) effective July 1, 2017. As shown in Table 18 – Net Pension Liability Sensitivity – PERF Plans, a reduction to the discount rate will increase the State's net pension liability. This increase will be amortized over the expected remaining service lives of all employees provided benefits through the pension plans. For the five plans, this period ranges from 3.5 to 5.3 years.

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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, 2015 (Valuation Date)	$ 96,332,123	$ 68,090,181	$ 28,241,942	$ 3,595,387	$ 2,885,303	$ 710,084
Changes recognized for the measurement period:						
Service cost	1,668,682	—	1,668,682	107,868	—	107,868
Interest on total pension liability	7,220,961	—	7,220,961	273,308	—	273,308
Difference between expected and actual experience	(101,381)	—	(101,381)	7,009	—	7,009
Plan to plan resource movement	—	(1,154)	1,154	—	216	(216)
Employer contributions	—	2,818,406	(2,818,406)	—	116,730	(116,730)
Employee contributions	—	801,023	(801,023)	—	52,775	(52,775)
Net investment income	—	339,588	(339,588)	—	14,444	(14,444)
Benefit payments, including refunds of employee contributions	(5,346,864)	(5,346,864)	—	(167,359)	(167,359)	—
Administrative expense	—	(41,497)	41,497	—	(1,758)	1,758
Net changes	**3,441,398**	**(1,430,498)**	**4,871,896**	**220,826**	**15,048**	**205,778**
Balance at June 30, 2016 (Measurement Date)	**$ 99,773,521**	**$ 66,659,683**	**$ 33,113,838**	**$ 3,816,213**	**$ 2,900,351**	**$ 915,862**

	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
Balance at June 30, 2015 (Valuation Date)	$ 10,310,139	$ 8,148,500	$ 2,161,639	$ 38,408,656	$ 26,737,191	$ 11,671,465
Changes recognized for the measurement period:						
Service cost	438,147	—	438,147	861,694	—	861,694
Interest on total pension liability	786,096	—	786,096	2,902,900	—	2,902,900
Difference between expected and actual experience	(2,235)	—	(2,235)	18,316	—	18,316
Plan to plan resource movement	—	548	(548)	—	114	(114)
Employer contributions	—	401,108	(401,108)	—	1,265,145	(1,265,145)
Employee contributions	—	221,615	(221,615)	—	381,185	(381,185)
Net investment income	—	42,258	(42,258)	—	137,927	(137,927)
Benefit payments, including refunds of employee contributions	(502,427)	(502,427)	—	(1,822,841)	(1,822,841)	—
Administrative expense	—	(4,966)	4,966	—	(16,295)	16,295
Net changes	**719,581**	**158,136**	**561,445**	**1,960,069**	**(54,765)**	**2,014,834**
Balance at June 30, 2016 (Measurement Date)	**$ 11,029,720**	**$ 8,306,636**	**$ 2,723,084**	**$ 40,368,725**	**$ 26,682,426**	**$ 13,686,299**

(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, 2015 (Valuation Date)	$ 10,611,630	$ 6,745,342	$ 3,866,288	**$ 159,257,935**	**$ 112,606,517**	**$ 46,651,418**
Changes recognized for the measurement period:						
Service cost	210,619	—	210,619	**3,287,010**	—	**3,287,010**
Interest on total pension liability	809,691	—	809,691	**11,992,956**	—	**11,992,956**
Difference between expected and actual experience	125,614	—	125,614	**47,323**	—	**47,323**
Plan to plan resource movement	—	292	(292)	**—**	**16**	**(16)**
Employer contributions	—	375,928	(375,928)	**—**	**4,977,317**	**(4,977,317)**
Employee contributions	—	86,111	(86,111)	**—**	**1,542,709**	**(1,542,709)**
Net investment income	—	33,918	(33,918)	**—**	**568,135**	**(568,135)**
Benefit payments, including refunds of employee contributions	(516,723)	(516,723)	—	**(8,356,214)**	**(8,356,214)**	—
Administrative expense	—	(4,111)	4,111	**—**	**(68,627)**	**68,627**
Net changes	**629,201**	**(24,585)**	**653,786**	**6,971,075**	**(1,336,664)**	**8,307,739**
Balance at June 30, 2016 (Measurement Date)	**$ 11,240,831**	**$ 6,720,757**	**$ 4,520,074**	**$ 166,229,010**	**$ 111,269,853**	**$ 54,959,157**

Reported in governmental activities	$ 44,161,542
Reported in business-type activities	8,786,887
Reported by discretely presented component units	152,670
Not reported in government-wide Statement of Net Position [1]	1,858,058
Total net pension liability – PERF plans	**$ 54,959,157**

(concluded)

[1] Includes amounts allocated to related organizations and fiduciary funds, including $594 million allocated to CalPERS, a fiduciary component unit, that was not reported in its financial statements. Also includes the difference in net pension liability for a discretely presented component unit with a reporting period ended December 31, 2016; 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 7.65%, 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 (6.65%) or one percentage point higher (8.65%) than the current rate.

Table 18

Net Pension Liability Sensitivity – PERF Plans
June 30, 2017
(amounts in thousands)

	Current Rate -1%	Current Rate 7.65%	Current Rate +1%
State Miscellaneous	$ 45,080,706	$ 33,113,838	$ 23,067,443
State Industrial	1,428,589	915,862	491,644
State Safety	4,157,684	2,723,084	1,532,857
State Peace Officers and Firefighters	19,280,455	13,686,299	9,093,122
California Highway Patrol	6,078,590	4,520,074	3,241,521
Total PERF plans	**$ 76,026,024**	**$ 54,959,157**	**$ 37,426,587**

***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, 2017, the State recognized pension expense of $6.4 billion. At June 30, 2017, 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, 2016, but prior to the fiscal year ended June 30, 2017. Differences between expected and actual expenses are recognized as deferred outflows and inflows 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, 2017
(amounts in thousands)

	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol	Total PERF Plans
Pension Expense	$ 3,665,345	$ 143,609	$ 453,888	$ 1,639,592	$ 518,209	**$ 6,420,643**
Deferred Outflows of Resources:						
Employer contributions	3,098,305	123,789	431,991	1,431,851	426,014	**5,511,950**
Difference between expected and actual experience	337,926	16,114	—	190,173	149,509	**693,722**
Net difference between projected and actual earnings on pension plan investments	3,658,064	160,233	460,475	1,465,901	370,517	**6,115,190**
Deferred Inflows of Resources:						
Difference between expected and actual experience	(76,036)	—	(3,979)	—	—	**(80,015)**

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
2018	$ 661,171	$ 33,686	$ 69,320	$ 272,722	$ 91,299	**$ 1,128,198**
2019	643,385	28,925	69,320	272,722	91,299	**1,105,651**
2020	1,658,752	72,648	201,270	722,128	205,258	**2,860,056**
2021	956,646	41,088	116,586	387,797	125,060	**1,627,177**
2022	—	—	—	705	7,110	**7,823**

***Payable to the Pension Plans*:** At June 30, 2017, the State reported a payable of $696 million for the outstanding amount of contributions to the PERF pension plans required for the fiscal year ended June 30, 2017.

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 5 years of service.
- Disability Retirement – The service requirement is four years. 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.
- 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, 2016 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, 2016

	Judges'	Judges' II	Legislators'	Total
Inactive employees or beneficiaries currently receiving benefits	1,897	120	238	**2,255**
Inactive employees entitled to but not yet receiving benefits	12	2	11	**25**
Active employees	216	1,488	9	**1,713**
Total	**2,125**	**1,610**	**258**	**3,993**

***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 calculated on January 1, 2013, as 30.727%. 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 50.0% 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, 2016.

Table 22

Contribution Rates – Single-employer Plans
June 30, 2016

	Judges'	Judges' II	Legislators'
Average active employee rate	"Pay-	8.000 %	7.532 %
Employer rate of annual payroll	as-you-	23.370	42.265
Total	go"	**31.370 %**	**49.797 %**

***Actuarial Methods and Assumptions*:** The total pension liability for single-employer plans was measured as of June 30, 2016 (measurement date), by rolling forward the total pension liability determined by the June 30, 2015 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, 2015
Actuarial cost method:	Entry age normal in accordance with the requirements of GASB 68
Actuarial assumptions:	
Discount rate	Judges' 2.85%, Judges' II 7.15%, Legislators' 6.00%
Inflation	All single-employer plans – 2.75%
Salary increases	All single-employer plans – 3.00%
Investment rate of return	Judges' 2.85%, Judges' II 7.15%, Legislators' 6.00%, 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' – 2.85%, 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 – 7.15%

Legislators' – 6.00%

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 %	5.25 %	5.71 %
Global fixed income	34.0	39.0	1.79	2.40
Inflation sensitive	5.0	26.0	1.00	2.25
Commodities	3.0	3.0	1.66	4.95
Real estate	8.0	8.0	3.25	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.

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***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			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)	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, 2015 (Valuation Date)	$ 3,532,580	$ 41,178	$ 3,491,402	$ 1,068,752	$ 1,084,141	$ (15,389)	$ 106,571	$ 121,469	$ (14,898)	**$ 4,707,903**	**$ 1,246,788**	**$ 3,461,115**
Changes recognized for the measurement period:												
Service cost	29,314	—	29,314	86,635	—	86,635	608	—	608	**116,557**	**—**	**116,557**
Interest on total pension liability	107,514	—	107,514	78,412	—	78,412	5,978	—	5,978	**191,904**	**—**	**191,904**
Difference between expected and actual experience	(59,421)	—	(59,421)	(4,546)	—	(4,546)	(3,530)	—	(3,530)	**(67,497)**	**—**	**(67,497)**
Changes of assumptions	384,306	—	384,306	—	—	—	—	—	—	**384,306**	**—**	**384,306**
Employer contributions	—	192,287	(192,287)	—	65,839	(65,839)	—	549	(549)	**—**	**258,675**	**(258,675)**
Employee contributions	—	3,559	(3,559)	—	24,598	(24,598)	—	96	(96)	**—**	**28,253**	**(28,253)**
Net investment income	—	193	(193)	—	20,810	(20,810)	—	4,545	(4,545)	**—**	**25,548**	**(25,548)**
Benefit payments, including refunds of employee contributions	(199,349)	(199,349)	—	(21,704)	(21,704)	—	(7,407)	(7,407)	—	**(228,460)**	**(228,460)**	**—**
Administrative expense	—	(642)	642	—	(732)	732	—	(202)	202	**—**	**(1,576)**	**1,576**
Other miscellaneous income	—	2,568	(2,568)	—	—	—	—	—	—	**—**	**2,568**	**(2,568)**
Net changes	**262,364**	**(1,384)**	**263,748**	**138,797**	**88,811**	**49,986**	**(4,351)**	**(2,419)**	**(1,932)**	**396,810**	**85,008**	**311,802**
Balance at June 30, 2016 (Measurement Date)	**$ 3,794,944**	**$ 39,794**	**$ 3,755,150**	**$ 1,207,549**	**$ 1,172,952**	**$ 34,597**	**$ 102,220**	**$ 119,050**	**$ (16,830)**	**$ 5,104,713**	**$ 1,331,796**	**$ 3,772,917**

Reported in governmental activities $ 3,772,917

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*:** Judges' net pension liability was calculated using a discount rate of 2.85%; Judges' II used 7.15%; and Legislators' used 6.00%. 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, 2017
(amounts in thousands)

	Current Rate -1%	Current Rate	Current Rate +1%
Judges' (2.85%)	$ 4,221,659	$ 3,755,150	$ 3,366,379
Judges' II (7.15%)	183,817	34,597	(77,096)
Legislators' (6.00%)	(5,232)	(16,830)	(26,372)
Total Single-employer Plans	**$ 4,400,244**	**$ 3,772,917**	**$ 3,262,911**

***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, 2016, the State recognized pension expense of $511 million. At June 30, 2017, 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, 2016, but prior to the fiscal year ended June 30, 2017, 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, 2017
(amounts in thousands)

	Judges'	Judges' II	Legislators'	Total
Pension Expense	$ 454,238	$ 60,457	$ (3,516)	**$ 511,179**
Deferred Outflows of Resources:				
Employer contributions subsequent to the measurement date	202,368	55,966	516	**258,850**
Net difference between projected and actual earnings on pension plan investments	3,226	57,288	3,345	**63,859**
Deferred Inflows of Resources:				
Difference between expected and actual experience	—	(17,290)	—	**(17,290)**
Changes of assumptions	—	(12,754)	—	**(12,754)**

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
2018	$ 1,242	$ 4,576	$ 401	**$ 6,219**
2019	1,242	4,576	400	**6,218**
2020	550	22,829	2,037	**25,416**
2021	192	7,331	507	**8,030**
2022	—	(4,494)	—	**(4,494)**
Thereafter	—	(7,574)	—	**(7,574)**

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 1,745 contributing employers, 445,778 active and 192,688 inactive program members, and 294,835 benefit recipients as of June 30, 2017. The payroll for employees covered by the DB Program for the fiscal year ended June 30, 2016, was approximately $31.9 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 8.56% and 10.73% of creditable compensation, respectively. The General Fund contributed an additional 2.874% of total creditable compensation of the fiscal year ending in the prior calendar year. Contributions will increase to 4.311% in the next year and continue to increase until fiscal year 2045-46. The State contributed a total of $2.5 billion for fiscal year 2016-17. CalSTRS' June 30, 2015 Defined Benefit Actuarial Valuation Report, may be found on CalSTRS' website at www.CalSTRS.com/sites/main/files/file-attachements/2015_db_valuation_report.pdf.

The CB Benefit 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 CB Benefit Program is optional. However, if the employer elects to offer the CB Benefit Program, then each eligible employee will automatically be covered by the CB Benefit 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, 2016, the CB Benefit Program had 30 contributing school districts and 37,972 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, 2016, 323 individuals were receiving benefits from the RB program.

Actuarial Methods and Assumptions: The total pension liability in the June 30, 2015 actuarial valuation (valuation date) was determined using the actuarial methods and assumptions shown in Table 29, applied to the measurement period ended June 30, 2016.

Table 29

Actuarial Methods and Assumptions – CalSTRS

Valuation date	June 30, 2015
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%
Post-retirement benefit increases (COLAs)	2.00% simple

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience through June 30, 2015. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries.

Discount Rate: The discount rate used to measure the total pension liability was 7.60%. 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 (7.60%) 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 2012 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 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, 2016 (measurement date), by applying update procedures and rolling forward the total pension liability determined by the actuarial valuation as of June 30, 2015 (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, 2016, the State's proportionate share of the CalSTRS' net pension liability was 36.28%, or $29.3 billion; this amount is reported in the governmental activities column of the government-wide Statement of Net Position as of June 30, 2017.

As a result of its requirement to contribute to CalSTRS, the State recognized expense of $2.7 billion for the fiscal year ended June 30, 2017, 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, 2017
(amounts in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 2,332,804	$ —
Difference between expected and actual experiences	—	715,804
Proportionate share change	1,069,129	1,590,230
State contributions subsequent to the measurement date	2,472,993	—
Total	**$ 5,874,926**	**$ 2,306,034**

The $2.5 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, 2018.

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
2018	$ (219,603)
2019	(219,602)
2020	1,085,570
2021	604,497
2022	(270,504)
Thereafter	115,541

***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 7.60%, 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 (6.60%) or one percentage point higher (8.60%) than the current rate.

Table 33

Net Pension Liability Sensitivity – CalSTRS
June 30, 2017
(amounts in thousands)

	Current Rate –1%	Current Rate 7.60%	Current Rate +1%
State's proportionate share of net pension liability	$ 42,232,097	$ 29,343,627	$ 18,639,213

***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: POSTEMPLOYMENT HEALTH CARE BENEFITS

***Other Postemployment Benefits (OPEB) Plan Description*:** The primary government provides health benefits (medical and prescription drug benefits) and dental benefits to annuitants of retirement systems through a substantive single-employer defined benefit 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. The State contributes to the California Employers' Retiree Benefit Trust Fund (CERBTF). The CERBTF is a self-funded trust fund for the prefunding of health, dental, and other non-pension benefits. 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.

Fifty-eight county superior courts (trial courts) are included in the primary government. However, each trial court is a separate employer for GASB Statement No. 45 reporting purposes. Fifty-one trial courts have a single-employer defined benefit plan; these plans have separate biennial actuarial valuations. One trial court (San Diego) has a cost-sharing multiple-employer defined benefit plan. Six trial courts (Alameda, Fresno, Mendocino, Modoc, San Benito, and Stanislaus) have no plan. Twenty-one plans are not accounted for in a trust fund and do not issue separate reports.

To be eligible for these 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. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits. During fiscal year 2016-17, approximately 185,560 annuitants were

enrolled to receive health benefits and approximately 155,440 annuitants were enrolled to receive dental benefits. As of July 1, 2015, the most recent actuarial valuation date, the trial courts had approximately 4,750 enrolled retirees and spouses.

***Funding Policy*:** The contribution requirements of plan members and the State are established and may be amended by the Legislature. 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 family members of annuitants. The State generally pays all or a portion of the dental insurance premium cost for annuitants, depending upon 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 5, 6, 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.

Each of the trial courts determines its respective retirees' benefits and benefit levels as well as the funding policy for its respective plan. Nineteen trial courts fund retirees' benefits on a strictly "pay-as-you-go" basis. The fiscal year 2016-17 monthly contribution rate for the trial courts with single-employer defined benefit plans, the latest year for which contribution information is available, ranged from $0 to $3,582,876, with the average being $115,419. One trial court (Yolo) continuously contributes at least the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. San Diego's plan, a cost-sharing multiple-employer defined benefit plan, had a contribution rate of 1.78% of annual covered payroll for active members of the San Diego County Employees Retirement Association. Twenty-one trial courts will make future trust contributions as funds are made available. For 2016, Orange contributed either 3.5% of payroll or no less than the ARC, with no commitment to future contributions. Kern and Lassen are fully funded and no future trust contributions are expected. Sonoma and Solano anticipate future contributions to be equal to the annual direct subsidy amount, with Sonoma ceasing contributions once the plan is fully funded. Both Marin and Santa Clara expect to contribute to their trusts until sufficient funds are available to pay all future benefits, with Santa Clara expecting to initially contribute $31 million in fiscal year 2015-16 and an amount annually thereafter, and Marin expecting to annually contribute $100,000. Los Angeles and Nevada expect to contribute to their trusts as funds are available, with Los Angeles initially contributing $21 million in fiscal year 2016-17, and Nevada contributing $25,000 in fiscal year 2015-16. Shasta will make future trust contributions as funds are available, with an annual target of $100,000. For the fiscal year ended June 30, 2017, the State contributed $2.5 billion toward annuitants' health and dental benefits. Of this amount, the trial courts represent $72 million and certain discretely presented component units represent $4 million.

***Annual OPEB Cost and Net OPEB Obligation*:** The State's annual OPEB cost (expense) is calculated based on the ARC. Table 34 presents the State's OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2017, and the two preceding years, including trial courts.

Table 34

Schedule of Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed and Net OPEB Obligation
(amounts in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	$ 5,156,787	39.33 %	$ 22,617,653
June 30, 2016	5,693,106	37.74	26,162,194
June 30, 2017	5,851,928	41.99	29,553,965

Table 35 presents the components of the State's net OPEB obligation to the OPEB plan, including trial courts.

Table 35

Schedule of Net OPEB Obligation
June 30, 2017
(amounts in thousands)

	Amount
Annual required contribution	$ 5,774,872
Interest on net OPEB obligation	1,116,760
Adjustment to annual required contribution	(1,039,704)
Annual OPEB cost	**5,851,928**
Contributions made	(2,457,207)
Increase in net OPEB obligation	**3,394,721**
Net OPEB obligation – beginning of year	26,159,244
Net OPEB obligation – end of year [1]	**$ 29,553,965**

[1] Includes amounts allocated to CalPERS, a fiduciary component unit, that were not reported in its financial statements—$234 million for fiduciary funds and $21 million for a nonmajor component unit.

***Funded Status and Funding Progress*:** As of June 30, 2017—the most recent actuarial valuation date for the state substantive plan—the actuarial accrued liability (AAL) for benefits was $86.7 billion, and the actuarial value of assets was $500 million, resulting in an unfunded actuarial accrued liability (UAAL) of $86.2 billion. The covered payroll (annual payroll of active employees covered by the plan) was $21.4 billion, and the ratio of the UAAL to the covered payroll was 403%.

For the trial courts, as of July 1, 2015—the most recent actuarial valuation date—the AAL for benefits was $1.5 billion and the actuarial value of assets was $88 million, resulting in an UAAL of $1.4 billion. The covered payroll was $1.0 billion and the ratio of the UAAL to covered payroll was 139%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality and the healthcare cost trend. Amounts determined regarding the plan's funded status and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

***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.

In the June 30, 2017 state substantive plan actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.25% investment rate of return and an annual health care cost trend rate of actual increases for 2018 and 8.50% in 2019 initially, reduced to an ultimate rate of 4.50% in 2027. Both rates included a 2.75% annual inflation assumption. Annual wage inflation is assumed to be 3.00%. The UAAL is being amortized as a level percentage of active member payroll on a closed basis over 30 years.

In the July 1, 2015 biennial actuarial valuations, the entry age normal cost method was used for 51 of the trial courts. The actuarial assumptions included a 3.75% investment rate of return for 19 trial courts. There are 32 other trial courts with investment rates of return ranging from 4.95% to 7.28%. The actuarial assumptions included a health care cost trend assumption based on the Society of Actuaries' "Getzen" trend model that incorporates (1) initial short-term rates (up to five years); (2) a multi-decade transition period of medium-term rates until projected healthcare costs reach gross domestic product capacity; and (3) a transition to the ultimate trend rate. The initial trend rates start at 8.25% for most trial courts and then reduce gradually to an ultimate trend rate of 4.40% after 60 years. Annual inflation and payroll growth are assumed to be 2.75% and 3.00%, respectively, for most trial courts. The UAAL is amortized on an open basis over 30 years as a level percentage of payroll for 47 trial courts. Three other trial courts (Lassen, Orange, and Yolo) amortize on a closed basis as a level percentage of payroll over 27, 22, and 23 years, respectively. Alpine is amortizing using the level dollar amount over 22 years on a closed basis.

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 program 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 restricted primarily for construction costs of general obligation bond program projects 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" or "Note Purchase" 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, 2017, the general obligation commercial paper program had $1.2 billion 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 $800 million. As of June 30, 2017, the enterprise fund commercial paper program had $147 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, 2017, $600,000 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, 2017, 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, 2017, amounted to approximately $253 million for governmental activities and $31 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 $770 million. Note 9, Long-term Obligations, reports current additions and deductions for these capital lease obligations. The California State University—reported as an enterprise fund and the State Public Works Board (SPWB)—reported as an internal service fund, entered into lease-purchase agreements amounting to a present value of net minimum lease payments of $182 million, which are included in the capital lease commitments. This amount represents 23.6% 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 $463 million for business-type activities.

The capital lease commitments do not include $8.1 billion in lease-purchase agreements with the SPWB and $148 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 36 summarizes future minimum lease commitments of the primary government.

Table 36

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**
2018	$ 226,395	$ 73,938	$ 27,183	$ 61,803	$ 389,319
2019	181,056	67,817	18,371	35,728	302,972
2020	122,178	51,290	16,585	34,181	224,234
2021	64,276	43,472	15,763	33,257	156,768
2022	32,175	26,475	12,338	32,226	103,214
2023-2027	79,776	65,954	29,554	143,701	318,985
2028-2032	11,417	58,836	15,401	125,477	211,131
2033-2037	2,096	51,510	3,135	71,504	128,245
2038-2042	104	15,974	2,085	10,263	28,426
2043-2047	104	—	1,024	—	1,128
2048-2052	104	—	—	—	104
2053-2057	90	—	—	—	90
2058-2062	31	—	—	—	31
Total minimum lease payments	**$ 719,802**	**455,266**	**$ 141,439**	**548,140**	**$ 1,864,647**
Less: amount representing interest		38,798		194,687	
Present value of net minimum lease payments		**416,468**		**353,453**	
Less: current portion		57,504		43,737	
Capital lease obligation, net of current portion		**$ 358,964**		**$ 309,716**	

NOTE 14: COMMITMENTS

As of June 30, 2017, the primary government had commitments of $7.8 billion for certain highway construction and high-speed rail 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 $1.3 billion from local governments and $6.5 billion from proceeds of approved federal grants. The primary government also had other commitments for which the future expenditures will be reimbursed by the proceeds of approved federal grants of $498 million for various education programs, $521 million for terrorism prevention and disaster-preparedness response projects, $327 million for services under the workforce development program, $183 million for services provided under various public health programs, $125 million for community service programs, $45 million for services provided under the welfare program, and $16 million for services provided under the child support program.

The primary government had other commitments, totaling $11.1 billion, that are not included as a liability on the Balance Sheet or the Statement of Net Position. The $11.1 billion in commitments includes grant agreements totaling approximately $5.7 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 $11.1 billion in commitments includes $606 million in undisbursed loan commitments for various programs aimed at providing housing and emergency shelter to persons in need and $2.7 billion for undisbursed loan commitments to qualified agencies for clean water projects.

The $11.1 billion in commitments also includes contracts of $975 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 $568 million for CSU construction projects. In addition, CSU participates in forward-purchase contracts of natural gas and electricity. As of June 30, 2017, CSU's obligation under these special purchase arrangements requires it to purchase at fixed prices an estimated total of $29 million in electricity through December 2019 and $1 million in natural gas through June 2018. The primary government also had commitments of $39 million to veterans for the purchase of properties under contracts of sale. The California State Lottery Commission had commitments of $513 million 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, 2017, the primary government encumbered expenditures of $1.1 billion for the General Fund, $1.8 billion for the Transportation Fund, $1.3 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, 2017, 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 funds.

As of June 30, 2017, the State had $73.8 billion in outstanding general obligation bonds related to governmental activities and $702 million related to business-type activities. In addition, $34.1 billion in long-term general obligation bonds had been authorized but not issued, of which $33.7 billion is related to governmental activities and $368 million is related to business-type activities. The total amount authorized but not issued includes $14.5 billion authorized by the applicable finance committees for issuance in the form of commercial paper notes. Of this amount, $1.2 billion 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, 2017, the State had $3.2 billion in variable-rate general obligation bonds outstanding, consisting of $863 million in daily-rate bonds with credit enhancement and $1.4 billion in weekly-rate bonds with credit enhancement, and $870 million in weekly- or monthly-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 by the Securities Industry and Financial Markets Association (SIFMA) Index rate or 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 for each series of credit-enhanced bonds. Under these credit agreements, the credit providers agree to pay all principal and interest payments or the commitment amounts to the bondholders; 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 bank commitment amounts. 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 bonds to a new investor. If the remarketing of the bonds is unsuccessful, the bonds will enter into a bank bond period and accrue interest at higher rates, which cannot exceed 11% as permitted by law until remarketed or redeemed. If the bonds cannot be remarketed and remain in a bank bond period ranging from 45 days to 90 days, the bonds will be subject to term loan payment in equal quarterly installments under the terms stated in the credit agreements. The term loan period may exceed the expiration dates of the credit agreements. The bonds may be remarketed at any time during the bank bond or term loan period. There were no bank bonds during fiscal year 2016-17.

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 April 5, 2018; September 7, 2018; and August 11, 2020. 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, 2013C, 2013D, and 2013E, 2016B, and 2017C Index Floating Rate Bonds have mandatory purchase dates on December 1, 2017 (Series 2013D); May 1, 2018 (Series 2012A); December 3, 2018 (Series 2013E); December 1, 2020 (Series 2013C); December 1, 2021 (Series 2016B); and April 1, 2022 (Series 2017C). The Series 2012B SIFMA Index Floating Rate Bonds have final maturities from 2018 to 2020.

Per the Official Statements, sinking fund deposits for the variable-rate general obligation bonds are required to be set aside in a sinking fund at the beginning of fiscal years 2015-16 through 2033-34, and at the beginning of 2039-40 and 2046-47. 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 of any other general obligation bonds then outstanding. To the extent that the deposit is not applied by January 31 of each fiscal year, the variable-rate general obligation bonds 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 2016-17.

B. Mandatory Tender Bonds

As of June 30, 2017, the State had $1.8 billion in outstanding general obligation mandatory tender bonds, including $975 million with a fixed interest rate and $800 million with an index floating rate (discussed in Section A). On their respective 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 on or prior to that day. These bonds have mandatory tender dates on December 1, 2017; May 1, 2018; December 3, 2018; December 1, 2019; April 1, 2020; December 1, 2020; December 1, 2021; and April 1, 2022. In the event of an unsuccessful remarketing of all the outstanding bonds on the scheduled mandatory tender dates, the bonds will enter into a delayed remarketing period and accrue interest at a higher effective interest rate, gradually increasing on a stepped basis until they are remarketed, redeemed, or paid at maturity. Current state laws limit interest rates to 11% per annum. With respect to $100 million of the Index Floating Rate Bonds, beginning six months after the scheduled mandatory tender date, the bonds will be subject to special mandatory redemption in 20 equal quarterly installments until they are remarketed or refunded.

C. Build America Bonds

As of June 30, 2017, 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 6.8% for the federal fiscal year ending September 30, 2016, and by 6.9% for the federal fiscal year ending September 30, 2017. 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 37 shows the debt service requirements for all general obligation bonds as of June 30, 2017. The estimated debt service requirements for the $3.2 billion variable-rate general obligation bonds are calculated using the actual interest rates in effect on June 30, 2017. For mandatory tender bonds, the debt service

requirements shown in Table 37 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 37

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**
2018	$ 3,195,650	$ 3,770,016	$ 6,965,666	$ 36,755	$ 23,322	$ 60,077
2019	3,170,605	3,663,937	6,834,542	49,000	21,821	70,821
2020	2,966,985	3,510,322	6,477,307	41,365	20,524	61,889
2021	2,875,580	3,379,015	6,254,595	31,445	19,319	50,764
2022	3,115,845	3,239,033	6,354,878	15,785	18,566	34,351
2023 - 2027	12,963,785	14,304,968	27,268,753	42,750	89,237	131,987
2028 - 2032	14,656,980	11,115,531	25,772,511	198,380	73,069	271,449
2033 - 2037	15,180,275	7,304,778	22,485,053	166,165	35,968	202,133
2038 - 2042	11,933,810	2,733,813	14,667,623	84,440	13,340	97,780
2043 - 2047	3,778,325	381,369	4,159,694	35,655	2,634	38,289
Total	**$ 73,837,840**	**$ 53,402,782**	**$ 127,240,622**	**$ 701,740**	**$ 317,800**	**$ 1,019,540**

E. General Obligation Bond Defeasances

1. Current Year Activity

On September 13, 2016, the primary government issued $2.0 billion in general obligation bonds to current and advance refund $2.3 billion in outstanding general obligation bonds maturing in 2017 to 2038. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $629 million and resulted in an economic gain of $495 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 2.03% per year over the life of the new bonds.

On November 3, 2016, the primary government issued $1.4 billion in general obligation bonds to current refund $1.6 billion in outstanding general obligation bonds maturing in 2017 to 2034. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $314 million and resulted in an economic gain of $268 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 1.98% per year over the life of the new bonds.

On March 14, 2017, the primary government issued $2.3 billion in general obligation bonds to current and advance refund $2.5 billion in outstanding general obligation bonds maturing in 2017 to 2039. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $406 million and resulted in an economic gain of $295 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 3.15% per year over the life of the new bonds.

On April 19, 2017, the primary government issued $604 million in general obligation bonds to current refund $701 million in outstanding general obligation bonds maturing in 2018 to 2031. As a result, the refunded bonds are 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 $104 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 2.58% 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 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, 2017, the outstanding balance of defeased general obligation bonds was approximately $2.6 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 $34 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 $15.7 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 $1.1 billion, while Tobacco Settlement Revenue and interest earned totaled

$371 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 $14.0 billion, payable through 2042. 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 2016-17, 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 2016-17, which may be found on its website at www.CalHFA.ca.gov.

Table 38 shows outstanding revenue bonds of the primary government and the discretely presented component units.

Table 38

Schedule of Revenue Bonds Payable
June 30, 2017
(amounts in thousands)

Primary government	
Governmental activities	
Transportation Fund	$ 34,312
Public Buildings Construction Fund	9,768,378
Nonmajor governmental funds:	
Golden State Tobacco Securitization Corporation Fund	6,896,944
Building authorities	180,266
Total governmental activities	**16,879,900**
Business-type activities	
Electric Power Fund	4,128,000
Water Resources Fund	3,026,368
California State University	6,432,390
Nonmajor enterprise funds	1,369,100
Total business-type activities	**14,955,858**
Total primary government	**31,835,758**
Discretely presented component units	
University of California	19,116,522
California Housing Finance Agency	2,095,874
Nonmajor component units	479,814
Total discretely presented component units	**21,692,210**
Total revenue bonds payable	**$ 53,527,968**

Table 39 shows the debt service requirements for fixed-rate and variable-rate bonds. It excludes unamortized premiums and discounts that are included in Table 38.

Table 39

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 ***
2018	$ 679,616	$ 756,441	$ 1,008,480	$ 619,238	$ 442,630	$ 922,835
2019	657,096	726,956	1,091,640	563,296	463,805	914,540
2020	649,226	694,752	1,169,838	513,373	772,710	892,371
2021	614,126	663,520	1,179,465	459,180	740,315	868,721
2022	600,046	633,527	1,266,665	408,114	522,335	842,081
2023-2027	2,856,784	2,868,898	2,109,365	1,573,710	3,516,055	3,725,129
2028-2032	3,286,489	2,109,314	2,052,730	1,077,381	3,547,420	2,889,612
2033-2037	2,779,555	1,309,675	1,762,725	634,613	3,463,415	2,050,126
2038-2042	1,802,955	782,820	985,385	333,290	3,131,509	1,245,144
2043-2047	2,001,126	3,258,311	741,910	133,495	2,158,255	656,928
2048-2052	—	—	284,970	20,392	407,680	357,872
2053-2115	—	—	—	—	1,374,345	4,010,839
Total	**$ 15,927,019**	**$ 13,804,214**	**$ 13,653,173**	**$ 6,336,082**	**$ 20,540,474**	**$ 19,376,198**

* Includes interest on variable-rate bonds based on rates in effect on June 30, 2017.

D. Revenue Bond Defeasances

1. Current Year – Governmental Activities

In April 2017, the GSTSC issued $631 million in Tobacco Settlement Asset-Backed bonds. The bond proceeds were used to current refund $617 million in outstanding Tobacco Settlement Asset-Backed bonds, and a portion equal to a $460 million aggregate principal amount at their June 2047 maturity ($77 million principal and compound interest at redemption) in outstanding capital appreciation bonds. The refunding decreased debt service payments by $620 million and resulted in an economic gain of $620 million.

During fiscal year 2016-17, the SPWB issued $1.1 billion in lease revenue refunding bonds. The bond proceeds were used to refund $1.2 billion 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 $284 million and resulted in an economic gain of $185 million. The lease revenue bonds are reported in the Public Buildings Construction Fund, an internal service fund.

During fiscal year 2016-17, the Los Angeles State Building Authority issued $9 million in lease revenue refunding bonds to current refund $13 million in outstanding lease revenue bonds. The net proceeds of the refunding bonds 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 $5 million and resulted in an economic gain of $4 million.

During fiscal year 2016-17, the San Bernardino Joint Powers Financing Authority issued $13 million in lease revenue refunding bonds to current refund $21 million in outstanding lease revenue bonds. The net proceeds of the refunding bonds 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 $5 million and resulted in an economic gain of $5 million.

2. Current Year – Business-type Activities

In March 2017, the California State University issued $1.2 billion in systemwide revenue bonds to refund certain outstanding systemwide revenue bonds. Portions of the proceeds from the refunding bonds were deposited in escrow accounts 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 $18 million and resulted in an economic gain of $16 million.

In September 2016, the Department of Water Resources issued $567 million in power supply revenue bonds to advance refund $555 million in outstanding power supply 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 $75 million and resulted in an economic gain of $43 million.

In October 2016, the Department of Water Resources issued $428 million of tax-exempt water system revenue bonds to provide funds for the construction of water system projects and to pay off or refund certain outstanding debt obligations. A portion of the revenue bond proceeds was deposited in an escrow account to advance refund $97 million of outstanding water system revenue bonds, and 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 $9 million and resulted in an economic gain of $7 million.

In October 2016, the primary government issued $167 million in veterans home purchase revenue bonds to finance new and refinance existing contracts of purchase and to refund certain outstanding debt obligations. A portion of the revenue bond proceeds was deposited in an escrow account to current refund $50 million of outstanding home purchase revenue bonds, and 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 $44 million and resulted in an economic gain of $19 million.

3. Outstanding Balances

In current and prior fiscal years, the primary government defeased certain bonds by placing the proceeds of new bonds 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, 2017, the outstanding balances of defeased revenue bonds were $1.2 billion for governmental activities and $2.9 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 $4.0 billion as of June 30, 2017. 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 $5.8 billion is discounted to $4.0 billion using a 3.5% interest rate. Of the total discounted liability, $396 million is a current liability, of which $265 million is included in the General Fund, $128 million in the special revenue funds, and $3 million in the internal service funds. The remaining $3.6 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 40 shows the changes in the self-insurance claims liability for the primary government.

Table 40

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

	2017	2016
Unpaid claims, beginning	$ 3,939,720	$ 3,843,167
Incurred claims	534,863	540,310
Claim payments	(433,289)	(443,757)
Unpaid claims, ending	**$ 4,041,294**	**$ 3,939,720**

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 41 shows the amounts due from and due to other funds.

Table 41

Schedule of Due From Other Funds and Due To Other Funds
June 30, 2017
(amounts in thousands)

	Due To												
Due From	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**	**Nonmajor Governmental Funds**	**Electric Power Fund**	**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**
Governmental funds													
General Fund	$ —	$ 61,430	$ 15,516	$ 495,729	$ —	$ —	$ —	$ —	$ 5,292	$ —	$ 325,284	$ 3,947,070	$ 4,850,321
Federal Fund	682,314	927,300	407,264	20,944	—	—	—	5,877	—	83	65,510	13,080,935	15,190,227
Transportation Fund	—	—	—	65,728	—	—	—	—	—	—	15,676	57,220	138,624
Environmental and Natural Resources Fund	—	14,763	—	322	—	—	—	—	—	—	13,144	3	28,232
Nonmajor governmental funds	2,095,521	27,734	4,552	14,688	—	—	—	—	156	79	80,006	3,256,869	5,479,605
Total governmental funds	**2,777,835**	**1,031,227**	**427,332**	**597,411**	**—**	**—**	**—**	**5,877**	**5,448**	**162**	**499,620**	**20,342,097**	**25,687,009**
Enterprise funds													
Water Resources Fund	—	—	—	—	—	—	—	—	—	—	52,292	—	52,292
State Lottery Fund	343	—	—	386,035	—	—	—	—	—	—	—	—	386,378
Unemployment Programs Fund	195,227	—	—	—	—	—	—	—	—	—	—	—	195,227
California State University Fund	—	—	—	—	—	—	—	—	—	—	6	—	6
Nonmajor enterprise funds	1,954	—	276	250	—	—	—	—	—	—	89	15	2,584
Total enterprise funds	**197,524**	**—**	**276**	**386,285**	**—**	**—**	**—**	**—**	**—**	**—**	**52,387**	**15**	**636,487**
Internal service funds	13,389	20,687	15,714	28,730	6,000	2,552	1,546	7,999	265	3,378	45,422	4,176	**149,858**
Total due from other funds	**$ 2,988,748**	**$ 1,051,914**	**$ 443,322**	**$ 1,012,426**	**$ 6,000**	**$ 2,552**	**$ 1,546**	**$ 13,876**	**$ 5,713**	**$ 3,540**	**$ 597,429**	**$ 20,346,288**	**$ 26,473,354**

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 41, 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 $2.2 billion in Transportation Fund loans payable from the General Fund also includes $706 million in deferred Proposition 42 transfers for traffic congestion relief and other direct loans from the Traffic Congestion Relief Program.

Table 42 shows the primary government's interfund receivables and payables.

Table 42

Schedule of Interfund Receivables and Payables
June 30, 2017
(amounts in thousands)

	Interfund Payables								
Interfund Receivables	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**	**Nonmajor Governmental Funds**	**Water Resources Fund**	**Unemployment Programs Fund**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Total**
Governmental funds									
General Fund	$ —	$ 2,230,616	$ 439,800	$ 477,210	$ —	$ 234,001	$ 1,600	$ 11,205	$ 3,394,432
Transportation Fund	—	—	—	20,000	—	—	—	656	20,656
Environmental and Natural Resources Fund	4,790	10,000	—	—	—	—	—	—	14,790
Nonmajor governmental funds	49,126	1,448	—	—	—	—	—	—	50,574
Total governmental funds	**53,916**	**2,242,064**	**439,800**	**497,210**	**—**	**234,001**	**1,600**	**11,861**	**3,480,452**
Internal service funds	43,082	—	—	57	95,136	—	—	20,184	158,459
Total primary government	**$ 96,998**	**$ 2,242,064**	**$ 439,800**	**$ 497,267**	**$ 95,136**	**$ 234,001**	**$ 1,600**	**$ 32,045**	**$ 3,638,911**

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

Table 43

Schedule of Due From Primary Government and Due To Component Units
June 30, 2017
(amounts in thousands)

Due From	Due To University of California
Governmental funds	
General Fund	$ 194,265
Nonmajor governmental funds	9,797
Total governmental funds	**204,062**
Total primary government	**$ 204,062**

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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 $3.1 billion to the California State University, an enterprise fund. The General Fund also transferred $2.2 billion to nonmajor governmental funds, mainly for support of trial courts, local governments, and health care related programs. The Transportation Fund transferred $1.2 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 $505 million to the General Fund for administration of the Unemployment Insurance Program.

Table 44 shows interfund transfers of the primary government.

Table 44

Schedule of Interfund Transfers
June 30, 2017
(amounts in thousands)

Transferred From	Transferred To: General Fund	Transportation Fund	Environmental and Natural Resources Fund	Nonmajor Governmental Funds	California State University Fund	Internal Service Funds	Total
Governmental funds							
General Fund	$ —	$ 30,000	$ 25,133	$ 2,190,010	$ 3,083,437	$ 1,500	$ 5,330,080
Federal Fund	504,866	—	158,516	15,573	—	—	678,955
Transportation Fund	78,610	—	10,431	1,172,391	—	—	1,261,432
Environmental and Natural Resources Fund	2,029	5	—	11,102	—	—	13,136
Nonmajor governmental funds	207,461	21	34,540	26,002	—	—	268,024
Total governmental funds	**792,966**	**30,026**	**228,620**	**3,415,078**	**3,083,437**	**1,500**	**7,551,627**
Internal service funds	83,049	—	—	36,460	—	3,000	**122,509**
Total primary government	**$ 876,015**	**$ 30,026**	**$ 228,620**	**$ 3,451,538**	**$ 3,083,437**	**$ 4,500**	**$ 7,674,136**

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

A. Fund Balances

Table 45 shows the composition of the governmental fund balances.

Table 45

Schedule of Fund Balances by Function
June 30, 2017
(amounts in thousands)

	General Fund	Federal Fund	Transportation Fund	Environmental and Natural Resources Fund	Nonmajor Governmental Funds
Nonspendable					
Long-term interfund receivables	$ 96,998	$ —	$ —	$ —	$ —
Long-term loans receivable	6,905	—	—	—	—
Other	—	—	—	—	20,172
Total nonspendable	**103,903**	**—**	**—**	**—**	**20,172**
Restricted					
General government	30,657	—	—	4,978	3,697,394
Education	459,597	429	1,001	—	368,489
Health and human services	183,992	257	—	1,826,337	2,747,771
Natural resources and environmental protection	4,908	10,887	—	4,557,094	168,270
Business, consumer services, and housing	2,381	216,306	227,182	31,160	3,545,504
Transportation	—	—	8,823,282	—	6,374
Corrections and rehabilitation	34,868	—	—	—	674
Budget stabilization	6,713,422	—	—	—	—
Total restricted	**7,429,825**	**227,879**	**9,051,465**	**6,419,569**	**10,534,476**
Committed					
General government	141,411	—	—	17,173	363,999
Education	4,587	—	—	—	50,597
Health and human services	4,503	—	1,133	—	360,984
Natural resources and environmental protection	2,953	—	3	4,184,588	628,062
Business, consumer services, and housing	—	—	48,997	48,207	136,540
Transportation	—	—	—	—	4,091
Corrections and rehabilitation	27,301	—	—	—	3,505
Total committed	**180,755**	**—**	**50,133**	**4,249,968**	**1,547,778**
Assigned – general government	—	—	—	—	12,033
Unassigned	(1,904,097)	—	(13,334)	(1,818)	—
Total fund balances	**$ 5,810,386**	**$ 227,879**	**$ 9,088,264**	**$ 10,667,719**	**$ 12,114,459**

B. Net Position Deficits

Table 46 shows the net position deficit balances.

Table 46

Schedule of Net Position Deficits
June 30, 2017
(amounts in thousands)

	Internal Service Funds	Enterprise Funds
Architecture Revolving Fund	$ 92,873	$ —
Service Revolving Fund	537,521	—
Technology Services Revolving Fund	242,955	—
Water Resources Revolving Fund	14,562	—
Other Internal Service Programs Fund	335,799	—
State Lottery Fund	—	2,838
California State University Fund	—	2,464,323
Total net position deficits	**$ 1,223,710**	**$ 2,467,161**

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, 2017, the value of restricted endowments and gifts totaled $16.4 billion, and unrestricted endowments and gifts totaled $3.9 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 $2.4 billion at June 30, 2017. 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 $1.2 billion and $11 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 47 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 47

Schedule of Deferred Outflows and Deferred Inflows of Resources
June 30, 2017
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Deferred outflows of resources:				
Loss on refunding of debt	$ 994,258	$ 376,655	$ 1,370,913	$ 360,611
Decrease in fair value of hedging derivatives	—	—	—	100,283
Net pension liability	16,178,606	1,973,857	18,152,463	1,056,112
Net other postemployment benefits liability	—	—	—	4,106,941
Total deferred outflows of resources	**$ 17,172,864**	**$ 2,350,512**	**$ 19,523,376**	**$ 5,623,947**
Deferred inflows of resources:				
Gain on refunding of debt	$ 261,947	$ —	$ 261,947	$ 3,705
Service concession arrangements	60,492	—	60,492	95,725
Net pension liability	2,391,776	29,858	2,421,634	813,477
Net other postemployment benefits liability	—	—	—	4,934,470
Other deferred inflows	—	1,091,459	1,091,459	468,503
Total deferred inflows of resources	**$ 2,714,215**	**$ 1,121,317**	**$ 3,835,532**	**$ 6,315,880**

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, 2017, the CalHFA had $700 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, 2017, 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, 2017; those in progress as of June 30, 2017, and settled or decided against the primary government as of March 21, 2018; and those having a high probability of resulting in a decision against the primary government as of March 21, 2018, 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 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 has denied class certification and the plaintiffs have appealed. Briefing of the appeal was completed on December 17, 2014, and the parties are waiting for notice of oral argument. 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 plaintiff and all similarly situated taxpayers 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 has appealed and filed its

Opening Brief on August 11, 2017. The Franchise Tax Board's Respondent's Brief was due on December 13, 2017.

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. 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. In the writ action, the original briefing schedule and hearing on the merits were vacated and there are currently no deadlines set.

The primary government was a defendant in the following cases: *Anthem Blue Cross v. David Maxwell-Jolly, et al.*; *Molina Family Health Plan v. DHCS*; *and Health Net of California v. DHCS* regarding application of budget reduction factors to managed-care capitated rates. These cases were settled on a contingent basis based on the plans' profitability. The estimated combined total potential loss is more than $400 million based on three separate settlement agreements that were entered into in 2013 and 2014. The primary government was involved in similar disputes with L.A. Care and other local initiatives regarding application of budget reduction factors to managed-care capitation rates; these disputes were settled in December 2017. The combined total settlement amount is $155 million, estimated to be paid over five years, starting in fiscal year 2017-18.

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, 2017, but prior to the date of the auditor's report.

A. Debt Issuances

In August and October 2017, and March 2018, the primary government issued a total of $6.3 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; and to pay related issuance costs. In November 2017, the primary government remarketed $425 million of variable-rate general obligation mandatory tender bonds.

In August 2017, the California Housing Finance Agency, a major component unit, used a total of $278 million in previously issued home mortgage revenue bond proceeds to refund certain outstanding home mortgage revenue bonds.

In August 2017, the Department of Water Resources remarketed $259 million in variable-rate revenue bonds. As a result of this remarketing transaction, the weighted average interest rate of the bonds decreased and the remarketing term increased.

In August, September, and December 2017, the University of California, a major component unit, issued a total of $1.6 billion in revenue bonds to finance and refinance projects; for acquisition, construction, improvement, and renovation of certain facilities of the university; and to pay related issuance costs.

In September and October 2017, the State Public Works Board issued a total of $400 million in lease revenue bonds to refund outstanding lease revenue bonds, to finance and refinance certain design and construction cost on various projects for the benefit of the Department of Corrections and Rehabilitation, to reimburse interim loans, and to pay related issuance costs.

In November 2017, the primary government issued $107 million in veterans general obligation bonds to finance the purchase of homes and farms for California military veterans.

In December 2017, the Department of Water Resources issued $491 million in revenue bonds to advance refund certain outstanding water system revenue bonds, and to pay related issuance costs.

Subsequent to June 30, 2017, the California State University issued $48 million in bond anticipation notes to finance projects at two campuses.

In February 2018, the primary government issued $449 million in revenue bonds to finance various water pollution control projects, and to pay related issuance costs.

B. Other

In August and November 2017, the Department Water Resources received a total of $69 million in Federal Emergency Management Agency disaster grants to reimburse the department for costs associated with the Oroville Dam Spillway Recovery and Restoration Project.

California's demand for unemployment insurance benefits required the State to continue borrowing from the U.S. Department of Labor during fiscal year 2017-18. As of June 30, 2017, the State had $385 million in outstanding loans with the U.S. Department of Labor which were used to cover deficits in the Unemployment Programs Fund; these loans were fully repaid on March 20, 2018.

The 2017-18 Budget Act includes a one-time $6.0 billion supplemental payment to the California Public Employees' Retirement System (CalPERS) to help reduce the State's net pension liability. This supplemental pension payment is being made in three equal installments; the first two installments have already been paid and the final installment is expected to occur in April 2018. The supplemental payment is being funded through a cash loan from the State's internal investment pool, which is described in Note 3, Deposits and

Investments. The General Fund's share of the loan repayment will be counted towards the minimum annual debt reduction payments required by Proposition 2 over the expected term of the loan. The remaining balance of the loan will be repaid from other funds that contribute to CalPERS and will benefit from the loan.

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios

For the Past Three Fiscal Years[1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

	2014[3]	2015[3]	2016[3]
STATE MISCELLANEOUS[2]			
Total pension liability			
Service cost	$ 1,477,762	$ 1,576,695	$ 1,668,682
Interest on total pension liability	6,670,928	6,970,837	7,220,961
Differences between expected and actual experience	—	693,639	(101,381)
Benefit payments, including refunds of employee contributions	(4,844,631)	(5,098,222)	(5,346,864)
Net change in total pension liability	3,304,059	4,142,949	3,441,398
Total pension liability – beginning	**88,885,115**	**92,189,174**	**96,332,123**
Total pension liability – ending (a)	**$ 92,189,174**	**$ 96,332,123**	**$ 99,773,521**
Plan fiduciary net position			
Contributions – employer	$ 2,156,312	$ 2,608,785	$ 2,818,406
Contributions – employee	766,896	771,046	801,023
Net investment income	10,370,838	1,505,042	339,588
Benefit payments, including refunds of employee contributions	(4,844,631)	(5,098,222)	(5,346,864)
Net plan to plan resource movement	—	(354)	(1,154)
Administrative expense	(86,473)	(76,678)	(41,497)
Net change in plan fiduciary net position	8,362,942	(290,381)	(1,430,498)
Plan fiduciary net position – beginning	**60,017,620**	**68,380,562**	**68,090,181**
Plan fiduciary net position – ending (b)	**$ 68,380,562**	**$ 68,090,181**	**$ 66,659,683**
State's net pension liability – ending (a) – (b)	**$ 23,808,612**	**$ 28,241,942**	**$ 33,113,838**
Plan fiduciary net position as a percentage of the total pension liability	74.17%	70.68%	66.81%
Covered payroll	$ 10,019,739	$ 10,640,884	$ 11,189,932
State's net pension liability as a percentage of covered payroll	237.62%	265.41%	295.93%

(continued)

[1] This schedule will be built prospectively until it contains ten years of data.

[2] This schedule includes amounts attributable to related organizations, fiduciary component units, and discretely presented component units, which are not part of the primary government.

[3] The date in the column heading represents the end of the measurement period of the net pension liability, which is one year prior to the reporting period.

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Three Fiscal Years[1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

	2014[3]	2015[3]	2016[3]
STATE INDUSTRIAL[2]			
Total pension liability			
Service cost	$ 92,324	$ 100,006	$ 107,868
Interest on total pension liability	241,278	257,527	273,308
Differences between expected and actual experience	—	26,976	7,009
Benefit payments, including refunds of employee contributions	(146,977)	(157,029)	(167,359)
Net change in total pension liability	186,625	227,480	220,826
Total pension liability – beginning	**3,181,282**	**3,367,907**	**3,595,387**
Total pension liability – ending (a)	**$ 3,367,907**	**$ 3,595,387**	**$ 3,816,213**
Plan fiduciary net position			
Contributions – employer	$ 88,516	$ 107,238	$ 116,730
Contributions – employee	44,459	49,482	52,775
Net investment income	423,076	62,385	14,444
Benefit payments, including refunds of employee contributions	(146,977)	(157,029)	(167,359)
Net plan to plan resource movement	—	30	216
Administrative expense	(3,583)	(3,252)	(1,758)
Net change in plan fiduciary net position	405,491	58,854	15,048
Plan fiduciary net position – beginning	**2,420,958**	**2,826,449**	**2,885,303**
Plan fiduciary net position – ending (b)	**$ 2,826,449**	**$ 2,885,303**	**$ 2,900,351**
State's net pension liability – ending (a) – (b)	**$ 541,458**	**$ 710,084**	**$ 915,862**
Plan fiduciary net position as a percentage of the total pension liability	83.92%	80.25%	76.00%
Covered payroll	$ 532,490	$ 577,711	$ 625,220
State's net pension liability as a percentage of covered payroll	101.68%	122.91%	146.49%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Three Fiscal Years[1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

	2014[3]	2015[3]	2016[3]
STATE SAFETY[2]			
Total pension liability			
Service cost	$ 402,902	$ 422,634	$ 438,147
Interest on total pension liability	663,219	734,333	786,096
Differences between expected and actual experience	—	(4,150)	(2,235)
Benefit payments, including refunds of employee contributions	(429,353)	(469,275)	(502,427)
Net change in total pension liability	636,768	683,542	719,581
Total pension liability – beginning	**8,682,750**	**9,626,597** *	**10,310,139**
Total pension liability – ending (a)	**$ 9,319,518**	**$ 10,310,139**	**$ 11,029,720**
Plan fiduciary net position			
Contributions – employer	$ 339,232	$ 393,925	$ 401,108
Contributions – employee	196,148	215,482	221,615
Net investment income	1,162,050	175,677	42,258
Benefit payments, including refunds of employee contributions	(429,353)	(469,275)	(502,427)
Net plan to plan resource movement	—	499	548
Administrative expense	(9,945)	(9,200)	(4,966)
Net change in plan fiduciary net position	1,258,132	307,108	158,136
Plan fiduciary net position – beginning	**6,583,260**	**7,841,392**	**8,148,500**
Plan fiduciary net position – ending (b)	**$ 7,841,392**	**$ 8,148,500**	**$ 8,306,636**
State's net pension liability – ending (a) – (b)	**$ 1,478,126**	**$ 2,161,639**	**$ 2,723,084**
Plan fiduciary net position as a percentage of the total pension liability	84.14%	79.03%	75.31%
Covered payroll	$ 1,901,235	$ 2,003,777	$ 2,100,295
State's net pension liability as a percentage of covered payroll	77.75%	107.88%	129.66%

(continued)

* Restated

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Three Fiscal Years[1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

	2014[3]	2015[3]	2016[3]
STATE PEACE OFFICERS AND FIREFIGHTERS[2]			
Total pension liability			
Service cost	$ 816,836	$ 838,628	$ 861,694
Interest on total pension liability	2,622,406	2,759,982	2,902,900
Differences between expected and actual experience	—	288,526	18,316
Benefit payments, including refunds of employee contributions	(1,568,738)	(1,697,676)	(1,822,841)
Net change in total pension liability	1,870,504	2,189,460	1,960,069
Total pension liability – beginning	**34,655,771**	**36,219,196** *	**38,408,656**
Total pension liability – ending (a)	**$ 36,526,275**	**$ 38,408,656**	**$ 40,368,725**
Plan fiduciary net position			
Contributions – employer	$ 959,741	$ 1,146,192	$ 1,265,145
Contributions – employee	331,956	366,419	381,185
Net investment income	3,964,754	584,142	137,927
Benefit payments, including refunds of employee contributions	(1,568,738)	(1,697,676)	(1,822,841)
Net plan to plan resource movement	—	194	114
Administrative expense	(33,334)	(30,069)	(16,295)
Net change in plan fiduciary net position	3,654,379	369,202	(54,765)
Plan fiduciary net position – beginning	**22,713,610**	**26,367,989**	**26,737,191**
Plan fiduciary net position – ending (b)	**$ 26,367,989**	**$ 26,737,191**	**$ 26,682,426**
State's net pension liability – ending (a) – (b)	**$ 10,158,286**	**$ 11,671,465**	**$ 13,686,299**
Plan fiduciary net position as a percentage of the total pension liability	72.19%	69.61%	66.10%
Covered payroll	$ 3,030,525	$ 3,115,287	$ 3,241,895
State's net pension liability as a percentage of covered payroll	335.20%	374.65%	422.17%

(continued)

* Restated

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Three Fiscal Years[1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

	2014[3]	2015[3]	2016[3]
CALIFORNIA HIGHWAY PATROL			
Total pension liability			
Service cost	$ 191,730	$ 198,665	$ 210,619
Interest on total pension liability	724,474	764,348	809,691
Differences between expected and actual experience	—	75,593	125,614
Benefit payments, including refunds of employee contributions	(460,991)	(487,061)	(516,723)
Net change in total pension liability	455,213	551,545	629,201
Total pension liability – beginning	**9,604,872**	**10,060,085**	**10,611,630**
Total pension liability – ending (a)	**$ 10,060,085**	**$ 10,611,630**	**$ 11,240,831**
Plan fiduciary net position			
Contributions – employer	$ 277,702	$ 351,197	$ 375,928
Contributions – employee	83,161	85,791	86,111
Net investment income	1,005,007	146,782	33,918
Benefit payments, including refunds of employee contributions	(460,991)	(487,061)	(516,723)
Net plan to plan resource movement	—	(214)	292
Administrative expense	(8,417)	(7,600)	(4,111)
Net change in plan fiduciary net position	896,462	88,895	(24,585)
Plan fiduciary net position – beginning	**5,759,985**	**6,656,447**	**6,745,342**
Plan fiduciary net position – ending (b)	**$ 6,656,447**	**$ 6,745,342**	**$ 6,720,757**
State's net pension liability – ending (a) – (b)	**$ 3,403,638**	**$ 3,866,288**	**$ 4,520,074**
Plan fiduciary net position as a percentage of the total pension liability	66.17%	63.57%	59.79%
Covered payroll	$ 765,283	$ 809,610	$ 808,032
State's net pension liability as a percentage of covered payroll	444.76%	477.55%	559.40%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Three Fiscal Years[1]
(amounts in thousands)

SINGLE-EMPLOYER PLANS

	2014[3]	2015[3]	2016[3]
JUDGES'			
Total pension liability			
Service cost	$ 27,581	$ 27,841	$ 29,314
Interest on total pension liability	140,256	133,181	107,514
Differences between expected and actual experience	—	57,568	(59,421)
Changes of assumptions	—	158,646	384,306
Benefit payments, including refunds of employee contributions	(193,935)	(201,868)	(199,349)
Net change in total pension liability	(26,098)	175,368	262,364
Total pension liability – beginning	**3,383,310**	**3,357,212**	**3,532,580**
Total pension liability – ending (a)	**$ 3,357,212**	**$ 3,532,580**	**$ 3,794,944**
Plan fiduciary net position			
Contributions – employer	$ 191,148	$ 180,910	$ 192,287
Contributions – employee	7,248	3,877	3,559
Net investment income	59	88	193
Benefit payments, including refunds of employee contributions	(193,935)	(201,867)	(199,349)
Administrative expense	(1,141)	(1,227)	(642)
Other miscellaneous income	—	2,198	2,568
Net change in plan fiduciary net position	3,379	(16,021)	(1,384)
Plan fiduciary net position – beginning	**53,820**	**57,199**	**41,178**
Plan fiduciary net position – ending (b)	**$ 57,199**	**$ 41,178**	**$ 39,794**
State's net pension liability – ending (a) – (b)	**$ 3,300,013**	**$ 3,491,402**	**$ 3,755,150**
Plan fiduciary net position as a percentage of the total pension liability	1.70%	1.17%	1.05%
Covered payroll	$ 163,574	$ 28,770	$ 23,537
State's net pension liability as a percentage of covered payroll	2017.44%	12135.56%	15954.25%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Three Fiscal Years[1]
(amounts in thousands)

SINGLE-EMPLOYER PLANS

	2014[3]	2015[3]	2016[3]
JUDGES' II			
Total pension liability			
Service cost	$ 78,670	$ 79,641	$ 86,635
Interest on total pension liability	61,044	69,128	78,412
Differences between expected and actual experience	—	(17,319)	(4,546)
Changes of assumptions	—	(16,619)	—
Benefit payments, including refunds of employee contributions	(8,950)	(14,041)	(21,704)
Net change in total pension liability	130,764	100,790	138,797
Total pension liability – beginning	**837,198**	**967,962**	**1,068,752**
Total pension liability – ending (a)	**$ 967,962**	**$ 1,068,752**	**$ 1,207,549**
Plan fiduciary net position			
Contributions – employer	$ 57,027	$ 65,629	$ 65,839
Contributions – employee	20,413	22,242	24,598
Net investment income	150,168	(2,402)	20,810
Benefit payments, including refunds of employee contributions	(8,950)	(14,041)	(21,704)
Administrative expense	(785)	(1,127)	(732)
Net change in plan fiduciary net position	217,873	70,301	88,811
Plan fiduciary net position – beginning	**795,967**	**1,013,840**	**1,084,141**
Plan fiduciary net position – ending (b)	**$ 1,013,840**	**$ 1,084,141**	**$ 1,172,952**
State's net pension liability/(asset) – ending (a) – (b)	**$ (45,878)**	**$ (15,389)**	**$ 34,597**
Plan fiduciary net position as a percentage of the total pension liability	104.74%	101.44%	97.13%
Covered payroll	$ 40,476	$ 180,230	$ 192,739
State's net pension liability as a percentage of covered payroll	-113.35%	-8.54%	17.95%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Three Fiscal Years[1]
(amounts in thousands)

SINGLE-EMPLOYER PLANS

	2014[3]	2015[3]	2016[3]
LEGISLATORS'			
Total pension liability			
Service cost	$ 732	$ 769	$ 608
Interest on total pension liability	6,465	6,268	5,978
Differences between expected and actual experience	—	(4,246)	(3,530)
Changes of assumptions	—	(2,654)	—
Benefit payments, including refunds of employee contributions	(7,482)	(9,087)	(7,407)
Net change in total pension liability	(285)	(8,950)	(4,351)
Total pension liability – beginning	**115,806**	**115,521**	**106,571**
Total pension liability – ending (a)	**$ 115,521**	**$ 106,571**	**$ 102,220**
Plan fiduciary net position			
Contributions – employer	$ 565	$ 590	$ 549
Contributions – employee	113	105	96
Net investment income	15,372	(94)	4,545
Benefit payments, including refunds of employee contributions	(7,482)	(9,087)	(7,407)
Administrative expense	(362)	(399)	(202)
Net change in plan fiduciary net position	8,206	(8,885)	(2,419)
Plan fiduciary net position – beginning	**122,148**	**130,354**	**121,469**
Plan fiduciary net position – ending (b)	**$ 130,354**	**$ 121,469**	**$ 119,050**
State's net pension liability/(asset) – ending (a) – (b)	**$ (14,833)**	**$ (14,898)**	**$ (16,830)**
Plan fiduciary net position as a percentage of the total pension liability	112.84%	113.98%	116.46%
Covered payroll	$ 1,471	$ 1,397	$ 1,298
State's net pension liability as a percentage of covered payroll	-1008.36%	-1066.43%	-1296.61%

(concluded)

Schedule of State Pension Contributions

For the Past Three Fiscal Years[1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

	2015	2016	2017
STATE MISCELLANEOUS[2]			
Actuarially determined contribution	$ 2,421,157	$ 2,718,895	$ 3,078,232
Contributions in relation to the actuarially determined contribution	(2,583,400)	(2,814,126)	(3,098,305)
Contribution deficiency (excess)	$ (162,243)	$ (95,231)	$ (20,073)
Covered payroll	$ 10,655,117	$ 11,197,607	$ 11,591,576
Contributions as a percentage of covered payroll	24.25%	25.13%	26.73%
STATE INDUSTRIAL[2]			
Actuarially determined contribution	$ 92,024	$ 103,293	$ 116,880
Contributions in relation to the actuarially determined contribution	(104,769)	(116,594)	(123,789)
Contribution deficiency (excess)	$ (12,745)	$ (13,301)	$ (6,909)
Covered payroll	$ 577,713	$ 625,220	$ 643,295
Contributions as a percentage of covered payroll	18.14%	18.65%	19.24%
STATE SAFETY[2]			
Actuarially determined contribution	$ 341,509	$ 368,444	$ 400,379
Contributions in relation to the actuarially determined contribution	(387,508)	(404,595)	(431,991)
Contribution deficiency (excess)	$ (45,999)	$ (36,151)	$ (31,612)
Covered payroll	$ 2,003,716	$ 2,100,289	$ 2,167,429
Contributions as a percentage of covered payroll	19.34%	19.26%	19.93%
STATE PEACE OFFICERS AND FIREFIGHTERS[2]			
Actuarially determined contribution	$ 1,086,102	$ 1,197,160	$ 1,343,177
Contributions in relation to the actuarially determined contribution	(1,148,597)	(1,263,436)	(1,431,851)
Contribution deficiency (excess)	$ (62,495)	$ (66,276)	$ (88,674)
Covered payroll	$ 3,115,364	$ 3,241,763	$ 3,416,627
Contributions as a percentage of covered payroll	36.87%	38.97%	41.91%

(continued)

[1] This schedule will be built prospectively until it contains ten years of data.

[2] This schedule includes amounts attributable to related organizations, fiduciary component units, and discretely presented component units, which are not part of the primary government.

Schedule of State Pension Contributions (continued)

For the Past Three Fiscal Years[1]
(amounts in thousands)

	2015	2016	2017
PUBLIC EMPLOYEES' RETIREMENT FUND PLANS			
CALIFORNIA HIGHWAY PATROL			
Actuarially determined contribution	$ 323,393	$ 363,634	$ 414,975
Contributions in relation to the actuarially determined contribution	(352,139)	(377,534)	(426,014)
Contribution deficiency (excess)	$ (28,746)	$ (13,900)	$ (11,039)
Covered payroll	$ 809,610	$ 808,032	$ 851,427
Contributions as a percentage of covered payroll	43.49%	46.72%	50.04%
SINGLE-EMPLOYER PLANS			
JUDGES'			
Actuarially determined contribution	$ 1,884,555	$ 463,073	$ 448,636
Contributions in relation to the actuarially determined contribution	(3,598)	(3,252)	(202,368)
Contribution deficiency (excess)	$ 1,880,957	$ 459,821	$ 246,268
Covered payroll	$ 167,542	$ 29,771	$ 23,822
Contributions as a percentage of covered payroll	2.15%	10.92%	849.50%
JUDGES' II			
Actuarially determined contribution	$ 63,193	$ 58,362	$ 66,951
Contributions in relation to the actuarially determined contribution	(59,982)	(60,476)	(55,965)
Contribution deficiency (excess)	$ 3,211	$ (2,114)	$ 10,986
Covered payroll	$ 41,458	$ 186,505	$ 195,066
Contributions as a percentage of covered payroll	144.68%	32.43%	28.69%
LEGISLATORS'			
Actuarially determined contribution	$ 260	$ 141	$ —
Contributions in relation to the actuarially determined contribution	(544)	(549)	(516)
Contribution deficiency (excess)	$ (284)	$ (408)	$ (516)
Covered payroll	$ 1,397	$ 1,298	$ 1,270
Contributions as a percentage of covered payroll	38.94%	42.3%	40.63%

(continued)

Schedule of State Pension Contributions (continued)

For the Past Three Fiscal Years[1]
(amounts in thousands)

Notes to Required Supplementary Information for the most recent fiscal year presented:

Public Employees' Retirement Fund (PERF) and Single-Employer Plans

Actual contribution amounts:	Based on statutorily required contributions as outlined in California Government Code section 20683.2, which dictates that any excess employer contributions due to increased employee contributions must be allocated to the unfunded liability.
Covered payroll:	Pensionable earnings provided by the employer.
Valuation date:	Actuarially determined contribution rates were calculated as of June 30, 2015.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	See each plan's June 30, 2014 Actuarial Valuation Report.
Asset valuation method	Actuarial value of assets; for details see each plan's June 30, 2014 Actuarial Valuation Report.
Inflation	2.75%
Salary increases	PERF – varies by entry age and service
	Judges' – 3.00%
	Judges' II – varies by entry age and service
	Legislators' – varies by entry age and service
Payroll growth	3.00%
Investment rate of return	Net of pension plan investment expenses and administrative expenses; includes inflation:
	PERF – 7.50%, which is used for contribution purposes
	Judges' – 4.25%
	Judges' II – 7.00%
	Legislators' – 5.75%
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	Mortality rates are based on the 2014 CalPERS Experience Study adopted by the CalPERS Board and post-retirement mortality rates include 20 years of projected on-going mortality improvements using Scale BB published by the Society of Actuaries.

Schedule of the State's Proportionate Share of Net Pension Liability – CalSTRS

For the Past Three Fiscal Years[1]
(amounts in thousands)

	2014[2]	2015[2]	2016[2]
State's proportion of CalSTRS' net pension liability	37.65%	34.59%	36.28%
State's proportionate share of CalSTRS' net pension liability	$ 22,001,531	$ 23,289,391	$ 29,343,626
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%	70.04%

[1] This schedule will be built prospectively until it contains ten years of data.

[2] The date in the column heading represents the end of the measurement period of the net pension liability, which is one year prior to the reporting period.

Schedule of the State's Contributions – CalSTRS

For the Past Three Fiscal Years[1]
(amounts in thousands)

	2015	2016	2017
Statutorily required contribution	$ 1,486,004	$ 1,935,288	$ 2,472,993
Contributions in relation to the statutorily required contribution	1,486,004	1,935,288	2,472,993
Annual contribution deficiency/(excess)	$ —	$ —	$ —

[1] This schedule will be built prospectively until it contains ten years of data.

Notes to Required Supplementary Information for the most recent fiscal year presented:

State's Participation in CalSTRS

Actual contribution amounts:	Based on statutorily required contributions as outlined in California Education Code sections 22954 and 22955, as well as California Public Resources Code section 6217.
Valuation date:	Actuarially determined contribution rates were calculated as of June 30, 2015.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method/period	Level percent of payroll, closed/open period, 31 years remaining amortization period
Asset valuation method	Adjustment to market value
Consumer price inflation	3.00%
Payroll growth	3.75%
Investment rate of return	For calculating the actuarially determined contribution:
	7.50%, net of pension plan investment and administrative expenses
	For calculating total pension liability:
	7.60%, net of pension plan investment expenses, but gross of administrative expenses
Interest on accounts	4.50%
Post-retirement benefit increases (COLAs)	2.00% simple

Schedule of Funding Progress

(amounts in millions)

Other Postemployment Benefit Plans

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State substantive plan						
June 30, 2015	$ 86	$ 74,189	$ 74,103	0.1 %	$ 20,180	367.2 %
June 30, 2016	148	76,681	76,533	0.2	20,160	379.6
June 30, 2017	500	86,679	86,179	0.6	21,386	403.0
Trial Courts [1]						
July 1, 2011	$ 17	$ 1,385	$ 1,368	1.2 %	$ 922	148.4 %
July 1, 2013	30	1,421	1,391	2.1	931	149.4
July 1, 2015	88	1,494	1,406	5.9	1,014	138.7

[1] The trial courts reporting is based on 52 individual biennial actuarial valuations as of July 1, 2015.

Note: The University of California provides OPEB benefits through its Retirement Health Plan to its eligible retirees and their families. As the University is the employer providing these benefits, the State will not be reporting these benefits in Note 11 or the Required Supplementary Information. Information regarding the University and references to its financial statements can be found in Note 1, Section A.3., Discretely Presented Component Units.

Infrastructure Assets Using the Modified Approach

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 34, the State uses the modified approach to report the cost of its infrastructure assets (state roadways and bridges). Under the modified approach, the State does not report depreciation expense for roads and bridges but capitalizes all costs that add to the capacity and efficiency of state-owned roads and bridges. All maintenance and preservation costs are expensed and not capitalized.

A. Infrastructure Asset Reporting Categories

The infrastructure assets reported in the State's financial statements for the fiscal year ending June 30, 2017, are in the following categories and amounts: state highway infrastructure (completed highway projects) totaling $75.1 billion, land purchased for highway projects totaling $14.4 billion, and infrastructure construction-in-progress (uncompleted highway projects) totaling $10.9 billion.

Donation and Relinquishment: Donation and relinquishment activity affects the inventory of statewide lane miles, land, and/or bridges as adjustments to the infrastructure assets and/or land balance in the State's financial statements. For the fiscal year ending June 30, 2017, there were no donations of infrastructure land, and relinquishments are $166 million of state highway infrastructure (completed highway projects) and $34 million of infrastructure land.

B. Condition Baselines and Assessments

1. Bridges

The federal Fixing America's Surface Transportation Act (FAST Act) required all states to adopt national asset management performance measures to establish nationwide consistency for condition reporting of highway assets.

Previously, the State used the Bridge Health Index (BHI)—a numerical rating scale from 0 to 100 that used element-level inspection data—to determine the aggregate condition of its bridges. The inspection data was based on the American Association of State Highway Transportation Officials' *Guide Manual for Bridge Element Inspection*. Under the FAST Act, the national performance measure for bridges is total deck area of the structures in good, fair, or poor condition. The inspection data is now based on the *Caltrans Bridge Element Inspection Manual*.

The following table shows the State's established condition baseline and actual BHI for the previous two fiscal years:

Fiscal Year Ended June 30	Established BHI Baseline[1]	Actual BHI
2015	80.0	95.7
2016	80.0	94.5

[1] The actual statewide BHI should not be lower than the minimum BHI established by the State.

Effective July 1, 2016, the State began using the performance measures established by the FAST Act, so the data is not comparable to the prior year's BHI. The State's established condition baseline for fiscal year 2016-17 is to have at least 90% of the State's bridge deck area be in fair or better condition.

The following table shows the State's established condition baseline and actual statewide bridge condition for fiscal year 2016-17:

Fiscal Year Ended June 30	Established Condition[1]	Actual Condition
2017	90.0 % Fair or Better	96.6 % Fair or Better

[1] The actual statewide bridge conditions should not be lower than the baseline condition established by the State.

The following table provides details on the State's actual bridge condition as of June 30, 2017:

Condition[1]	Number of Bridges	Deck Area (sq. ft.)	Deck Area (%)
Good	9,388	175,738,608	68.68 %
Fair	3,200	71,348,940	27.89
Poor	388	8,770,706	3.43
Total	**12,976**	**255,858,254**	**100.00 %**

[1] Effective fiscal year 2016-17, the performance measure for bridges has changed to total deck area of the structures in good, fair, or poor condition.

2. Roadways

The State conducts a periodic pavement-condition survey, which evaluates ride quality and structural integrity and identifies the number of distressed lane miles. The State classifies a roadway's pavement condition by the following descriptions:

1. Excellent/good condition – few potholes or cracks
2. Fair condition – moderate number of potholes or cracks
3. Poor condition – significant or extensive number of potholes or cracks

Statewide lane miles are considered "distressed lane miles" if they are in poor condition. The actual distressed lane miles are compared to the established condition baseline to ensure that the baseline is not exceeded.

The following table shows the State's established condition baseline and actual distressed lane miles from the last three completed pavement-condition surveys:

Condition Assessment Date[1]	Established Condition Baseline Distressed Lane Miles (maximum)[2]	Actual Distressed Lane Miles	Actual Distressed Lane Miles as Percent of Total Lane Miles
December 2011	18,000	12,333	24.9 %
December 2013	18,000	7,820	15.7
December 2015	18,000	7,889	15.9

[1] Condition assessment for the State's established condition baseline and actual distressed lane miles is being reported as of the *State of the Pavement* report publication date.

[2] The actual statewide distressed lane miles should not exceed the maximum distressed lane miles established by the State.

The following table provides details on the State's actual distressed lane miles as of the last completed pavement-condition survey:

Pavement Condition	Lane Miles	Distressed Lane Miles
Excellent/Good	26,484	—
Fair	15,272	—
Poor	7,889	7,889
Total	**49,645**	**7,889**

C. Budgeted and Actual Preservation Costs

The estimated budgeted preservation costs represent the preservation projects approved by the California Transportation Commission and the State's scheduled preservation work for each fiscal year. The actual preservation costs represent the cumulative cost to date for the projects approved and work scheduled in each fiscal year.

1. Bridges

The following table shows the State's budgeted and actual preservation cost information for the State's bridges for the most recent and four previous fiscal years:

Fiscal Year Ending June 30	Estimated Budgeted Preservation Costs (in millions)[1]	Actual Preservation Costs (in millions)[1]
2013	$ 184	$ 182
2014	152	151
2015	135	134
2016	153	146
2017	191	143

[1] In fiscal year 2014-15, the methodology for identifying the preservation budgeted and actual costs was adjusted to include additional costs not previously reported.

2. Roadways

The following table shows the State's budgeted and actual preservation cost information for the State's roadways for the most recent and four previous fiscal years:

Fiscal Year Ending June 30	Estimated Budgeted Preservation Costs (in millions)[1]	Actual Preservation Costs (in millions)[1]
2013	$ 2,497	$ 2,389
2014	2,413	2,287
2015	3,086	2,847
2016	3,958	3,163
2017	3,687	1,919

[1] In fiscal year 2014-15, the methodology for identifying the preservation budgeted and actual costs was adjusted to include additional costs not previously reported.

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Budgetary Comparison Schedule

General Fund and Major Special Revenue Funds

Year Ended June 30, 2017

(amounts in thousands)

	General				Federal				Transportation			
	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget
REVENUES												
Corporation tax	$ 10,388,788	$ 10,210,000	$ 10,116,798	$ (93,202)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Intergovernmental	—	—	—	—	85,364,622	85,364,622	85,364,622	—	—	—	—	—
Cigarette and tobacco taxes	79,297	79,000	80,342	1,342	—	—	—	—	—	—	—	—
Insurance gross premiums tax	2,308,534	2,483,000	2,422,105	(60,895)	—	—	—	—	—	—	—	—
Vehicle license fees	23,197	23,197	26,391	3,194	—	—	—	—	—	—	—	—
Motor vehicle fuel tax	—	—	—	—	—	—	—	—	4,732,215	4,806,681	4,845,820	39,139
Personal income tax	83,135,898	83,161,000	83,808,162	647,162	—	—	—	—	—	—	—	—
Retail sales and use taxes	24,994,096	24,494,000	24,893,888	399,888	—	—	—	—	—	—	—	—
Other major taxes and licenses	371,075	375,000	369,404	(5,596)	—	—	—	—	5,281,471	4,298,541	4,293,960	(4,581)
Other revenues	1,140,265	1,228,803	1,418,020	189,217	68	68	68	—	411,239	421,583	427,771	6,188
Total revenues	**122,441,150**	**122,054,000**	**123,135,110**	**1,081,110**	**85,364,690**	**85,364,690**	**85,364,690**	**—**	**10,424,925**	**9,526,805**	**9,567,551**	**40,746**
EXPENDITURES												
Business, consumer services, and housing	77,001	78,168	77,992	(176)	76,055	76,055	76,055	—	114,769	109,922	97,755	(12,167)
Transportation	3,891	3,891	3,891	—	5,988,413	5,988,413	5,988,413	—	9,822,984	9,162,896	7,967,672	(1,195,224)
Natural resources and environmental protection	1,885,639	2,032,545	1,777,967	(254,578)	426,676	426,676	426,676	—	183,456	182,472	154,951	(27,521)
Health and human services	33,511,833	34,826,369	34,000,309	(826,060)	69,211,403	69,211,403	69,211,403	—	3,279	3,278	2,338	(940)
Corrections and rehabilitation	10,588,861	10,997,024	10,747,170	(249,854)	111,713	111,713	111,713	—	—	—	—	—
Education	62,304,697	62,303,275	62,262,013	(41,262)	7,268,051	7,268,051	7,268,051	—	7,660	7,511	3,976	(3,535)
General government:												
Tax relief	466,709	466,709	417,697	(49,012)	—	—	—	—	—	—	—	—
Debt service	5,415,446	5,415,446	4,985,656	(429,790)	—	—	—	—	1,500	2,030	1,119	(911)
Other general government	6,741,043	6,845,339	5,599,856	(1,245,483)	1,082,621	1,082,621	1,082,621	—	944,978	949,599	933,925	(15,674)
Total expenditures	**120,995,120**	**122,968,766**	**119,872,551**	**(3,096,215)**	**84,164,932**	**84,164,932**	**84,164,932**	**—**	**11,078,626**	**10,417,708**	**9,161,736**	**(1,255,972)**
OTHER FINANCING SOURCES (USES)												
Transfers from other funds	—	—	406,060	—	—	—	5,708,462	—	—	—	13,805,044	—
Transfers to other funds	—	—	(4,470,354)	—	—	—	(6,899,970)	—	—	—	(14,679,347)	—
Other additions (deductions)	—	—	452,356	—	—	—	(8,365)	—	—	—	(499,941)	—
Total other financing sources (uses)	**—**	**—**	**(3,611,938)**	**—**	**—**	**—**	**(1,199,873)**	**—**	**—**	**—**	**(1,374,244)**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	(349,379)	—	—	—	(115)	—	—	—	(968,429)	—
Fund balances – beginning	—	—	**6,280,033**	—	—	—	**6,344**	—	—	—	**15,171,639**	—
Fund balances – ending	**$ —**	**$ —**	**$ 5,930,654**	**$ —**	**$ —**	**$ —**	**$ 6,229**	**$ —**	**$ —**	**$ —**	**$ 14,203,210**	**$ —**

(continued)

Budgetary Comparison Schedule (continued)

General Fund and Major Special Revenue Funds

Year Ended June 30, 2017

(amounts in thousands)

	Environmental and Natural Resources			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Corporation tax	$ —	$ —	$ —	$ —
Intergovernmental	—	—	—	—
Cigarette and tobacco taxes	—	—	—	—
Insurance gross premiums tax	—	—	—	—
Vehicle license fees	—	—	—	—
Motor vehicle fuel tax	—	—	—	—
Personal income tax	—	—	—	—
Retail sales and use taxes	—	—	—	—
Other major taxes and licenses	182,407	182,407	182,407	—
Other revenues	4,628,112	4,628,112	4,628,112	—
Total revenues	**4,810,519**	**4,810,519**	**4,810,519**	**—**
EXPENDITURES				
Business, consumer services, and housing	92,729	94,311	85,816	(8,495)
Transportation	241,555	297,059	296,246	(813)
Natural resources and environmental protection	4,932,769	5,371,433	4,756,006	(615,427)
Health and human services	77,409	91,066	83,759	(7,307)
Corrections and rehabilitation	—	—	—	—
Education	4,964	4,959	2,446	(2,513)
General government:				
Tax relief	—	—	—	—
Debt service	—	—	—	—
Other general government	130,780	140,485	134,970	(5,515)
Total expenditures	**5,480,206**	**5,999,313**	**5,359,243**	**(640,070)**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	448,675	—
Transfers to other funds	—	—	(314,391)	—
Other additions (deductions)	—	—	13,176	—
Total other financing sources (uses)	**—**	**—**	**147,460**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	(401,264)	—
Fund balances – beginning	**—**	**—**	**20,514,624**	**—**
Fund balances – ending	**$ —**	**$ —**	**$ 20,113,360**	**$ —**

(concluded)

Reconciliation of Budgetary Basis Fund Balances of the General Fund and Major Special Revenue Funds to GAAP Basis Fund Balances

June 30, 2017

(amounts in thousands)

		Major Special Revenue Funds		
	General	Federal	Transportation	Environmental and Natural Resources
Budgetary fund balance reclassified into GAAP statement fund structure	**$ 5,930,654**	**$ 6,229**	**$ 14,203,210**	**$ 20,113,360**
Basis difference:				
Interfund receivables	93,998	—	2,242,064	439,800
Loans receivable	39,520	221,070	—	1,598,440
Interfund payables	(3,394,432)	—	(20,656)	(14,790)
Escheat property	(1,020,537)	—	—	—
Bonds authorized but unissued	—	—	(9,223,535)	(11,338,897)
Tax revenues	233,800	—	—	—
Fund classification changes	7,514,019	1,980	—	—
Other	—	—	2,348,251	(33,892)
Timing difference:				
Liabilities budgeted in subsequent years	(3,586,636)	(1,400)	(461,070)	(96,302)
GAAP fund balance – ending	**$ 5,810,386**	**$ 227,879**	**$ 9,088,264**	**$ 10,667,719**

Notes to the Required Supplementary Information

Budgetary Comparison Schedule

The State annually reports its financial condition based on a Generally Accepted Accounting Principles (GAAP) basis and on the State's budgetary provisions (budgetary basis). The Budgetary Comparison Schedule for the General Fund and Major Special Revenue Funds reports the original budget, the final budget, the actual expenditures, and the variance between the final budget and the actual expenditures, using the budgetary basis of accounting.

On the budgetary basis, individual appropriations are charged as expenditures when commitments for goods and services are incurred. However, for financial reporting purposes, the State reports expenditures based on the year in which goods and services are received. The Budgetary Comparison Schedule includes all of the current year expenditures for the General Fund and major special revenue funds as well as related appropriations that typically are legislatively authorized annually, continually, or by project. While the encumbrances relate to all programs' expenditures on a budgetary basis, adjustments for encumbrances are made under "other general government," except for Environmental and Natural Resources where adjustments for encumbrances are made under each program's expenditures.

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 of California 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

Government Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Section 2400.121. The supplement includes a 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.

Reconciliation of Budgetary with GAAP Basis

The reconciliation of budgetary basis fund balances of the General Fund and the major special revenue funds to GAAP basis fund balances is presented on the previous page and the reconciling items are explained in the following paragraphs.

The beginning fund balance for the General Fund on the budgetary basis is restated for prior-year revenue adjustments and prior-year expenditure adjustments. A prior-year revenue adjustment occurs when the actual amount received in the current year differs from the amount of revenue accrued in the prior year. A prior-year expenditure adjustment results when the actual amount paid in the current year differs from the prior-year accrual for appropriations for which the ability to encumber funds has lapsed in previous periods. The beginning fund balance on a GAAP basis is not affected by these adjustments.

Basis Difference

Interfund Receivables and Loans Receivable: Loans made to other funds or to other governments are normally recorded as either expenditures or transfers on a budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The adjustments related to interfund receivables caused increases of $94 million in the General Fund, $2.2 billion in the Transportation Fund, and $440 million in the Environmental and Natural Resources Fund. The adjustments related to loans receivable caused increases of $40 million in the General Fund, $221 million in the Federal Fund, and $1.6 billion in the Environmental and Natural Resources Fund.

Interfund Payables: Loans received from other funds are normally recorded as transfers on a budgetary basis. However, in accordance with GAAP, these loans are recorded as liabilities. The adjustments related to interfund payables caused decreases of $3.4 billion in the General Fund, $21 million in the Transportation Fund, and $15 million in the Environmental and Natural Resources Fund.

Escheat Property: A liability for the estimated amount of escheat property expected to ultimately be reclaimed and paid is not reported on a budgetary basis. The liability is required to be reported on a GAAP basis. This adjustment caused a $1.0 billion decrease in the General Fund.

Bonds Authorized but Unissued: In the year that general obligation bonds are authorized by the voters, the full amount authorized is recognized as revenue on a budgetary basis. In accordance with GAAP, only the amount of bonds issued each year is reported as an other financing source. The adjustments related to bonds authorized but unissued caused decreases of $9.2 billion in the Transportation Fund and $11.3 billion in the Environmental and Natural Resources Fund.

Tax Revenues: Estimated tax payments are accrued on a budgetary basis pursuant to Chapter 751, Statutes of 2008. However, in accordance with GAAP, tax payments are accrued based on the portion of estimated net final payments related to the fiscal year. This adjustment caused an increase of $234 million in the General Fund.

Fund Classification Changes: The fund balance amounts for governmental funds have been reclassified in accordance with governmental accounting standards. These reclassifications caused increases of $7.5 billion in the General Fund and $2 million in the Federal Fund. These increases represent the fund balances of funds that are not considered part of the General Fund or the Federal Fund for any budgetary purpose or for the Budgetary/Legal Basis Annual Report.

Other: Certain other adjustments and reclassifications are necessary to present the financial statements in accordance with GAAP. The other adjustments caused an increase of $2.3 billion in the Transportation Fund and a decrease of $34 million in the Environmental and Natural Resources Fund.

Timing Difference

Liabilities Budgeted in Subsequent Years: On a budgetary basis, the primary government does not accrue liabilities for which there is no existing appropriation or no currently available appropriation. The adjustments made to account for these liabilities in accordance with GAAP caused decreases of $3.6 billion in the General Fund, $1 million in the Federal Fund, $461 million in the Transportation Fund, and $96 million in the Environmental and Natural Resources Fund. The large decrease in the General Fund primarily consists of $1.2 billion for June 2017 payroll that was deferred to July 2017, $757 million for medical assistance, $695 million for pension contributions, $603 million for payments to K-12 schools and higher education institutions, and $273 million for workers' compensation claims.

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Combining Financial Statements and Schedules – Nonmajor and Other Funds

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Nonmajor Governmental Funds

Nonmajor governmental funds account for the State's activities that do not meet the criteria of a major governmental fund. Following are brief descriptions of nonmajor governmental funds.

Special revenue funds account for the proceeds of specific revenue sources, other than debt service or capital projects, that are restricted, committed, or assigned to expenditures for specific purposes.

The **Business and Professions Regulatory and Licensing Fund** accounts for fees and other revenues charged for regulating and licensing specific industries, professions, and vocations.

The **Financing for Local Governments and the Public Fund** accounts for taxes, fees, bond proceeds, and other revenues used to finance the construction and maintenance of parks, jails, and other public and local government programs.

The **Cigarette and Tobacco Tax Fund** accounts for a surtax on cigarette and tobacco products that is used for various health programs.

The **Local Revenue and Public Safety Fund** accounts for vehicle license fees and a 1.5625% state sales tax dedicated to local governments for realigning costs from the State to local governments, and a 0.5% state sales tax dedicated to local governments to fund public safety programs.

The **Health Care Related Programs Fund** accounts for fees, taxes, bond proceeds, transfers from other state funds, and other revenues used for the Medi-Cal program, medical research, and other health and human services programs.

The **Trial Courts Fund** accounts for the various fees collected by the courts, maintenance-of-effort payments from the counties, transfers in from the General Fund, and trial court operating costs.

The **Golden State Tobacco Securitization Corporation Fund** is a blended component unit that accounts for the receipt of Tobacco Revenue Settlements pledged for the payment of debt service.

Other special revenue programs funds account for all other proceeds of revenue sources, other than debt service or capital projects, that are restricted or committed to expenditures for specific purposes.

Debt service funds account for and report financial resources that are restricted, committed, or assigned for the payment of principal and interest on general long-term obligations.

The **Transportation Debt Service Fund** accounts for Transportation Fund transfers used for the payment of principal and interest related to various transportation-related general obligation bonds.

(continued)

(continued)

Capital projects funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The **Higher Education Construction Fund** accounts for bond proceeds used to construct state colleges and universities.

The **Hospital Construction Fund** accounts for bond proceeds used to construct hospitals.

The **Local Government Construction Fund** accounts for bond proceeds used to construct schools, libraries, and other major capital facilities for local governments.

Building authorities are blended component units created by joint-powers agreements between local governments and the State or other local governments for the purpose of financing the construction of state buildings. The funds account for bond proceeds used to finance and construct state buildings and parking facilities.

Other capital projects funds account for transactions related to resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

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Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2017

(amounts in thousands)

	Special Revenue		
	Business and Professions Regulatory and Licensing	Financing for Local Governments and the Public	Cigarette and Tobacco Tax
ASSETS			
Cash and pooled investments	$ 1,447,703	$ 1,387,095	$ 653,039
Investments	—	—	—
Receivables (net)	91,573	3,769	471,054
Due from other funds	33,509	476,840	2,156
Due from other governments	11,008	3,088	—
Interfund receivables	113,207	68,660	—
Loans receivable	104,328	2,520,862	—
Other assets	20	—	—
Total assets	**$ 1,801,348**	**$ 4,460,314**	**$ 1,126,249**
LIABILITIES			
Accounts payable	$ 33,732	$ 154,978	$ 16,062
Due to other funds	37,221	240	6,488
Due to component units	—	—	9,434
Due to other governments	1,775	232,876	9,761
Interfund payables	45,401	202	—
Revenues received in advance	45,281	3,441	—
Deposits	—	—	—
Other liabilities	39,746	641	—
Total liabilities	**203,156**	**392,378**	**41,745**
DEFERRED INFLOWS OF RESOURCES	—	—	187,748
Total liabilities and deferred inflows of resources	**203,156**	**392,378**	**229,493**
FUND BALANCES			
Nonspendable	—	—	—
Restricted	857,366	3,812,532	896,756
Committed	740,826	255,404	—
Assigned	—	—	—
Total fund balances	**1,598,192**	**4,067,936**	**896,756**
Total liabilities, deferred inflows of resources, and fund balances	**$ 1,801,348**	**$ 4,460,314**	**$ 1,126,249**

	Special Revenue					
	Local Revenue and Public Safety	Health Care Related Programs	Trial Courts	Golden State Tobacco Securitization Corporation	Other Special Revenue Programs	Total Nonmajor Special Revenue
ASSETS						
Cash and pooled investments	$ 2,998,292	$ 1,899,744	$ 1,367,131	$ 333,832	$ 2,244,840	$ 12,331,676
Investments	—	—	359,226	248,036	—	607,262
Receivables (net)	100,611	3,118,443	242,268	200,601	220,304	4,448,623
Due from other funds	51,030	12,900	2,353	—	406,081	984,869
Due from other governments	—	823,217	21,256	—	48,729	907,298
Interfund receivables	—	—	90,000	—	225,400	497,267
Loans receivable	—	37,156	—	—	59,787	2,722,133
Other assets	—	—	14,931	—	—	14,951
Total assets	**$ 3,149,933**	**$ 5,891,460**	**$ 2,097,165**	**$ 782,469**	**$ 3,205,141**	**$ 22,514,079**
LIABILITIES						
Accounts payable	$ 255	$ 36,175	$ 211,431	$ 18	$ 243,060	$ 695,711
Due to other funds	209,708	5,108,747	40,689	—	70,138	5,473,231
Due to component units	—	—	—	—	363	9,797
Due to other governments	2,875,012	9,335	106,119	—	383,004	3,617,882
Interfund payables	—	—	—	—	4,971	50,574
Revenues received in advance	—	17,386	13,554	—	44,616	124,278
Deposits	—	—	460,153	—	22,119	482,272
Other liabilities	—	—	74,673	—	13,643	128,703
Total liabilities	**3,084,975**	**5,171,643**	**906,619**	**18**	**781,914**	**10,582,448**
DEFERRED INFLOWS OF RESOURCES	—	—	—	—	6,462	194,210
Total liabilities and deferred inflows of resources	**3,084,975**	**5,171,643**	**906,619**	**18**	**788,376**	**10,776,658**
FUND BALANCES						
Nonspendable	—	—	20,172	—	—	20,172
Restricted	16,340	606,515	1,054,940	782,451	2,150,055	10,176,955
Committed	48,618	113,302	103,401	—	266,710	1,528,261
Assigned	—	—	12,033	—	—	12,033
Total fund balances	**64,958**	**719,817**	**1,190,546**	**782,451**	**2,416,765**	**11,737,421**
Total liabilities, deferred inflows of resources, and fund balances	**$ 3,149,933**	**$ 5,891,460**	**$ 2,097,165**	**$ 782,469**	**$ 3,205,141**	**$ 22,514,079**

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2017

(amounts in thousands)

	Debt Service		Capital Projects							
	Transportation Debt Service	Total Nonmajor Debt Service	Higher Education Construction	Hospital Construction	Local Government Construction	Building Authorities	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
ASSETS									
Cash and pooled investments	$ —	$ —	$ 157,701	$ 20,439	$ 32,638	$ 18,189	$ 132,864	$ 361,831	$ 12,693,507
Investments	—	—	—	—	—	—	—	—	607,262
Receivables (net)	—	—	—	—	2	—	26	28	4,448,651
Due from other funds	—	—	312	62	762	19,705	6,716	27,557	1,012,426
Due from other governments	—	—	—	—	636	—	—	636	907,934
Interfund receivables	—	—	—	—	—	—	—	—	497,267
Loans receivable	—	—	—	—	—	—	—	—	2,722,133
Other assets	—	—	—	—	—	—	—	—	14,951
Total assets	**$ —**	**$ —**	**$ 158,013**	**$ 20,501**	**$ 34,038**	**$ 37,894**	**$ 139,606**	**$ 390,052**	**$ 22,904,131**
LIABILITIES									
Accounts payable	$ —	$ —	$ 12	$ 36	$ 1,000	$ 3	$ 5,498	$ 6,549	$ 702,260
Due to other funds	—	—	339	299	4,698	—	1,038	6,374	5,479,605
Due to component units	—	—	—	—	—	—	—	—	9,797
Due to other governments	—	—	—	—	—	—	—	—	3,617,882
Interfund payables	—	—	—	—	—	—	—	—	50,574
Revenues received in advance	—	—	—	—	—	—	—	—	124,278
Deposits	—	—	—	—	—	—	—	—	482,272
Other liabilities	—	—	—	—	—	91	—	91	128,794
Total liabilities	**—**	**—**	**351**	**335**	**5,698**	**94**	**6,536**	**13,014**	**10,595,462**
DEFERRED INFLOWS OF RESOURCES	—	—	—	—	—	—		—	194,210
Total liabilities and deferred inflows of resources	**—**	**—**	**351**	**335**	**5,698**	**94**	**6,536**	**13,014**	**10,789,672**
FUND BALANCES									
Nonspendable	—	—	—	—	—	—	—	—	20,172
Restricted	—	—	157,662	20,166	28,340	37,800	113,553	357,521	10,534,476
Committed	—	—	—	—	—	—	19,517	19,517	1,547,778
Assigned	—	—	—	—	—	—	—	—	12,033
Total fund balances	**—**	**—**	**157,662**	**20,166**	**28,340**	**37,800**	**133,070**	**377,038**	**12,114,459**
Total liabilities, deferred inflows of resources, and fund balances	**$ —**	**$ —**	**$ 158,013**	**$ 20,501**	**$ 34,038**	**$ 37,894**	**$ 139,606**	**$ 390,052**	**$ 22,904,131**

(concluded)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2017

(amounts in thousands)

	Special Revenue								
	Business and Professions Regulatory and Licensing	**Financing for Local Governments and the Public**	**Cigarette and Tobacco Tax**	**Local Revenue and Public Safety**	**Health Care Related Programs**	**Trial Courts**	**Golden State Tobacco Securitization Corporation**	**Other Special Revenue Programs**	**Total Nonmajor Special Revenue**
REVENUES									
Personal income taxes	$ —	$ 1,484,054	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,484,054
Sales and use taxes	—	—	—	13,393,035	—	—	—	—	13,393,035
Motor vehicle excise taxes	39,298	27,699	—	—	—	—	—	—	66,997
Insurance taxes	—	—	—	—	291,638	—	—	—	291,638
Managed care organization enrollment tax	—	—	—	—	2,282,313	—	—	—	2,282,313
Other taxes	1,130	654,994	1,146,226	—	—	—	—	—	1,802,350
Intergovernmental	—	—	—	—	2,386,364	817,905	—	—	3,204,269
Licenses and permits	499,198	17,633	315	2,676,161	—	—	—	11,270	3,204,577
Charges for services	52,321	4,178	1,564	—	79	58,962	—	169,145	286,249
Fees	1,134,874	579	16	—	4,602,971	559,159	—	1,349,309	7,646,908
Penalties	15,320	7,502	—	—	6,934	374,135	—	283,419	687,310
Investment and interest	16,639	18,852	3,464	3,522	10,185	11,293	1,163	26,302	91,420
Escheat	115	—	—	—	—	1,859	—	—	1,974
Other	18,101	39,862	829	—	279,916	162,874	369,449	370,334	1,241,365
Total revenues	**1,776,996**	**2,255,353**	**1,152,414**	**16,072,718**	**9,860,400**	**1,986,187**	**370,612**	**2,209,779**	**35,684,459**
EXPENDITURES									
Current:									
General government	665,030	550,968	16,410	4,562,108	3,635	3,266,082	462	1,344,133	10,408,828
Education	23,502	10,809	26,906	—	190,336	—	—	9,854	261,407
Health and human services	439,892	1,882,592	706,803	10,082,226	10,055,003	—	—	736,300	23,902,816
Natural resources and environmental protection	68,435	85,945	8,560	—	316	—	—	58,806	222,062
Business, consumer services, and housing	576,370	215,675	—	—	—	245	—	24,103	816,393
Transportation	5,828	—	—	—	—	—	—	1,255	7,083
Corrections and rehabilitation	—	125,405	—	1,419,566	—	—	—	32,638	1,577,609
Capital outlay	—	—	—	—	—	—	—	—	—
Debt service:									
Bond and commercial paper retirement	—	186,575	—	—	120,000	—	745,888	—	1,052,463
Interest and fiscal charges	—	158	—	—	72	—	308,638	—	308,868
Total expenditures	**1,779,057**	**3,058,127**	**758,679**	**16,063,900**	**10,369,362**	**3,266,327**	**1,054,988**	**2,207,089**	**38,557,529**
Excess (deficiency) of revenues over (under) expenditures	(2,061)	(802,774)	393,735	8,818	(508,962)	(1,280,140)	(684,376)	2,690	(2,873,070)
OTHER FINANCING SOURCES (USES)									
General obligation bonds and commercial paper issued	—	430,120	—	—	328,500	—	—	—	758,620
Refunding debt issued	—	6,755	—	—	—	—	630,855	—	637,610
Payment to refund long-term debt	—	(5,573)	—	—	—	—	—	—	(5,573)
Premium on bonds issued	—	16,530	—	—	72	—	87,140	—	103,742
Transfers in	4,035	622,436	—	4	225,869	1,336,737	—	28,314	2,217,395
Transfers out	(14,365)	(24,203)	(21,099)	(171,530)	—	(12)	—	(35,868)	(267,077)
Total other financing sources (uses)	**(10,330)**	**1,046,065**	**(21,099)**	**(171,526)**	**554,441**	**1,336,725**	**717,995**	**(7,554)**	**3,444,717**
Net change in fund balances	(12,391)	243,291	372,636	(162,708)	45,479	56,585	33,619	(4,864)	571,647
Fund balances – beginning	**1,610,583**	**3,824,645 ***	**524,120**	**227,666**	**674,338**	**1,133,961**	**748,832**	**2,421,629**	**11,165,774**
Fund balances – ending	**$ 1,598,192**	**$ 4,067,936**	**$ 896,756**	**$ 64,958**	**$ 719,817**	**$ 1,190,546**	**$ 782,451**	**$ 2,416,765**	**$ 11,737,421**

* Restated

(continued)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (continued)

Nonmajor Governmental Funds

Year Ended June 30, 2017

(amounts in thousands)

	Debt Service		Capital Projects						
	Transportation Debt Service	Total Nonmajor Debt Service	Higher Education Construction	Hospital Construction	Local Government Construction	Building Authorities	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
REVENUES									
Personal income taxes	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,484,054
Sales and use taxes	—	—	—	—	—	—	—	—	13,393,035
Motor vehicle excise taxes	—	—	—	—	—	—	—	—	66,997
Insurance taxes	—	—	—	—	—	—	—	—	291,638
Managed care organization enrollment tax	—	—	—	—	—	—	—	—	2,282,313
Other taxes	—	—	—	—	—	—	—	—	1,802,350
Intergovernmental	—	—	—	—	—	—	—	—	3,204,269
Licenses and permits	—	—	—	—	—	—	1,143	1,143	3,205,720
Charges for services	—	—	—	—	—	—	—	—	286,249
Fees	—	—	—	—	—	—	—	—	7,646,908
Penalties	—	—	—	—	—	—	—	—	687,310
Investment and interest	—	—	1,190	191	4,639	22	115	6,157	97,577
Escheat	—	—	—	—	—	—	—	—	1,974
Other	—	—	—	—	—	—	2,265	2,265	1,243,630
Total revenues	**—**	**—**	**1,190**	**191**	**4,639**	**22**	**3,523**	**9,565**	**35,694,024**
EXPENDITURES									
Current:									
General government	—	—	—	45,237	—	—	—	45,237	10,454,065
Education	—	—	—	—	117,238	—	—	117,238	378,645
Health and human services	—	—	—	—	—	—	—	—	23,902,816
Natural resources and environmental protection	—	—	—	—	—	—	26,728	26,728	248,790
Business, consumer services, and housing	—	—	—	—	—	—	—	—	816,393
Transportation	—	—	—	—	—	—	—	—	7,083
Corrections and rehabilitation	—	—	—	—	—	—	—	—	1,577,609
Capital outlay	—	—	19,728	1,530	8,390	—	20,507	50,155	50,155
Debt service:									
Bond and commercial paper retirement	418,819	418,819	631,910	26,860	2,809,950	61,395	14,665	3,544,780	5,016,062
Interest and fiscal charges	719,835	719,835	20,960	822	64,173	10,096	231	96,282	1,124,985
Total expenditures	**1,138,654**	**1,138,654**	**672,598**	**74,449**	**2,999,751**	**71,491**	**62,131**	**3,880,420**	**43,576,603**
Excess (deficiency) of revenues over (under) expenditures	(1,138,654)	(1,138,654)	(671,408)	(74,258)	(2,995,112)	(71,469)	(58,608)	(3,870,855)	(7,882,579)
OTHER FINANCING SOURCES (USES)									
General obligation bonds and commercial paper issued	—	—	2,635	14,080	198,435	—	5,765	220,915	979,535
Refunding debt issued	—	—	1,293,020	71,670	3,173,590	22,140	12,580	4,573,000	5,210,610
Payment to refund long-term debt	—	—	(854,034)	(52,170)	(960,091)	—	—	(1,866,295)	(1,871,868)
Premium on bonds issued	—	—	211,250	7,967	579,554	1,692	1,016	801,479	905,221
Transfers in	1,138,654	1,138,654	—	—	—	40,696	54,793	95,489	3,451,538
Transfers out	—	—	—	—	(947)	—	—	(947)	(268,024)
Total other financing sources (uses)	**1,138,654**	**1,138,654**	**652,871**	**41,547**	**2,990,541**	**64,528**	**74,154**	**3,823,641**	**8,407,012**
Net change in fund balances	—	—	(18,537)	(32,711)	(4,571)	(6,941)	15,546	(47,214)	524,433
Fund balances – beginning	**—**	**—**	**176,199**	**52,877**	**32,911**	**44,741**	**117,524**	**424,252**	**11,590,026**
Fund balances – ending	**$ —**	**$ —**	**$ 157,662**	**$ 20,166**	**$ 28,340**	**$ 37,800**	**$ 133,070**	**$ 377,038**	**$ 12,114,459**

(concluded)

Budgetary Comparison Schedule

Nonmajor Governmental Funds[1]

Year Ended June 30, 2017

(amounts in thousands)

	Budgeted Amounts	Actual Amounts	Variance with Final Budget
REVENUES			
Cigarette and tobacco taxes	$ 452,141	$ 452,141	$ —
Vehicle license fees	2,020,333	2,020,333	—
Personal income tax	1,484,054	1,484,054	—
Retail sales and use taxes	13,445,833	13,445,833	—
Other major taxes and licenses	2,139,317	2,139,317	—
Other revenues	13,289,106	13,289,106	—
Total revenues	**32,830,784**	**32,830,784**	**—**
EXPENDITURES			
Business, consumer services, and housing	739,780	652,869	(86,911)
Transportation	1,148,194	1,147,370	(824)
Natural resources and environmental protection	281,257	225,133	(56,124)
Health and human services	26,457,927	25,585,826	(872,101)
Corrections and rehabilitation	26,729	25,889	(840)
Education	479,265	445,419	(33,846)
General government:			
Tax relief	2,302	2,302	—
Other general government	8,151,010	7,714,818	(436,192)
Total expenditures	**37,286,464**	**35,799,626**	**(1,486,838)**
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	—	29,238,908	—
Transfers to other funds	—	(26,297,806)	—
Other additions and deductions	—	283,746	—
Total other financing sources (uses)	**—**	**3,224,848**	**—**
Excess of revenues and other sources over expenditures and other uses	—	256,006	—
Fund balances – beginning, restated	**—**	**11,748,168**	—
Fund balances – ending	**$ —**	**$ 12,004,174**	**$ —**

[1]On a budgetary basis, the State's funds are classified as either governmental cost funds or nongovernmental cost funds. The governmental cost funds include the General Fund, most of the funds that comprise the Transportation Fund and the Environmental and Natural Resources Fund, and many other funds that make up the nonmajor governmental funds reported in these financial statements. Governmental cost funds derive their revenue from taxes, licenses, and fees that support the general operations of the State. The appropriations of the budgetary basis governmental cost funds form the annual appropriated budget of the State. Nongovernmental cost funds consist of funds that derive their receipts from sources other than general and special taxes, licenses, fees, or state revenues and mainly represent the proprietary and fiduciary funds reported in these financial statements. Expenditures of these funds do not represent a cost of government and most of the nongovernmental cost funds are not included in the annual appropriated budget. Therefore, the expenditures of these funds are not included in this schedule. The Federal Fund is one nongovernmental cost fund that is included in the annual appropriated budget. The Budgetary Comparison Schedule for the General Fund, Federal Fund, Transportation Fund, and Environmental and Natural Resources Fund is included in the Required Supplementary Information section; the remaining governmental cost funds are reflected in this schedule. Additional information on the budgetary basis of accounting can be found in the Management's Discussion and Analysis, Note 2 – Budgetary and Legal Compliance, notes to the Required Supplementary Information, and in the separately issued Comprehensive Annual Financial Report Supplement.

Internal Service Funds

Internal service funds account for state activities that provide goods and services to other state departments or agencies on a cost reimbursement basis. Following are brief descriptions of the internal service funds.

The **Public Buildings Construction Fund** accounts for rental charges from the lease of public assets and the related lease-purchase revenue bonds.

The **Architecture Revolving Fund** accounts for charges for the costs of architectural services, construction, and improvements.

The **Service Revolving Fund** accounts for charges for printing and procurement services rendered by the Department of General Services for state departments and other public entities.

The **Prison Industries Fund** accounts for charges for goods produced by inmates in state prisons that are sold to state departments and other governmental entities.

The **Financial Information Systems Fund** accounts for charges for the development and subsequent use of the State's new financial information system.

The **Technology Services Revolving Fund** accounts for charges for technology services performed for various state, federal, and local government entities by the California Technology Agency.

The **Water Resources Revolving Fund** accounts for charges for administrative services related to water delivery provided by the Department of Water Resources to federal, state, and local government agencies.

Other internal service program funds account for all other goods and services provided to other agencies, departments, or governments on a cost-reimbursement basis.

Combining Statement of Net Position

Internal Service Funds

June 30, 2017
(amounts in thousands)

	Public Buildings Construction	Architecture Revolving	Service Revolving	Prison Industries	Financial Information Systems	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
ASSETS									
Current assets:									
Cash and pooled investments	$ —	$ 632,542	$ 94,109	$ 240,238	$ 42,757	$ 64,761	$ 15,176	$ 395,078	$ 1,484,661
Restricted assets:									
Cash and pooled investments	638,075	—	—	—	—	—	—	—	638,075
Net investment in direct financing leases	483,991	—	—	—	—	—	—	—	483,991
Receivables (net)	—	26	650	895	32	10,139	8,810	3,368	23,920
Due from other funds	252,855	1,063	54,676	679	6,965	35,515	76,961	168,715	597,429
Due from other governments	—	—	1,750	95	—	779	—	8,927	11,551
Prepaid items	—	46,496	153,473	856	6,394	899	8,474	1,418	218,010
Inventories	—	—	4,324	42,564	—	31,867	1,046	—	79,801
Total current assets	1,374,921	680,127	308,982	285,327	56,148	143,960	110,467	577,506	3,537,438
Noncurrent assets:									
Restricted assets:									
Cash and pooled investments	176,851	—	—	—	—	—	—	—	176,851
Net investment in direct financing leases	7,939,983	—	—	—	—	—	—	—	7,939,983
Interfund receivables	—	—	—	—	—	—	—	32,045	32,045
Long-term prepaid charges	1,134	—	—	—	—	—	—	—	1,134
Capital assets:									
Land	—	—	—	—	—	—	—	2,082	2,082
Buildings and other depreciable property	—	317	158,451	189,234	2,465	226,056	34,963	7,449	618,935
Intangible assets – amortizable	—	—	9,986	3,928	2,418	48,512	4,219	113	69,176
Less: accumulated depreciation/amortization	—	(317)	(110,877)	(133,605)	(2,518)	(216,529)	(39,182)	(4,253)	(507,281)
Construction/development in progress	509,676	—	—	1,595	270,844	5,291	—	171	787,577
Total noncurrent assets	8,627,644	—	57,560	61,152	273,209	63,330	—	37,607	9,120,502
Total assets	**10,002,565**	**680,127**	**366,542**	**346,479**	**329,357**	**207,290**	**110,467**	**615,113**	**12,657,940**
DEFERRED OUTFLOWS OF RESOURCES	179,156	14,090	93,733	24,719	9,125	61,860	—	82,852	465,535
Total assets and deferred outflows of resources	**$ 10,181,721**	**$ 694,217**	**$ 460,275**	**$ 371,198**	**$ 338,482**	**$ 269,150**	**$ 110,467**	**$ 697,965**	**$ 13,123,475**

(continued)

Combining Statement of Net Position (continued)

Internal Service Funds

June 30, 2017

(amounts in thousands)

	Public Buildings Construction	Architecture Revolving	Service Revolving	Prison Industries	Financial Information Systems	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
LIABILITIES									
Current liabilities:									
Accounts payable	$ 56,652	$ 5,099	$ 50,156	$ 13,855	$ 27,619	$ 14,642	$ 15,484	$ 274,181	$ 457,688
Due to other funds	473	14,314	57,233	4,772	180	628	246	72,012	149,858
Due to other governments	67,614	—	310	—	63	4	8	1,380	69,379
Revenues received in advance	—	658,870	30,517	558	—	—	212	136,475	826,632
Deposits	—	—	1,562	—	—	—	—	—	1,562
Contracts and notes payable	—	—	1,036	—	—	14,078	3,904	—	19,018
Interest payable	101,195	—	—	—	—	—	—	—	101,195
Current portion of long-term obligations	621,685	—	—	3,136	1,215	—	—	264	626,300
Other liabilities	18,391	—	38	1,359	—	—	—	3,152	22,940
Total current liabilities	866,010	678,283	140,852	23,680	29,077	29,352	19,854	487,464	2,274,572
Noncurrent liabilities:									
Interfund payables	—	14,774	7,186	—	37,650	3,827	94,965	57	158,459
Compensated absences payable	—	7,134	56,548	9,935	3,775	40,038	—	27,346	144,776
Workers' compensation benefits payable	—	1,219	22,458	15,405	—	2,490	—	—	41,572
Revenue bonds payable	9,146,693	—	—	—	—	—	—	—	9,146,693
Net other postemployment benefits obligation	—	18,920	330,704	72,184	—	125,236	—	147,770	694,814
Net pension liability	—	66,607	439,040	54,326	40,578	289,365	—	370,346	1,260,262
Other noncurrent liabilities	—	—	—	—	—	21,145	10,210	—	31,355
Total noncurrent liabilities	9,146,693	108,654	855,936	151,850	82,003	482,101	105,175	545,519	11,477,931
Total liabilities	**10,012,703**	**786,937**	**996,788**	**175,530**	**111,080**	**511,453**	**125,029**	**1,032,983**	**13,752,503**
DEFERRED INFLOWS OF RESOURCES	—	153	1,008	98	93	652	—	781	2,785
Total liabilities and deferred inflows of resources	**10,012,703**	**787,090**	**997,796**	**175,628**	**111,173**	**512,105**	**125,029**	**1,033,764**	**13,755,288**
NET POSITION									
Net investment in capital assets	—	—	57,560	61,152	273,209	34,968	—	5,451	432,340
Restricted – expendable:									
Construction	169,018	—	—	—	—	—	—	—	169,018
Total expendable	169,018	—	—	—	—	—	—	—	169,018
Unrestricted	—	(92,873)	(595,081)	134,418	(45,900)	(277,923)	(14,562)	(341,250)	(1,233,171)
Total net position (deficit)	**169,018**	**(92,873)**	**(537,521)**	**195,570**	**227,309**	**(242,955)**	**(14,562)**	**(335,799)**	**(631,813)**
Total liabilities, deferred inflows of resources, and net position	**$ 10,181,721**	**$ 694,217**	**$ 460,275**	**$ 371,198**	**$ 338,482**	**$ 269,150**	**$ 110,467**	**$ 697,965**	**$ 13,123,475**

(concluded)

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

Internal Service Funds

Year Ended June 30, 2017

(amounts in thousands)

	Public Buildings Construction	Architecture Revolving	Service Revolving	Prison Industries	Financial Information Systems	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
OPERATING REVENUES									
Services and sales	$ —	$ 181,064	$ 638,112	$ 359,144	$ 92,981	$ 387,825	$ 472,246	$ 671,271	$ 2,802,643
Investment and interest	10,515	—	—	—	—	—	—	—	10,515
Rent	436,723	—	—	—	—	—	—	480	437,203
Total operating revenues	**447,238**	**181,064**	**638,112**	**359,144**	**92,981**	**387,825**	**472,246**	**671,751**	**3,250,361**
OPERATING EXPENSES									
Personal services	—	32,131	310,302	90,750	15,888	180,721	—	261,466	891,258
Supplies	—	—	—	5,017	—	—	4,728	561	10,306
Services and charges	6,899	169,579	320,293	173,914	13,354	218,503	469,277	664,620	2,036,439
Depreciation	—	—	12,591	7,657	737	27,372	7,502	233	56,092
Interest expense	402,201	—	—	—	—	305	—	—	402,506
Amortization of long-term prepaid charges	238	—	—	—	—	—	—	—	238
Total operating expenses	**409,338**	**201,710**	**643,186**	**277,338**	**29,979**	**426,901**	**481,507**	**926,880**	**3,396,839**
Operating income (loss)	37,900	(20,646)	(5,074)	81,806	63,002	(39,076)	(9,261)	(255,129)	(146,478)
NONOPERATING REVENUES (EXPENSES)									
Investment and interest income	—	—	—	693	—	520	—	698	1,911
Interest expense and fiscal charges	—	—	—	(16)	—	—	—	—	(16)
Other	224	—	—	(236)	—	(1,927)	—	—	(1,939)
Total nonoperating revenues (expenses)	**224**	**—**	**—**	**441**	**—**	**(1,407)**	**—**	**698**	**(44)**
Income (loss) before transfers	38,124	(20,646)	(5,074)	82,247	63,002	(40,483)	(9,261)	(254,431)	(146,522)
Capital contributions	—	—	—	125	—	—	—	—	125
Transfers in	—	—	3,000	—	—	—	—	1,500	4,500
Transfers out	—	—	(36,460)	(62,600)	—	—	—	(23,449)	(122,509)
Change in net position	38,124	(20,646)	(38,534)	19,772	63,002	(40,483)	(9,261)	(276,380)	(264,406)
Total net position (deficit) – beginning	**130,894**	**(72,227)***	**(498,987)***	**175,798**	**164,307**	**(202,472)**	**(5,301)**	**(59,419)***	**(367,407)**
Total net position (deficit) – ending	**$ 169,018**	**$ (92,873)**	**$ (537,521)**	**$ 195,570**	**$ 227,309**	**$ (242,955)**	**$ (14,562)**	**$ (335,799)**	**$ (631,813)**

* Restated

Combining Statement of Cash Flows

Internal Service Funds

Year Ended June 30, 2017

(amounts in thousands)

	Public Buildings Construction	Architecture Revolving	Service Revolving	Prison Industries	Financial Information Systems	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	$ 17,295	$ —	$ —	$ 7,042	$ —	$ —	$ —	$ —	$ 24,337
Receipts from interfund services provided	838,898	421,804	651,443	353,125	61,150	389,262	476,150	860,927	4,052,759
Payments to suppliers	(292)	(176,602)	(355,255)	(177,538)	—	(222,985)	(4,176)	(603,729)	(1,540,577)
Payments to employees	—	(25,679)	(278,136)	(80,288)	(12,611)	(158,533)	—	(232,173)	(787,420)
Claims paid to other than employees	—	—	—	—	—	—	(469,277)	—	(469,277)
Other receipts (payments)	(466,613)	(76)	(498)	107	14	11,507	8,855	3,275	(443,429)
Net cash provided by (used in) operating activities	**389,288**	**219,447**	**17,554**	**102,448**	**48,553**	**19,251**	**11,552**	**28,300**	**836,393**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Changes in interfund receivables and loans receivable	—	—	—	—	—	—	—	(6,682)	(6,682)
Changes in interfund payables and loans payable	—	14,280	(1,060)	—	—	1,244	(82)	—	14,382
Interest paid	—	—	—	(16)	—	—	—	—	(16)
Transfers in	—	—	3,000	—	—	—	—	1,500	4,500
Transfers out	—	—	(36,460)	(62,600)	—	—	—	(23,449)	(122,509)
Net cash provided by (used in) noncapital financing activities	**—**	**14,280**	**(34,520)**	**(62,616)**	**—**	**1,244**	**(82)**	**(28,631)**	**(110,325)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisition of capital assets	(815,340)	—	(13,203)	(16,764)	(54,268)	(20,162)	(7,502)	(74)	(927,313)
Proceeds from sale of capital assets	—	—	422	571	631	779	—	—	2,403
Proceeds from revenue bonds	1,479,114	—	—	—	—	—	—	—	1,479,114
Retirement of revenue bonds	(1,800,546)	—	—	—	—	—	—	—	(1,800,546)
Net cash used in capital and related financing activities	**(1,136,772)**	**—**	**(12,781)**	**(16,193)**	**(53,637)**	**(19,383)**	**(7,502)**	**(74)**	**(1,246,342)**
CASH FLOWS FROM INVESTING ACTIVITIES									
Earnings on investments	—	—	—	693	—	520	—	698	1,911
Net cash provided by (used in) investing activities	**—**	**—**	**—**	**693**	**—**	**520**	**—**	**698**	**1,911**
Net increase (decrease) in cash and pooled investments	(747,484)	233,727	(29,747)	24,332	(5,084)	1,632	3,968	293	(518,363)
Cash and pooled investments – beginning	**1,562,410**	**398,815**	**123,856**	**215,906**	**47,841**	**63,129**	**11,208**	**394,785**	**2,817,950**
Cash and pooled investments – ending	**$ 814,926**	**$ 632,542**	**$ 94,109**	**$ 240,238**	**$ 42,757**	**$ 64,761**	**$ 15,176**	**$ 395,078**	**$ 2,299,587**

(continued)

Combining Statement of Cash Flows (continued)

Internal Service Funds

Year Ended June 30, 2017

(amounts in thousands)

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	Public Buildings Construction	Architecture Revolving	Service Revolving	Prison Industries	Financial Information Systems	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
Operating income (loss)	$ 37,900	$ (20,646)	$ (5,074)	$ 81,806	$ 63,002	$ (39,076)	$ (9,261)	$ (255,129)	$ (146,478)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:									
Depreciation	—	—	12,591	7,657	737	27,372	7,502	233	56,092
Amortization of premiums and discounts	(85,086)	—	—	—	—	—	—	—	(85,086)
Amortization of long-term prepaid charges	238	—	—	—	—	—	—	—	238
Other	14,221	—	—	—	—	—	—	—	14,221
Change in account balances:									
Receivables	—	4	345	253	(12)	(94)	18,363	54,207	73,066
Due from other funds	(39,975)	16,209	4,929	578	(7,732)	(4,961)	(13,441)	(39,493)	(83,886)
Due from other governments	—	—	(702)	89	—	(160)	—	2,053	1,280
Prepaid items	—	(363)	(28,348)	(505)	102	155	880	(465)	(28,544)
Inventories	—	—	3,951	(3,414)	—	(3,022)	(208)	—	(2,693)
Net investment in direct financing leases	458,802	—	—	—	—	—	—	—	458,802
Deferred outflow of resources	13,383	(7,175)	(50,364)	(10,823)	(4,347)	(38,632)	—	(44,388)	(142,346)
Accounts payable	184	(6,660)	(10,565)	5,312	(9,852)	(1,615)	(120)	61,917	38,601
Due to other funds	—	9,437	8,044	(96)	(983)	6,491	(1,142)	37,987	59,738
Due to other governments	—	—	310	—	14	(19)	3	975	1,283
Deposits	—	—	415	—	—	—	—	—	415
Contracts and notes payable	—	—	(559)	—	—	7,992	2,806	—	10,239
Interest payable	(7,311)	—	—	—	—	—	—	—	(7,311)
Revenues received in advance	—	215,090	13	288	—	—	124	136,475	351,990
Other current liabilities	(3,068)	(76)	38	18	—	—	(492)	247	(3,333)
Benefits payable	—	—	—	—	—	—	—	3,986	3,986
Compensated absences payable	—	(1,491)	(11,276)	76	(441)	(3,525)	—	1,568	(15,089)
Other noncurrent liabilities	—	16,116	100,920	22,191	8,669	73,147	6,538	74,166	301,747
Deferred inflow of resources	—	(998)	(7,114)	(982)	(604)	(4,802)	—	(6,039)	(20,539)
Total adjustments	351,388	240,093	22,628	20,642	(14,449)	58,327	20,813	283,429	982,871
Net cash provided by (used in) operating activities	**$ 389,288**	**$ 219,447**	**$ 17,554**	**$ 102,448**	**$ 48,553**	**$ 19,251**	**$ 11,552**	**$ 28,300**	**$ 836,393**

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Nonmajor Enterprise Funds

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, in which the costs of providing goods or services to the general public on a continuing basis are intended to be financed or recovered primarily through user charges. Following are brief descriptions of nonmajor enterprise funds.

The **State Water Pollution Control Revolving Fund** accounts for loans to finance the construction of publicly owned water pollution control facilities.

The **Housing Loan Fund** accounts for financing and contracts for the sale of properties to eligible California veterans.

Other enterprise program funds account for all other goods or services provided to the general public on a continuing basis when all or most of the cost involved is to be financed by user charges, or when periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

Combining Statement of Net Position

Nonmajor Enterprise Funds

June 30, 2017

(amounts in thousands)

	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
ASSETS				
Current assets:				
Cash and pooled investments	$ 630,939	$ 173,256	$ 252,285	$ 1,056,480
Restricted assets:				
Cash and pooled investments	443,576	—	—	443,576
Due from other governments	100,385	—	—	100,385
Receivables (net)	186	33,526	612	34,324
Due from other funds	2,540	353	647	3,540
Due from other governments	159,907	—	248	160,155
Prepaid items	—	—	12	12
Inventories	—	—	2,872	2,872
Total current assets	1,337,533	207,135	256,676	1,801,344
Noncurrent assets:				
Restricted assets:				
Loans receivable	1,276,297	—	—	1,276,297
Investments	—	17,964	—	17,964
Interfund receivables	—	—	1,600	1,600
Loans receivable	2,505,265	880,725	110,877	3,496,867
Capital assets:				
Land	—	443	829	1,272
Buildings and other depreciable property	—	16,260	2,650	18,910
Intangible assets – amortizable	—	—	1,681	1,681
Less: accumulated depreciation/amortization	—	(16,151)	(1,963)	(18,114)
Construction/development in progress	—	—	187	187
Other noncurrent assets	—	1,961	—	1,961
Total noncurrent assets	3,781,562	901,202	115,861	4,798,625
Total assets	**5,119,095**	**1,108,337**	**372,537**	**6,599,969**
DEFERRED OUTFLOWS OF RESOURCES	—	5,006	8,751	13,757
Total assets and deferred outflows of resources	**$ 5,119,095**	**$ 1,113,343**	**$ 381,288**	**$ 6,613,726**

	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
LIABILITIES				
Current liabilities:				
Accounts payable	$ —	$ 26	$ 2,564	$ 2,590
Due to other funds	82	707	1,795	2,584
Due to other governments	—	—	24	24
Revenues received in advance	21	—	50	71
Interest payable	10,603	13,882	—	24,485
Current portion of long-term obligations	46,201	5,710	10,142	62,053
Other current liabilities	—	—	1	1
Total current liabilities	56,907	20,325	14,576	91,808
Noncurrent liabilities:				
Compensated absences payable	—	—	9,384	9,384
Workers' compensation benefits payable	—	—	1,546	1,546
General obligation bonds payable	—	612,934	—	612,934
Revenue bonds payable	988,785	330,924	—	1,319,709
Net other postemployment benefits obligation	—	5,888	10,396	16,284
Net pension liability	—	19,171	23,675	42,846
Other noncurrent liabilities	—	329	38,620	38,949
Total noncurrent liabilities	988,785	969,246	83,621	2,041,652
Total liabilities	**1,045,692**	**989,571**	**98,197**	**2,133,460**
DEFERRED INFLOWS OF RESOURCES	—	44	33	77
Total liabilities and deferred inflows of resources	**1,045,692**	**989,615**	**98,230**	**2,133,537**
NET POSITION				
Net investment in capital assets	—	552	3,384	3,936
Restricted – expendable:				
Debt service	157,601	—	—	157,601
Security for revenue bonds	1,376,682	—	—	1,376,682
Other purposes	—	123,176	205,170	328,346
Total expendable	1,534,283	123,176	205,170	1,862,629
Unrestricted	2,539,120	—	74,504	2,613,624
Total net position	**4,073,403**	**123,728**	**283,058**	**4,480,189**
Total liabilities, deferred inflows of resources, and net position	**$ 5,119,095**	**$ 1,113,343**	**$ 381,288**	**$ 6,613,726**

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

Nonmajor Enterprise Funds

Year Ended June 30, 2017

(amounts in thousands)

	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
OPERATING REVENUES				
Services and sales	$ 10,277	$ 2,491	$ 91,284	$ 104,052
Investment and interest	59,615	47,693	362	107,670
Rent	—	—	108	108
Other	—	1,933	38	1,971
Total operating revenues	**69,892**	**52,117**	**91,792**	**213,801**
OPERATING EXPENSES				
Personal services	—	14,390	22,461	36,851
Supplies	—	—	37,266	37,266
Services and charges	3,602	16,802	15,291	35,695
Depreciation	—	89	379	468
Interest expense	—	31,604	—	31,604
Other	350	—	—	350
Total operating expenses	**3,952**	**62,885**	**75,397**	**142,234**
Operating income (loss)	65,940	(10,768)	16,395	71,567
NONOPERATING REVENUES (EXPENSES)				
Investment and interest income	6,020	—	1,385	7,405
Interest expense and fiscal charges	(12,458)	—	—	(12,458)
Other	(702)	725	—	23
Total nonoperating revenues (expenses)	**(7,140)**	**725**	**1,385**	**(5,030)**
Income (loss) before capital contributions and transfers	58,800	(10,043)	17,780	66,537
Capital contributions	61,027	—	—	61,027
Change in net position	119,827	(10,043)	17,780	127,564
Total net position – beginning	**3,953,576**	**133,771**	**265,278**	**4,352,625**
Total net position – ending	**$ 4,073,403**	**$ 123,728**	**$ 283,058**	**$ 4,480,189**

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2017

(amounts in thousands)

	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers/employers	$ 56,298	$ 201,094	$ 93,595	$ 350,987
Receipts from interfund services provided	—	—	3,855	3,855
Payments to suppliers	(3,902)	(7,181)	(48,489)	(59,572)
Payments to employees	—	(14,390)	(23,236)	(37,626)
Payments for interfund services used	(42)	—	(603)	(645)
Other receipts (payments)	(297,742)	(249,230)	(12,924)	(559,896)
Net cash provided by (used in) operating activities	**(245,388)**	**(69,707)**	**12,198**	**(302,897)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from general obligation bonds	—	169,559	—	169,559
Retirement of general obligation bonds	—	(43,775)	—	(43,775)
Proceeds from revenue bonds	529,467	—	—	529,467
Retirement of revenue bonds	(12,940)	(131,010)	—	(143,950)
Interest paid	(21,046)	—	—	(21,046)
Grants received	61,009	—	—	61,009
Net cash provided by (used in) noncapital financing activities	**556,490**	**(5,226)**	**—**	**551,264**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	—	—	(275)	(275)
Proceeds from sale of capital assets	—	—	94	94
Net cash provided by (used in) capital and related financing activities	**—**	**—**	**(181)**	**(181)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	—	(1,332)	—	(1,332)
Proceeds from maturity and sale of investments	—	525	—	525
Earnings on investments	4,274	—	1,385	5,659
Net cash provided by (used in) investing activities	**4,274**	**(807)**	**1,385**	**4,852**
Net increase (decrease) in cash and pooled investments	315,376	(75,740)	13,402	253,038
Cash and pooled investments – beginning	**759,139**	**248,996**	**238,883**	**1,247,018**
Cash and pooled investments – ending	**$ 1,074,515**	**$ 173,256**	**$ 252,285**	**$ 1,500,056**

(continued)

Combining Statement of Cash Flows (continued)

Nonmajor Enterprise Funds

Year Ended June 30, 2017

(amounts in thousands)

	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	$ 65,940	$ (10,768)	$ 16,395	$ 71,567
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	—	89	379	468
Provisions and allowances	—	855	—	855
Amortization of premiums and discounts	—	(295)	—	(295)
Other	(11,237)	—	—	(11,237)
Change in account balances:				
Receivables	—	(389)	1,534	1,145
Due from other funds	(42)	—	(99)	(141)
Due from other governments	(1,807)	—	70	(1,737)
Prepaid items	—	—	(12)	(12)
Inventories	—	—	(441)	(441)
Other current assets	—	1,835	—	1,835
Loans receivable	(298,248)	(64,578)	3,620	(359,206)
Deferred outflow of resources	—	(1,693)	(3,656)	(5,349)
Accounts payable	—	(397)	637	240
Due to other funds	50	(14)	91	127
Due to other governments	—	—	20	20
Interest payable	—	(571)	—	(571)
Revenues received in advance	3	—	17	20
Other current liabilities	(47)	—	237	190
Benefits payable	—	—	672	672
Compensated absences payable	—	—	(1,220)	(1,220)
Other noncurrent liabilities	—	6,335	(5,553)	782
Deferred inflows of resources	—	(116)	(493)	(609)
Total adjustments	(311,328)	(58,939)	(4,197)	(374,464)
Net cash provided by (used in) operating activities	**$ (245,388)**	**$ (69,707)**	**$ 12,198**	**$ (302,897)**

(concluded)

	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
Noncash investing, capital, and financing activities				
Miscellaneous noncash activities	$ —	$ 842	$ —	$ 842

Private Purpose Trust Funds

Private purpose trust funds account for all trust arrangements, other than those properly reported in pension and other employee benefit trust funds or investment trust funds, under which both principal and income benefit individuals, private organizations, or other governments. Following are brief descriptions of 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.

Other private purpose trust funds account for other assets held in a trustee capacity when both principal and income benefit individuals, private organizations, or other governments.

Combining Statement of Fiduciary Net Position

Private Purpose Trust Funds

June 30, 2017
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ASSETS				
Cash and pooled investments	$ —	$ 91,168	$ 25,240	$ 116,408
Investments, at fair value:				
Equity securities	3,945,139	—	—	3,945,139
Debt securities	2,414,142	—	—	2,414,142
Real estate	239,299	—	—	239,299
Other	1,127,103	—	—	1,127,103
Total investments	7,725,683	—	—	7,725,683
Receivables (net)	23,768	65,264	—	89,032
Due from other funds	—	16,802	55	16,857
Other assets	—	167,893	—	167,893
Total assets	**7,749,451**	**341,127**	**25,295**	**8,115,873**
LIABILITIES				
Accounts payable	23,995	14,291	18,628	56,914
Deposits	—	167,893	4,906	172,799
Other liabilities	—	2	315	317
Total liabilities	**23,995**	**182,186**	**23,849**	**230,030**
NET POSITION				
Held in trust for individuals, organizations, or other governments	**$ 7,725,456**	**$ 158,941**	**$ 1,446**	**$ 7,885,843**

Combining Statement of Changes in Fiduciary Net Position

Private Purpose Trust Funds

Year Ended June 30, 2017
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ADDITIONS				
Investment income:				
Net appreciation (depreciation) in fair value of investments	$ 376,935	$ —	$ —	$ 376,935
Interest, dividends, and other investment income	341,823	—	—	341,823
Less: investment expense	(3,409)	—	—	(3,409)
Net investment income	715,349	—	—	715,349
Receipts from depositors	3,565,028	455,900	5,828	4,026,756
Total additions	**4,280,377**	**455,900**	**5,828**	**4,742,105**
DEDUCTIONS				
Administrative expenses	—	—	7	7
Payments to and for depositors	3,302,926	371,051	5,782	3,679,759
Total deductions	**3,302,926**	**371,051**	**5,789**	**3,679,766**
Change in net position	977,451	84,849	39	1,062,339
Net position – beginning	**6,748,005**	**74,092**	**1,407**	**6,823,504**
Net position – ending	**$ 7,725,456**	**$ 158,941**	**$ 1,446**	**$ 7,885,843**

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Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

Pension and other employee benefit trust funds account for transactions, assets, liabilities, and net position available for pension and other employee benefits of the two public employees' retirement systems that are fiduciary component units, and for other primary government employee benefit programs. Following are brief descriptions of pension and other employee benefit trust funds.

Defined Benefit Pension Plans are pension plans that provide defined benefit pensions to employees after separation from service:

The **Public Employees' Retirement Fund** is administered by the California Public Employees' Retirement System (CalPERS) and accounts for the employee and employer contributions of the agent and cost-sharing multiple-employer retirement plans that provide pension benefits to employees of the State of California, non-teaching school employees, and employees of California public agencies.

The **State Teachers' Retirement Fund** is administered by the California State Teachers' Retirement System (CalSTRS) and accounts for the employee, employer, and primary government contributions of the cost-sharing multiple-employer retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

The **Judges' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to judges of the California Supreme Court, courts of appeal, and superior courts who were appointed or elected prior to November 9, 1994.

The **Judges' Retirement Fund II** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to judges of the California Supreme Court, courts of appeal, and superior courts who were appointed or elected on or subsequent to November 9, 1994.

The **Legislators' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to members of the Legislature serving prior to November 7, 1990, constitutional officers, and legislative statutory officers who elect to participate in the plan.

(continued)

(continued)

The **Defined Benefit Other Postemployment Benefits (OPEB) Plan** provides defined benefit OPEB, other than pensions, to employees after separation from service:

> The **Annuitants' Health Care Coverage Fund** is administered by CalPERS as the California Employers' Retiree Benefit Trust Fund (CERBTF), an agent multiple-employer plan for employers to prefund health, dental, and other nonpension postemployment benefits for state and local government annuitants, and to pay related administrative costs.

The **Deferred Compensation Fund** accounts for monies withheld from the salaries of participants per Internal Revenue Code sections 401(k), 457, and 403(b). The monies are invested until the employee retires or resigns, at which time all money withdrawn, including investment income, is subject to income taxes.

Other pension and other employee benefit trust funds account for funds contributed to smaller retirement plans and programs that are not defined benefit pension plans including the Teachers' Health Benefits Fund, Supplemental Contributions Program Fund, Boxers' Pension Fund, and Flexelect Benefit Fund.

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Combining Statement of Fiduciary Net Position

Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

June 30, 2017

(amounts in thousands)

	Defined Benefit Pension Plans					Defined Benefit OPEB Plan		Other Pension and Other Employee Benefit Trust	
	Public Employees' Retirement	State Teachers' Retirement	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	Annuitants' Health Care Coverage	Deferred Compensation		Total
ASSETS									
Cash and pooled investments	$ 1,465,521	$ 607,153	$ 1,837	$ 11,865	$ 554	$ 27,028	$ 16,070	$ 14,175	$ 2,144,203
Investments, at fair value:									
Short-term	27,834,333	4,096,922	44,216	71,044	6,452	420,326	2,622,369	32,660	35,128,322
Equity securities	145,129,917	113,333,185	—	768,395	37,063	4,115,363	8,316,109	43,605	271,743,637
Debt securities	91,850,723	36,788,912	—	529,938	76,005	2,394,558	1,631,269	44,553	133,315,958
Real estate	35,436,160	26,749,881	—	—	—	—	—	—	62,186,041
Securities lending collateral	4,761,792	18,191,295	—	17,979	766	1,069	—	—	22,972,901
Other	26,008,511	29,649,889	—	—	—	—	2,378,323	—	58,036,723
Total investments	331,021,436	228,810,084	44,216	1,387,356	120,286	6,931,316	14,948,070	120,818	583,383,582
Receivables (net)	6,531,380	3,159,700	2,424	39,901	3,356	146,281	29,474	838	9,913,354
Due from other funds	696,186	—	40	18	—	28	37	27	696,336
Due from other governments	—	15,238	—	—	—	—	3	—	15,241
Loans receivable	—	2,819,332	—	—	—	—	3,817	—	2,823,149
Other assets	599,225	258,764	—	—	—	—	—	—	857,989
Total assets	**340,313,748**	**235,670,271**	**48,517**	**1,439,140**	**124,196**	**7,104,653**	**14,997,471**	**135,858**	**599,833,854**
DEFERRED OUTFLOWS OF RESOURCES	—	70,934	—	—	—	—	262	88	71,284
Total assets and deferred outflows of resources	**340,313,748**	**235,741,205**	**48,517**	**1,439,140**	**124,196**	**7,104,653**	**14,997,733**	**135,946**	**599,905,138**
LIABILITIES									
Accounts payable	7,045	3,636,022	11	19	17	—	2,756	622	3,646,492
Due to other governments	—	170,653	74	—	—	—	7	—	170,734
Benefits payable	102,493	234,379	—	—	46	36,991	1,887	797	376,593
Securities lending obligations	4,755,419	18,184,444	—	17,955	765	1,068	—	—	22,959,651
Loans payable	—	2,824,259	—	—	—	—	—	—	2,824,259
Other liabilities	8,949,793	401,022	157	65,067	6,484	275,305	3,071	2,414	9,703,313
Total liabilities	**13,814,750**	**25,450,779**	**242**	**83,041**	**7,312**	**313,364**	**7,721**	**3,833**	**39,681,042**
DEFERRED INFLOWS OF RESOURCES	—	526	—	—	—	—	2	12	540
Total liabilities and deferred inflows of resources	**13,814,750**	**25,451,305**	**242**	**83,041**	**7,312**	**313,364**	**7,723**	**3,845**	**39,681,582**
NET POSITION									
Restricted for pension and other postemployment benefits	326,498,998	210,289,900	48,275	1,356,099	116,884	6,791,289	—	120,704	545,222,149
Held in trust for:									
Deferred compensation participants	—	—	—	—	—	—	14,990,010	—	14,990,010
Individuals, organizations, or other governments	—	—	—	—	—	—	—	11,397	11,397
Total net position	**$ 326,498,998**	**$ 210,289,900**	**$ 48,275**	**$ 1,356,099**	**$ 116,884**	**$ 6,791,289**	**$ 14,990,010**	**$ 132,101**	**$ 560,223,556**

Combining Statement of Changes in Fiduciary Net Position

Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

Year Ended June 30, 2017
(amounts in thousands)

	Defined Benefit Pension Plans					Defined Benefit OPEB Plan			
	Public Employees' Retirement	State Teachers' Retirement	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	Annuitants' Health Care Coverage	Deferred Compensation	Other Pension and Other Employee Benefit Trust	Total
ADDITIONS									
Contributions:									
Employer	$ 12,329,837	$ 4,173,235	$ 204,475	$ 67,102	$ 516	$ 3,754,709	$ 1,399	$ 29,117	$ 20,560,390
Plan member	4,214,578	3,440,883	3,398	25,076	94	—	677,231	39,541	8,400,801
Non-employer	—	2,478,230	—	—	—	—	—	—	2,478,230
Total contributions	16,544,415	10,092,348	207,873	92,178	610	3,754,709	678,630	68,658	31,439,421
Investment income:									
Net appreciation (depreciation) in fair value of investments	31,358,058	20,431,830	—	114,624	5,038	561,746	1,491,555	6,860	53,969,711
Interest, dividends, and other investment income	2,713,331	5,132,334	425	1,257	77	1,591	15,471	86	7,864,572
Less: investment expense	(954,175)	(398,984)	(1)	(824)	(67)	(2,766)	(518)	(45)	(1,357,380)
Net investment income (loss)	33,117,214	25,165,180	424	115,057	5,048	560,571	1,506,508	6,901	60,476,903
Other	12,814	72,005	2,395	—	—	4,995	19,391	2,696	114,296
Total additions	**49,674,443**	**35,329,533**	**210,692**	**207,235**	**5,658**	**4,320,275**	**2,204,529**	**78,255**	**92,030,620**
DEDUCTIONS									
Distributions to beneficiaries	21,215,889	13,787,036	200,440	22,326	6,960	2,647,480	37,091	68,284	37,985,506
Refunds of contributions	222,275	115,509	—	80	289	—	4,693	—	342,846
Administrative expense	441,283	192,617	1,771	1,683	575	3,014	22,724	2,697	666,364
Interest expense	—	57,958	—	—	—	—	—	—	57,958
Payments to and for depositors	—	—	—	—	—	680	377,703	11,041	389,424
Total deductions	**21,879,447**	**14,153,120**	**202,211**	**24,089**	**7,824**	**2,651,174**	**442,211**	**82,022**	**39,442,098**
Change in net position	27,794,996	21,176,413	8,481	183,146	(2,166)	1,669,101	1,762,318	(3,767)	52,588,522
Net position – beginning	**298,704,002**	**189,113,487**	**39,794**	**1,172,953**	**119,050**	**5,122,188** [1]	**13,227,692**	**135,868** [1]	**507,635,034**
Net position – ending	**$ 326,498,998**	**$ 210,289,900**	**$ 48,275**	**$ 1,356,099**	**$ 116,884**	**$ 6,791,289**	**$ 14,990,010**	**$ 132,101**	**$ 560,223,556**

[1] The Annuitants' Health Care Coverage fund was included in the Other Pension and Other Employee Benefit Trust column in the prior year.

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Agency Funds

Agency funds account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State, acting in the capacity of an agent, for distribution to other governmental units or other organizations. Following are brief descriptions of 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 many 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.

Other agency activity funds account for other assets held by the State, which acts as an agent for individuals, private organizations, and other governments.

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2017

(amounts in thousands)

	Receipting and Disbursing	Deposit	Other Agency Activities	Total
ASSETS				
Cash and pooled investments	$ 2,657,727	$ 1,792,052	$ 27,470	$ 4,477,249
Receivables (net)	3,477,332	254,650	1,460	3,733,442
Due from other funds	19,628,211	4,082	802	19,633,095
Due from other governments	36,903	263	—	37,166
Loans receivable	—	—	4,328	4,328
Other assets	55	37,015	—	37,070
Total assets	**$ 25,800,228**	**$ 2,088,062**	**$ 34,060**	**$ 27,922,350**
LIABILITIES				
Accounts payable	$ 17,917,915	$ 91,472	$ 3,787	$ 18,013,174
Due to other governments	7,833,556	4,443	6,569	7,844,568
Tax overpayments	832	—	—	832
Revenues received in advance	—	794	—	794
Deposits	36,312	1,133,066	10,344	1,179,722
Other liabilities	11,613	858,287	13,360	883,260
Total liabilities	**$ 25,800,228**	**$ 2,088,062**	**$ 34,060**	**$ 27,922,350**

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Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year Ended June 30, 2017
(amounts in thousands)

Receipting and Disbursing Fund

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
ASSETS				
Cash and pooled investments	$ 2,729,053	$ 210,409,425	$ 210,480,751	$ 2,657,727
Receivables (net)	3,665,883	5,008,736	5,197,287	3,477,332
Due from other funds	18,757,825	32,958,251	32,087,865	19,628,211
Due from other governments	34,625	945,841	943,563	36,903
Other assets	55	—	—	55
Total assets	**$ 25,187,441**	**$ 249,322,253**	**$ 248,709,466**	**$ 25,800,228**
LIABILITIES				
Accounts payable	$ 16,985,632	$ 53,391,158	$ 52,458,875	$ 17,917,915
Due to other governments	8,172,020	33,506,461	33,844,925	7,833,556
Tax overpayments	646	117,729	117,543	832
Deposits	29,009	7,303	—	36,312
Other liabilities	134	11,479	—	11,613
Total liabilities	**$ 25,187,441**	**$ 87,034,130**	**$ 86,421,343**	**$ 25,800,228**

Deposit Fund

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
ASSETS				
Cash and pooled investments	$ 3,062,415	$ 20,107,486	$ 21,377,849	$ 1,792,052
Receivables (net)	162,694	638,083	546,127	254,650
Due from other funds	3,665	86,187	85,770	4,082
Due from other governments	281	15	33	263
Other assets	15	37,015	15	37,015
Total assets	**$ 3,229,070**	**$ 20,868,786**	**$ 22,009,794**	**$ 2,088,062**
LIABILITIES				
Accounts payable	$ 128,859	$ 849,771	$ 887,158	$ 91,472
Due to other governments	4,087	1,953	1,597	4,443
Revenues received in advance	680	114	—	794
Deposits	1,239,867	345,347	452,148	1,133,066
Other liabilities	1,855,577	26,071	1,023,361	858,287
Total liabilities	**$ 3,229,070**	**$ 1,223,256**	**$ 2,364,264**	**$ 2,088,062**

Other Agency Activity Funds

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
ASSETS				
Cash and pooled investments	$ 24,250	$ 3,220	$ —	$ 27,470
Receivables (net)	1,452	8	—	1,460
Due from other funds	777	25	—	802
Loans receivable	7,935	—	3,607	4,328
Total assets	**$ 34,414**	**$ 3,253**	**$ 3,607**	**$ 34,060**
LIABILITIES				
Accounts payable	$ 3,472	$ 315	$ —	$ 3,787
Due to other governments	6,529	419	379	6,569
Deposits	10,353	12	21	10,344
Other liabilities	14,060	—	700	13,360
Total liabilities	**$ 34,414**	**$ 746**	**$ 1,100**	**$ 34,060**

Total Agency Funds

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
ASSETS				
Cash and pooled investments	$ 5,815,718	$ 230,520,131	$ 231,858,600	$ 4,477,249
Receivables (net)	3,830,029	5,646,827	5,743,414	3,733,442
Due from other funds	18,762,267	33,044,463	32,173,635	19,633,095
Due from other governments	34,906	945,856	943,596	37,166
Loans receivable	7,935	—	3,607	4,328
Other assets	70	37,015	15	37,070
Total assets	**$ 28,450,925**	**$ 270,194,292**	**$ 270,722,867**	**$ 27,922,350**
LIABILITIES				
Accounts payable	$ 17,117,963	$ 54,241,244	$ 53,346,033	$ 18,013,174
Due to other governments	8,182,636	33,508,833	33,846,901	7,844,568
Tax overpayments	646	117,729	117,543	832
Revenues received in advance	680	114	—	794
Deposits	1,279,229	352,662	452,169	1,179,722
Other liabilities	1,869,771	37,550	1,024,061	883,260
Total liabilities	**$ 28,450,925**	**$ 88,258,132**	**$ 88,786,707**	**$ 27,922,350**

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Nonmajor Component Units

Nonmajor component units are legally separate entities that are discretely presented in the State's financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The inclusion of component units in the State's financial statements reflects the State's financial accountability for or relationships with these organizations such that exclusion would cause the State's financial statements to be misleading. Following are brief descriptions of the nonmajor consolidated component unit segments.

Financing authorities provide financing for transportation, business development and public improvements, and coastal and inland urban waterfront restoration projects. These agencies include the California Alternative Energy and Advanced Transportation Financing Authority, the California Infrastructure and Economic Development Bank, and the California Urban Waterfront Area Restoration Financing Authority.

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

District agricultural associations were created to exhibit all of the industries, industrial enterprises, resources, and products of the State. The financial information presented is as of and for the year ended December 31, 2016.

Other component units provide legal education programs, financial assistance to businesses, and health benefits for state employees and annuitants. These entities include the University of California Hastings College of the Law; the State Assistance Fund for Enterprise, Business and Industrial Development Corporation; and the Public Employees' Contingency Reserve.

Combining Statement of Net Position

Nonmajor Component Units

June 30, 2017
(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
ASSETS					
Current assets:					
Cash and pooled investments	$ 3,240	$ 439,352	$ 107,537	$ 610,484	$ 1,160,613
Investments	—	503,066	—	—	503,066
Restricted assets:					
Cash and pooled investments	369,261	—	9,836	7,490	386,587
Investments	44,699	—	3,297	—	47,996
Receivables (net)	19,922	272,853	5,952	36,764	335,491
Prepaid items	500	—	856	3,168	4,524
Other current assets	—	34,936	112	—	35,048
Total current assets	437,622	1,250,207	127,590	657,906	2,473,325
Noncurrent assets:					
Restricted assets:					
Cash and pooled investments	—	34,934	—	—	34,934
Investments	77,032	—	3,297	—	80,329
Investments	—	2,005,044	—	73,445	2,078,489
Receivables (net)	—	232,217	—	12,168	244,385
Loans receivable	321,942		—	3,212	325,154
Capital assets:					
Land	—	128,445	22,245	5,089	155,779
Collections – nondepreciable	—	7,931	—	421	8,352
Buildings and other depreciable property	9	1,215,755	735,208	127,523	2,078,495
Intangible assets – amortizable	—	10,259	—	935	11,194
Less: accumulated depreciation/amortization	(3)	(568,699)	(468,028)	(50,293)	(1,087,023)
Construction/development in progress	—	27,623	10,566	2,118	40,307
Intangible assets – nonamortizable	—	5,098	197	116	5,411
Other noncurrent assets	—	36,763	—	9,004	45,767
Total noncurrent assets	398,980	3,135,370	303,485	183,738	4,021,573
Total assets	**836,602**	**4,385,577**	**431,075**	**841,644**	6,494,898
DEFERRED OUTFLOWS OF RESOURCES	6,506	29,972	10,611	2,091	49,180
Total assets and deferred outflows of resources	**$ 843,108**	**$ 4,415,549**	**$ 441,686**	**$ 843,735**	**$ 6,544,078**

(continued)

Combining Statement of Net Position (continued)

Nonmajor Component Units

June 30, 2017
(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
LIABILITIES					
Current liabilities:					
Accounts payable	$ 1,415	$ 94,529	$ 9,035	$ 615,851	$ 720,830
Revenues received in advance	—	80,944	3,837	829	85,610
Deposits	—	—	1,626	373	1,999
Contracts and notes payable	—	9,170	91	196	9,457
Interest payable	3,674	—	350	—	4,024
Current portion of long-term obligations	11,988	64,877	2,576	1,930	81,371
Other current liabilities	65,524	90,938	4,128	5,983	166,573
Total current liabilities	82,601	340,458	21,643	625,162	1,069,864
Noncurrent liabilities:					
Compensated absences payable	367	5,302	8,440	32	14,141
Workers' compensation benefits payable	—	35,878	366	—	36,244
Commercial paper and other borrowings	—	200	—	—	200
Capital lease obligations	—	261,990	—	—	261,990
Revenue bonds payable	349,037	51,101	45,056	19,804	464,998
Net other postemployment benefits obligation	1,613	103,433	8,567	688	114,301
Net pension liability	8,352	73,658	91,158	21,931	195,099
Other noncurrent liabilities	13,712	449,978	7,396	21,817	492,903
Total noncurrent liabilities	373,081	981,540	160,983	64,272	1,579,876
Total liabilities	**455,682**	**1,321,998**	**182,626**	**689,434**	**2,649,740**
DEFERRED INFLOWS OF RESOURCES	37	13,058	2,621	5,237	20,953
Total liabilities and deferred inflows of resources	**455,719**	**1,335,056**	**185,247**	**694,671**	**2,670,693**
NET POSITION					
Net investment in capital assets	—	264,544	248,742	65,440	578,726
Restricted:					
Nonexpendable – endowments	—	1,174,814	—	23,428	1,198,242
Expendable:					
Endowments and gifts	—	—	—	10,739	10,739
Education	—	1,001,637	—	20,990	1,022,627
Statute	385,188	—	—	—	385,188
Other purposes	2,201	—	13,666	13,149	29,016
Total expendable	387,389	1,001,637	13,666	44,878	1,447,570
Unrestricted	—	639,498	(5,969)	15,318	648,847
Total net position	**387,389**	**3,080,493**	**256,439**	**149,064**	**3,873,385**
Total liabilities, deferred inflows of resources, and net position	**$ 843,108**	**$ 4,415,549**	**$ 441,686**	**$ 843,735**	**$ 6,544,078**

(concluded)

Combining Statement of Activities

Nonmajor Component Units

Year Ended June 30, 2017
(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
OPERATING EXPENSES					
Personal services	$ 4,060	$ 383,971	$ 110,200	$ 34,842	$ 533,073
Scholarships and fellowships	—	64,420	—	4,246	68,666
Supplies	—	—	—	10,513	10,513
Services and charges	7,389	1,183,866	112,810	29,345	1,333,410
Depreciation	3	53,002	20,810	3,033	76,848
Interest expense and fiscal charges	11,081	19,001	1,581	970	32,633
Other	—	62,862	486	7,434	70,782
Total operating expenses	**22,533**	**1,767,122**	**245,887**	**90,383**	**2,125,925**
PROGRAM REVENUES					
Charges for services	2,456	769,363	246,899	60,732	1,079,450
Operating grants and contributions	1,183	620,932	—	17,395	639,510
Capital grants and contributions	—	11,372	172	598	12,142
Total program revenues	**3,639**	**1,401,667**	**247,071**	**78,725**	**1,731,102**
Net revenues (expenses)	(18,894)	(365,455)	1,184	(11,658)	(394,823)
GENERAL REVENUES					
Investment and interest income (loss)	12,690	212,572	145	12,896	238,303
Other	1,588	481,565	1,705	10,619	495,477
Total general revenues	**14,278**	**694,137**	**1,850**	**23,515**	**733,780**
Change in net position	(4,616)	328,682	3,034	11,857	338,957
Net position – beginning	**392,005 ***	**2,751,811**	**253,405**	**137,207**	**3,534,428**
Net position – ending	**$ 387,389**	**$ 3,080,493**	**$ 256,439**	**$ 149,064**	**$ 3,873,385**

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Statistical Section

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Financial Trends

Financial trend schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time. This section includes the following financial trend schedules.

- Schedule of Net Position by Component
- Schedule of Changes in Net Position
- Schedule of Fund Balances – Governmental Funds
- Schedule of Changes in Fund Balances – Governmental Funds

Source: The information in the following schedules is derived from the State's Comprehensive Annual Financial Reports.

Schedule of Net Position by Component

For the Past Ten Fiscal Years
(accrual basis of accounting, amounts in thousands)

	2008	2009	2010	2011 [2]	2012	2013	2014 [3]	2015 [4]	2016	2017
Governmental activities										
Net investment in capital assets	$ 84,255,048	$ 83,285,184	$ 84,085,632	$ 85,460,957	$ 80,768,527	$ 84,931,030	$ 94,001,659	$ 100,694,652	$ 104,596,917	$ 107,042,274
Restricted – Expendable	10,148,648	8,391,814	14,987,867	27,865,821	24,871,510	24,315,913	24,950,740	26,632,502	29,060,971	33,832,232
Unrestricted [1]	(69,346,950)	(86,302,434)	(103,272,097)	(123,783,314)	(123,897,753)	(117,383,903)	(116,948,128)	(169,744,967)	(168,542,861)	(169,499,683)
Total governmental activities net position (deficit)	**$ 25,056,746**	**$ 5,374,564**	**$ (4,198,598)**	**$ (10,456,536)**	**$ (18,257,716)**	**$ (8,136,960)**	**$ 2,004,271**	**$ (42,417,813)**	**$ (34,884,973)**	**$ (28,625,177)**
Business-type activities										
Net investment in capital assets	$ 49,510	$ (130,634)	$ 89,334	$ 1,382,957	$ 1,561,258	$ 1,718,648	$ 2,065,550	$ 2,278,252	$ 2,520,621	$ 2,295,270
Restricted – Nonexpendable	—	—	—	21,812	21,584	20,627	16,219	13,448	8,653	1,746
Restricted – Expendable	6,853,621	3,855,051	3,404,682	3,615,945	4,571,036	5,151,915	4,897,314	4,523,496	5,750,634	6,307,218
Unrestricted	3,009,297	717,740	(4,250,609)	(4,214,494)	(3,346,849)	(2,824,738)	(1,661,692)	(5,360,817)	(3,707,406)	(1,321,132)
Total business-type activities net position (deficit)	**$ 9,912,428**	**$ 4,442,157**	**$ (756,593)**	**$ 806,220**	**$ 2,807,029**	**$ 4,066,452**	**$ 5,317,391**	**$ 1,454,379**	**$ 4,572,502**	**$ 7,283,102**
Primary government										
Net investment in capital assets	$ 84,304,558	$ 83,154,550	$ 84,174,966	$ 86,843,914	$ 82,329,785	$ 86,649,678	$ 96,067,209	$ 102,972,904	$ 107,117,538	$ 109,337,544
Restricted – Nonexpendable	—	—	—	21,812	21,584	20,627	16,219	13,448	8,653	1,746
Restricted – Expendable	17,002,269	12,246,865	18,392,549	31,481,766	29,442,546	29,467,828	29,848,054	31,155,998	34,811,605	40,139,450
Unrestricted	(66,337,653)	(85,584,694)	(107,522,706)	(127,997,808)	(127,244,602)	(120,208,641)	(118,609,820)	(175,105,784)	(172,250,267)	(170,820,815)
Total primary government net position (deficit)	**$ 34,969,174**	**$ 9,816,721**	**$ (4,955,191)**	**$ (9,650,316)**	**$ (15,450,687)**	**$ (4,070,508)**	**$ 7,321,662**	**$ (40,963,434)**	**$ (30,312,471)**	**$ (21,342,075)**

[1] Governmental activities' unrestricted net position reflects a negative balance because of outstanding bonded debt issued to build capital assets for school districts and other local governmental entities and unfunded employee-related obligations—net pension liability, net other postemployment benefits obligation and compensated absences.

[2] In fiscal year 2011, the net position of governmental activities and business-type activities changed primarily as a result of the reclassification of the $1.2 billion beginning net position of the California State University Fund from a governmental fund to an enterprise fund.

[3] In fiscal year 2014, the net position of governmental activities and business-type activities changed primarily as a result of the reclassification of the $380 million beginning net position of the Public Buildings Construction Fund from an enterprise fund to an internal service fund.

[4] In fiscal year 2015, the net position of governmental activities and business-type activities significantly decreased as a result of implementing GASB Statements No. 68 and No. 71 requiring the recognition of net pension liability and related pension expense and deferred outflows and inflows of resources.

Schedule of Changes in Net Position

For the Past Ten Fiscal Years

(accrual basis of accounting, amounts in thousands)

	2008	2009	2010	2011 [5]	2012	2013	2014 [6]	2015	2016	2017
Governmental activities										
Expenses										
General government [1]	$ 13,187,080	$ 13,895,948	$ 12,454,969	$ 13,520,557	$ 14,411,737	$ 15,390,100	$ 14,292,179	$ 15,804,281	$ 16,686,037	$ 17,400,482
Education	65,130,420	65,643,486	61,764,385	56,486,944	51,288,647	50,586,387	54,719,677	59,521,018	65,467,497	67,377,805
Health and human services	74,309,784	79,077,015	80,799,454	92,475,364	89,939,730	94,069,749	105,037,102	122,063,805	127,543,288	135,090,171
Natural resources and environmental protection	6,333,252	5,626,359	6,019,104	5,853,278	5,950,635	5,670,922	5,854,685	6,419,591	6,988,442	7,342,079
Business, consumer services, and housing	1,129,063	1,518,402	979,962	1,405,019	1,241,269	1,475,486	589,715	903,782	814,676	1,163,511
Transportation	13,068,043	11,980,315	14,155,767	11,119,644	13,719,927	12,836,192	13,427,229	12,897,591	12,120,820	12,947,296
Corrections and rehabilitation	10,504,182	10,835,203	10,310,229	10,295,564	10,343,574	10,081,736	11,234,705	11,483,573	11,875,294	13,086,499
Interest on long-term debt	4,184,631	3,801,283	4,146,259	4,377,064	4,365,181	4,349,632	4,699,265	4,880,625	4,231,581	4,191,283
Total expenses	**187,846,455**	**192,378,011**	**190,630,129**	**195,533,434**	**191,260,700**	**194,460,204**	**209,854,557**	**233,974,266**	**245,727,635**	**258,599,126**
Program revenues										
Charges for services:										
General government [1]	4,404,126	4,781,126	4,918,132	5,057,082	6,841,334	6,196,586	5,994,608	6,502,363	6,525,736	5,825,533
Education	3,343,205	3,483,072	4,231,692	110,423	81,212	64,480	67,165	53,498	66,298	74,548
Health and human services	5,191,548	4,256,069	3,769,794	8,471,261	4,940,650	8,761,781	7,961,897	8,259,696	10,630,859	11,638,503
Natural resources and environmental protection	2,648,952	2,578,738	2,597,712	2,797,264	2,866,232	3,269,315	3,403,524	4,546,413	4,823,861	3,998,751
Business, consumer services, and housing	692,348	658,486	654,034	660,196	724,222	682,503	586,055	626,960	823,189	844,445
Transportation	3,987,958	4,210,461	5,420,261	4,010,433	4,342,668	4,082,616	4,247,258	4,382,901	4,532,300	4,611,244
Corrections and rehabilitation	27,702	21,592	18,097	14,981	16,757	45,153	13,645	18,557	19,411	17,988
Operating grants/contributions	45,849,413	57,828,622	75,469,783	67,849,215	58,777,006	60,943,536	69,861,130	84,896,237	86,628,827	89,497,290
Capital grants/contributions	1,207,101	1,142,691	962,388	1,272,326	2,193,189	1,669,021	1,515,890	1,319,430	1,480,351	3,027,780
Total program revenues	**67,352,353**	**78,960,857**	**98,041,893**	**90,243,181**	**80,783,270**	**85,714,991**	**93,651,172**	**110,606,055**	**115,530,832**	**119,536,082**
Total governmental activities net program expenses	**(120,494,102)**	**(113,417,154)**	**(92,588,236)**	**(105,290,253)**	**(110,477,430)**	**(108,745,213)**	**(116,203,385)**	**(123,368,211)**	**(130,196,803)**	**(139,063,044)**
General revenues and other changes in net position										
General revenues:										
Personal income taxes	55,355,266	45,709,344	43,866,857	51,719,107	54,368,347	67,502,738	68,793,292	78,098,865	80,303,076	85,712,013
Sales and use taxes	34,856,824	31,244,979	33,784,106	33,521,221	31,216,438	33,839,065	36,477,724	38,224,080	39,121,061	38,726,332
Corporation taxes	11,207,468	10,741,140	9,472,611	9,384,416	8,629,935	7,289,910	9,102,128	10,720,647	9,213,173	11,128,198
Motor vehicle excise taxes [2]	—	—	—	—	5,263,435	5,219,605	5,777,167	5,393,994	5,028,589	4,878,953
Insurance taxes	2,190,870	2,063,555	2,235,251	2,311,880	2,408,473	2,295,579	3,359,043	3,926,319	4,203,885	2,719,489
Managed care organization enrollment tax [3]	—	—	—	—	—	—	—	—	—	2,282,313
Other taxes [2]	5,594,970	5,264,685	5,234,531	7,768,010	2,368,748	2,498,248	2,302,231	2,235,498	2,158,874	2,574,456
Investment and interest	639,059	175,584	114,933	62,946	72,237	57,285	80,969	58,016	131,615	149,135
Escheat	282,287	315,642	149,996	229,146	372,215	551,580	487,937	400,807	304,960	325,755
Gain (loss) on early extinguishment of debt [4]	—	—	—	—	—	—	(54,537)	—	40,516	30,986
Transfers	54,994	21,015	(13,441,875)	(3,251,598)	(2,031,032)	(1,997,759)	(2,296,010)	(2,554,970)	(2,800,101)	(3,083,437)
Total general revenues and other changes in net position	**110,181,738**	**95,535,944**	**81,416,410**	**101,745,128**	**102,668,796**	**117,256,251**	**124,029,944**	**136,503,256**	**137,705,648**	**145,444,193**
Total governmental activities change in net position	**$ (10,312,364)**	**$ (17,881,210)**	**$ (11,171,826)**	**$ (3,545,125)**	**$ (7,808,634)**	**$ 8,511,038**	**$ 7,826,559**	**$ 13,135,045**	**$ 7,508,845**	**$ 6,381,149**

(continued)

[1] Tax relief program expenses and revenues reported separately prior to fiscal year 2009 are now included with "general government."

[2] Motor vehicle excise taxes, reported separately in fiscal year 2012 due to material increases, were included with "other taxes" in prior years.

[3] In fiscal year 2017, the State restructured its managed care organization enrollment tax to conform to federal Medicaid requirements. This tax revenue was included with "insurance taxes" in prior years.

[4] In fiscal year 2014, a component unit assumed debt on behalf of the primary government. In fiscal year 2016, the California State University, an enterprise fund, assumed debt on behalf of the Public Buildings Construction Fund, an internal service fund. In fiscal year 2017, the Golden State Tobacco Securitization Corporation, a nonmajor special revenue fund, recognized a gain from the current refunding of a portion of its capital appreciation bonds.

[5] In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.

[6] In fiscal year 2014, the Public Buildings Construction Fund was reclassified from an enterprise fund to an internal service fund.

Schedule of Changes in Net Position (continued)

For the Past Ten Fiscal Years
(accrual basis of accounting, amounts in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Business-type activities										
Expenses										
Electric Power	$ 5,362,000	$ 4,560,000	$ 3,908,000	$ 2,317,000	$ 915,000	$ 488,000	$ 835,000	$ 799,000	$ 728,000	$ 945,000
Water Resources	1,009,214	914,837	1,069,662	1,115,793	1,047,574	1,127,195	983,048	1,019,378	1,086,650	1,223,340
Public Buildings Construction [5]	371,904	420,465	494,332	390,173	403,853	410,404	—	—	—	—
State Lottery	3,173,060	3,069,365	3,166,447	3,507,524	4,431,709	4,499,451	5,078,935	5,560,299	6,315,957	6,271,875
Unemployment Programs	10,622,582	19,609,068	29,614,598	25,619,138	21,111,658	17,599,219	13,673,403	11,390,227	11,458,966	11,907,623
California State University [4]	—	—	—	5,851,355	6,181,397	6,196,541	6,544,936	6,847,789	7,199,277	8,001,396
High Technology Education	16,916	15,590	15,025	9,590	7,778	6,568	847	—	—	—
State University Dormitory Building Maintenance and Equipment	699,018	486,349	856,106	—	—	—	—	—	—	—
State Water Pollution Control Revolving	13,056	12,261	16,893	10,953	8,780	3,698	5,072	9,082	11,814	17,112
Housing Loan	132,101	130,777	122,114	104,667	89,570	70,356	57,206	58,280	55,627	62,885
Other enterprise programs	122,921	147,441	130,329	118,006	78,601	58,578	79,641	77,475	84,188	75,397
Total expenses	**21,522,772**	**29,366,153**	**39,393,506**	**39,044,199**	**34,275,920**	**30,460,010**	**27,258,088**	**25,761,530**	**26,940,479**	**28,504,628**
Program revenues										
Charges for services:										
Electric Power	5,362,000	4,560,000	3,908,000	2,317,000	915,000	488,000	835,000	799,000	728,000	945,000
Water Resources	1,009,214	914,837	1,069,662	1,115,793	1,047,574	1,127,195	983,048	1,019,378	1,086,650	1,223,340
Public Buildings Construction [5]	384,816	366,151	430,069	456,467	428,260	616,041	—	—	—	—
State Lottery	3,242,828	3,051,320	3,145,259	3,484,689	4,484,291	4,445,921	5,077,976	5,553,418	6,367,902	6,213,074
Unemployment Programs	8,829,018	14,273,975	11,255,098	24,678,783	21,947,781	18,597,962	15,167,258	13,402,902	13,866,028	14,437,094
California State University [4]	—	—	—	2,505,545	2,915,123	2,891,432	3,014,030	3,113,988	3,172,154	3,224,919
High Technology Education	20,600	15,975	13,015	10,498	8,452	5,585	424	—	—	—
State University Dormitory Building Maintenance and Equipment	640,208	811,454	599,571	—	—	—	—	—	—	—
State Water Pollution Control Revolving	71,404	59,923	56,121	55,957	57,540	60,173	62,985	65,959	70,245	75,912
Housing Loan	130,139	109,636	85,321	89,224	84,830	66,050	65,247	57,742	53,617	52,842
Other enterprise programs	137,476	124,952	98,957	105,676	74,693	80,540	77,671	78,625	82,029	93,177
Operating grants/contributions	—	—	—	1,216,808	1,249,995	1,323,345	1,491,559	1,666,292	1,764,962	1,805,406
Capital grants/contributions	189,064	71,882	91,808	86,272	106,057	142,304	80,903	107,746	66,914	61,027
Total program revenues	**20,016,767**	**24,360,105**	**20,752,881**	**36,122,712**	**33,319,596**	**29,844,548**	**26,856,101**	**25,865,050**	**27,258,501**	**28,131,791**
Total business-type activities net program revenues (expenses)	**(1,506,005)**	**(5,006,048)**	**(18,640,625)**	**(2,921,487)**	**(956,324)**	**(615,462)**	**(401,987)**	**103,520**	**318,022**	**(372,837)**
Other changes in net position										
Gain (loss) on early extinguishment of debt [3]	—	—	—	—	—	—	(26,913)	—	—	—
Transfers	(54,994)	(21,015)	13,441,875	3,251,598	2,031,032	1,997,759	2,296,010	2,554,970	2,800,101	3,083,437
Total business-type activities change in net position	**(1,560,999)**	**(5,027,063)**	**(5,198,750)**	**330,111**	**1,074,708**	**1,382,297**	**1,867,110**	**2,658,490**	**3,118,123**	**2,710,600**
Total primary government change in net position	**$ (11,873,363)**	**$ (22,908,273)**	**$ (16,370,576)**	**$ (3,215,014)**	**$ (6,733,926)**	**$ 9,893,335**	**$ 9,693,669**	**$ 15,793,535**	**$ 10,626,968**	**$ 9,091,749**

(concluded)

Schedule of Fund Balances – Governmental Funds

For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	2008	2009	2010	2011 [1]	2012	2013	2014	2015	2016	2017
General Fund										
Reserved	$ 2,113,149	$ 2,260,504	$ 1,320,782	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Unreserved	(6,282,018)	(18,344,400)	(20,929,640)	—	—	—	—	—	—	—
Nonspendable	—	—	—	148,019	7,614	140,107	128,609	53,431	75,939	103,903
Restricted	—	—	—	156,496	80,849	178,643	394,246	2,266,635	4,044,911	7,429,825
Committed	—	—	—	29,850	19,600	22,879	125,120	102,793	68,102	180,755
Unassigned	—	—	—	(20,273,606)	(23,069,351)	(14,596,085)	(8,092,571)	(4,651,491)	(3,827,224)	(1,904,097)
Total General Fund	**$ (4,168,869)**	**$ (16,083,896)**	**$ (19,608,858)**	**$ (19,939,241)**	**$ (22,961,288)**	**$ (14,254,456)**	**$ (7,444,596)**	**$ (2,228,632)**	**$ 361,728**	**$ 5,810,386**
All other governmental funds										
Reserved	$ 19,512,083	$ 27,465,566	$ 41,087,578	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Unreserved, reported in:										
Special revenue funds	(1,817,290)	(3,539,254)	(8,554,611)	—	—	—	—	—	—	—
Capital projects funds	(837,349)	686,113	838,879	—	—	—	—	—	—	—
Nonspendable	—	—	—	39,448	—	15,022	27,260	5,620	11,188	20,172
Restricted	—	—	—	27,709,325	24,790,661	24,137,270	24,269,093	24,224,167	24,885,166	26,233,389
Committed	—	—	—	2,701,702	2,109,089	2,318,035	2,914,747	4,090,563	5,652,478	5,847,879
Assigned	—	—	—	268,888	3	209,171	18,857	16,767	14,622	12,033
Unassigned	—	—	—	(21,847)	(103,177)	(176,066)	(20,145)	(6,456)	(1,037)	(15,152)
Total all other governmental funds	**$ 16,857,444**	**$ 24,612,425**	**$ 33,371,846**	**$ 30,697,516**	**$ 26,796,576**	**$ 26,503,432**	**$ 27,209,812**	**$ 28,330,661**	**$ 30,562,417**	**$ 32,098,321**

Note: In fiscal year 2011, the State implemented GASB Statement No. 54, which significantly changed the fund balance classifications. Fiscal year 2011 and subsequent fund balance classifications are not comparable to prior years' classifications.

[1] In fiscal year 2011, the California State University Fund, which consisted of a $1.2 billion beginning fund balance, was reclassified from a governmental fund to an enterprise fund.

Schedule of Changes in Fund Balances - Governmental Funds

For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	2008	2009	2010	2011 [4]	2012	2013	2014	2015	2016	2017
Revenues										
Personal income taxes	$ 55,197,062	$ 45,482,726	$ 43,884,798	$ 51,691,153	$ 54,442,733	$ 67,424,576	$ 68,771,667	$ 78,245,616	$ 79,934,285	$ 85,737,905
Sales and use taxes	34,764,651	31,425,308	33,696,412	33,488,805	31,205,183	33,869,961	36,409,311	38,389,972	39,136,040	38,741,715
Corporation taxes	11,201,468	10,738,140	9,467,611	9,433,416	8,609,935	7,261,910	9,242,454	10,780,647	9,214,173	11,125,198
Motor vehicle excise taxes [1]	—	—	—	—	5,263,435	5,219,605	5,777,167	5,393,994	5,028,589	4,878,953
Insurance taxes	2,190,870	2,063,555	2,235,251	2,311,881	2,408,473	2,295,579	3,359,043	3,926,319	4,203,885	2,719,489
Managed care organization enrollment tax [2]	—	—	—	—	—	—	—	—	—	2,282,313
Other taxes [1]	5,675,894	5,245,416	5,235,801	7,829,662	2,306,717	2,425,184	2,297,025	2,312,875	2,185,690	2,565,928
Intergovernmental	48,969,006	61,053,091	79,183,291	69,160,916	62,235,671	64,418,808	73,000,600	87,740,667	91,069,753	95,709,784
Licenses and permits	5,326,854	5,805,369	6,900,747	6,767,437	6,600,001	6,659,078	6,957,117	7,270,994	7,612,551	8,113,542
Charges for services	1,025,569	986,773	974,181	1,008,647	728,980	741,201	769,302	849,895	870,142	860,241
Fees and penalties	6,800,633	6,204,288	7,291,894	10,262,387	8,315,452	10,673,104	9,757,476	10,510,727	11,882,699	11,571,934
Investment and interest	1,591,025	1,108,058	281,881	212,116	175,898	135,928	137,754	119,690	232,285	318,502
Escheat	282,287	315,642	149,996	229,146	372,215	551,580	488,945	406,899	305,394	327,614
Other	4,265,010	3,933,035	3,555,282	2,941,484	2,542,505	3,227,347	2,903,335	3,975,144	4,049,789	2,934,157
Total revenues	**177,290,329**	**174,361,401**	**192,857,145**	**195,337,050**	**185,207,198**	**204,903,861**	**219,871,196**	**249,923,439**	**255,725,275**	**267,887,275**
Expenditures										
General government [3]	12,745,860	13,075,901	12,036,503	12,997,651	13,484,305	15,748,069	14,778,214	16,202,395	16,715,892	17,250,720
Education	64,367,612	63,857,066	59,229,726	55,547,139	50,362,337	49,692,763	53,309,436	62,952,621	65,213,542	67,224,796
Health and human services	74,102,708	78,731,136	80,321,470	91,941,309	89,473,391	94,621,630	104,781,494	122,259,036	127,201,314	134,372,094
Natural resources and environmental protection	6,123,609	5,209,684	5,456,904	5,254,757	5,358,575	5,318,332	5,508,860	6,006,446	6,278,363	6,712,838
Business, consumer services, and housing	1,239,397	1,266,068	1,088,494	1,183,536	1,219,499	1,259,392	621,037	670,774	1,130,213	1,103,694
Transportation	14,747,506	13,803,518	14,083,790	13,181,390	15,684,611	15,008,671	15,721,532	15,137,217	14,814,829	15,007,639
Corrections and rehabilitation	9,972,507	9,883,593	9,553,992	9,253,791	9,805,846	9,681,086	10,395,234	11,182,926	11,450,980	12,276,391
Capital outlay	1,724,074	1,432,376	1,691,674	1,128,011	1,296,413	1,222,342	1,909,010	1,019,335	1,492,442	1,238,700
Debt service:										
Bond and commercial paper retirement	8,970,533	5,131,600	3,259,203	3,118,906	4,435,992	5,189,150	7,002,941	8,482,380	6,929,866	9,364,550
Interest and fiscal charges	3,394,433	3,584,358	4,022,922	4,355,110	4,453,643	4,363,260	4,321,040	4,473,799	4,057,907	3,986,270
Total expenditures	**197,388,239**	**195,975,300**	**190,744,678**	**197,961,600**	**195,574,612**	**202,104,695**	**218,348,798**	**248,386,929**	**255,285,348**	**268,537,692**
Excess (deficiency) of revenues over (under) expenditures	(20,097,910)	(21,613,899)	2,112,467	(2,624,550)	(10,367,414)	2,799,166	1,522,398	1,536,510	439,927	(650,417)
Other financing sources (uses)										
General obligation bonds and commercial paper issued	14,193,760	16,764,085	12,039,472	4,525,000	4,165,515	4,038,095	5,082,305	4,343,165	4,074,980	4,325,075
Revenue bonds issued	—	97,635	—	—	—	—	—	—	—	—
Refunding/remarketing debt issued	1,798,685	—	4,176,050	—	4,300,555	4,634,365	2,077,330	5,086,100	5,220,320	7,074,225
Payment to refund/remarket long-term debt	(1,844,006)	—	(4,221,604)	—	(4,508,834)	(3,174,613)	(328,024)	(3,865,093)	(4,378,328)	(3,038,281)
Premium on bonds issued	295,439	126,107	267,980	32,607	667,931	964,211	505,026	1,116,811	1,037,920	1,309,254
Proceeds from loans	—	—	1,996,737	35,538	—	—	—	—	—	—
Capital leases [4]	268,686	364,813	811,816	204,631	528,804	710,440	1,486,204	625,282	1,148,774	988,680
Transfers in	11,414,132	6,776,476	6,548,447	8,705,229	5,523,644	2,957,762	4,041,250	5,344,134	4,385,123	4,586,199
Transfers out	(11,336,764)	(6,689,658)	(19,952,766)	(11,902,800)	(7,499,131)	(4,898,754)	(6,304,047)	(7,934,754)	(7,130,142)	(7,551,627)
Total other financing sources	**14,789,932**	**17,439,458**	**1,666,132**	**1,600,205**	**3,178,484**	**5,231,506**	**6,560,044**	**4,715,645**	**4,358,647**	**7,693,525**
Total change in fund balance	**$ (5,307,978)**	**$ (4,174,441)**	**$ 3,778,599**	**$ (1,024,345)**	**$ (7,188,930)**	**$ 8,030,672**	**$ 8,082,442**	**$ 6,252,155**	**$ 4,798,574**	**$ 7,043,108**
Debt service as a percentage of noncapital expenditures	6.5%	4.6%	3.9%	3.9%	4.7%	4.9%	5.3%	5.3%	4.4%	5.1%

[1] Motor vehicle excise taxes, reported separately in fiscal year 2012 due to material increases, were included with "other taxes" in prior years.

[2] In fiscal year 2017, the State restructured its managed care organization enrollment tax to conform to federal Medicaid requirements. This tax revenue was included with "insurance taxes" in prior years.

[3] Tax relief program expenditures reported separately prior to fiscal year 2009 are now included with general government.

[4] In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.

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Revenue Capacity

Revenue capacity schedules contain information to help the reader assess the State's capacity to raise revenue and the sources of that revenue. This section includes the following revenue capacity schedules.

Schedule of Revenue Base

Schedule of Revenue Payers by Income Level/Industry

Schedule of Personal Income Tax Rates

Schedule of Revenue Base

For the Past Ten Calendar Years
(amounts in thousands)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Personal Income by Industry										
(items restated as footnoted) [1]										
Farm earnings	$ 12,862,117	$ 10,766,257	$ 11,973,440	$ 12,433,312	$ 14,373,226	$ 15,953,332	$ 18,381,388	$ 19,463,549	$ 18,661,343	$ 15,872,000
Forestry, fishing, and other natural resources	6,094,846	6,089,767	6,147,847	6,566,707	6,854,997	7,638,250	8,068,569	8,511,313	9,351,456	10,160,466
Mining	5,194,458	7,140,140	4,119,811	4,514,175	5,106,115	6,001,577	6,428,622	6,628,561	5,727,684	4,231,333
Construction and utilities	89,077,633	75,328,934	65,061,973	62,660,496	61,873,357	66,556,171	73,683,266	79,126,958	87,361,101	94,648,028
Manufacturing	125,304,412	123,299,811	113,518,283	115,688,797	120,111,759	124,899,276	126,311,618	133,433,738	139,915,578	145,337,426
Wholesale trade	58,385,776	57,972,229	52,454,196	53,682,251	57,472,618	60,035,740	62,295,590	65,542,786	70,011,444	70,485,793
Retail trade	80,873,164	73,042,916	68,818,022	70,039,926	73,130,362	77,231,735	79,105,234	82,216,813	86,491,921	87,516,068
Transportation and warehousing	33,337,952	32,451,085	30,688,997	31,303,667	34,174,605	35,593,342	37,370,800	39,914,010	43,082,388	47,841,859
Information, finance, and insurance	127,946,372	118,123,454	120,213,222	130,736,844	135,518,145	143,425,308	154,787,569	158,547,236	173,355,466	183,634,571
Real estate and rental and leasing	25,073,627	32,287,873	33,903,893	36,358,312	45,843,400	52,588,792	50,457,768	47,968,810	49,788,062	50,384,164
Services	416,568,707	436,006,483	419,074,508	430,851,698	458,596,036	496,398,719	500,793,929	537,783,007	576,156,172	604,328,409
Federal, civilian	21,578,358	22,347,584	23,426,267	25,978,417	26,293,383	26,445,830	26,044,538	26,624,720	27,768,798	28,486,679
Military	13,447,304	14,560,197	15,558,704	16,264,215	16,059,376	15,919,310	15,351,742	14,997,338	14,851,842	15,347,937
State and local government	176,638,739	185,038,204	184,143,378	185,265,970	189,759,590	189,141,123	194,484,812	204,929,262	215,622,817	226,596,645
Other [2]	391,468,081	422,075,503	411,546,787	434,789,463	482,266,610	520,738,657	508,391,069	560,337,875	615,518,086	627,819,843
Total personal income	**$ 1,583,851,546**	**$ 1,616,530,437**	**$ 1,560,649,328**	**$ 1,617,134,250**	**$ 1,727,433,579**	**$ 1,838,567,162**	**$ 1,861,956,514**	**$ 1,986,025,976**	**$ 2,133,664,158**	**$ 2,212,691,221**
Average effective rate [3]	5.0%	5.7%	5.2%	4.7%	5.3%	5.0%	6.1%	5.6%	6.1%	6.0%

(continued)

Source: Bureau of Economic Analysis, U.S. Department of Commerce

[1] 2014 and 2015 information updated.

[2] Other personal income includes dividends, interest, rental income, residence adjustment, government transfers for individuals, and deductions for social insurance.

[3] The total direct rate for personal income is not available. The average effective rate equals personal income tax revenue divided by adjusted gross income.

Schedule of Revenue Base (continued)

For the Past Ten Calendar Years
(amounts in thousands)

	2007	2008	2009 [1]	2010	2011	2012	2013	2014	2015 [4]	2016
Taxable Sales by Industry [1]										
Retail:										
Apparel	$ 20,855,890	$ 22,120,094								
General merchandise	59,897,350	56,425,472								
Specialty	34,122,471	27,380,740								
Food	22,461,059	21,504,308								
Restaurants and bars	51,658,575	52,051,404								
Household	16,720,852	17,199,187								
Building materials	32,656,324	26,647,007								
Automotive	117,864,918	106,555,420								
Other	30,787,663	27,434,795								
Business and personal service	23,355,672	22,045,958								
All other	150,669,375	152,289,155								
Total taxable sales	**$ 561,050,149**	**$ 531,653,540**								
Direct sales tax rate [2]	5.25%	5.25%								
Taxable Sales by Industry (Using NAICS Codes) [1]										
Retail and Food Services:										
Motor vehicle and parts dealers			$ 44,488,198	$ 47,355,568	$ 53,303,501	$ 61,547,848	$ 67,986,436	$ 73,232,242	$ 80,346,595	$ 84,225,652
Furniture and home furnishings stores			8,481,020	8,742,984	9,280,688	9,937,187	10,645,523	11,408,837	12,169,888	12,790,401
Electronics and appliance stores			13,384,338	13,749,019	14,297,402	14,744,723	14,765,485	15,148,893	16,349,542	17,120,030
Building materials, garden equipment, and supplies			23,978,313	24,750,865	26,064,428	27,438,083	29,680,053	31,299,110	33,659,726	35,238,333
Food and beverage			22,546,285	22,787,407	23,606,132	24,511,714	25,289,203	26,298,414	27,939,656	27,678,056
Health and personal care stores			9,244,958	9,525,910	10,309,491	10,787,801	11,294,049	11,640,870	12,364,559	13,163,569
Gasoline stations			39,077,835	45,226,491	55,210,076	58,006,168	56,860,585	55,733,384	47,397,582	43,273,082
Clothing and clothing accessories stores			25,641,272	27,267,430	29,600,057	32,357,516	34,918,036	36,822,241	38,438,074	39,698,156
Sporting goods, hobby, book, and music stores			10,294,172	10,365,480	10,602,711	10,751,814	11,113,831	11,056,024	11,341,328	11,441,556
General merchandise stores			44,921,639	46,323,804	48,219,018	49,996,451	51,431,094	52,013,855	48,371,010	48,255,569
Miscellaneous store retailers			16,385,169	16,569,690	17,187,402	17,880,765	18,382,224	19,024,905	19,852,685	19,617,820
Nonstore retailers			2,849,864	2,830,615	3,081,188	4,375,432	7,296,839	8,292,788	9,531,606	11,717,407
Food services and drinking places			49,921,543	51,282,453	54,755,944	59,037,320	62,776,360	67,864,614	73,889,708	78,494,623
All other outlets			145,278,339	150,570,269	165,050,017	177,014,427	184,399,899	195,985,698	202,290,022	206,365,477
Total taxable sales			**$ 456,492,945**	**$ 477,347,985**	**$ 520,568,055**	**$ 558,387,249**	**$ 586,839,617**	**$ 615,821,875**	**$ 633,941,981**	**$ 649,079,731**
Direct sales tax rate [2]			6.25% [3]	6.25%	6.25%	6.25%	6.50%	6.50%	6.50%	6.50%

(concluded)

Source: California State Board of Equalization (BOE)

[1] Due to the BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 and forward is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008; as a result, 2009 was the first year that the BOE used the new format with NAICS codes.

[2] The direct sales tax rate used is the state tax rate that provides revenue to the State's General Fund. It does not include the 1% local tax rate that is allocated to cities and counties.

[3] Rate change was effective on April 1, 2009.

[4] Updated based on more current information.

Schedule of Revenue Payers by Income Level/Industry

For Calendar Years 2007 and 2015

Personal Income Tax Filers and Liability by Income Level [1]

	2007			
	Number of Filers	Percent of Total	Tax Liability [2]	Percent of Total
Under $ 50,000	9,475,072	63.1 %	$ 1,692,336	3.4 %
50,000 to 99,999	3,228,296	21.5	5,544,475	11.2
100,000 to 149,999	1,185,625	7.9	5,382,151	10.8
150,000 to 199,999	479,754	3.2	4,055,891	8.2
200,000 to 299,999	328,567	2.2	4,636,561	9.2
300,000 to 399,999	115,441	0.8	2,689,697	5.4
400,000 to 499,999	57,413	0.4	1,870,529	3.8
500,000 to 599,999	33,818	0.2	1,406,770	2.8
600,000 to 699,999	21,418	0.1	1,086,680	2.2
700,000 to 799,999	15,663	0.1	924,559	1.9
800,000 to 899,999	10,743	0.1	726,015	1.5
900,000 to 999,999	8,763	0.1	667,853	1.3
1,000,000 to 1,999,999	33,103	0.2	3,824,419	7.7
2,000,000 to 2,999,999	9,123	0.1	1,981,280	4.0
3,000,000 to 3,999,999	4,148	0.0	1,307,332	2.6
4,000,000 to 4,999,999	2,285	0.0	935,613	1.9
$ 5,000,000 and over	7,045	0.0	10,959,992	22.1
Total	**15,016,277**	**100.0 %**	**$ 49,692,153**	**100.0 %**

	2015			
	Number of Filers	Percent of Total	Tax Liability [2]	Percent of Total
Under $ 50,000	9,733,138	59.7 %	$ 1,493,142	2.1 %
50,000 to 99,999	3,457,434	21.2	6,048,161	8.6
100,000 to 149,999	1,423,390	8.7	6,871,415	9.7
150,000 to 199,999	671,279	4.1	5,862,855	8.3
200,000 to 299,999	524,092	3.3	7,575,259	10.7
300,000 to 399,999	191,247	1.2	4,471,203	6.3
400,000 to 499,999	91,808	0.6	3,043,316	4.3
500,000 to 599,999	50,815	0.3	2,164,174	3.1
600,000 to 699,999	32,404	0.2	1,708,745	2.4
700,000 to 799,999	21,106	0.1	1,331,637	1.8
800,000 to 899,999	15,130	0.1	1,115,407	1.6
900,000 to 999,999	11,665	0.1	990,301	1.4
1,000,000 to 1,999,999	43,790	0.3	5,849,776	8.3
2,000,000 to 2,999,999	11,041	0.1	2,910,335	4.1
3,000,000 to 3,999,999	4,828	0.0	1,879,590	2.7
4,000,000 to 4,999,999	2,727	0.0	1,405,595	2.0
$ 5,000,000 and over	8,051	0.0	15,956,198	22.6
Total	**16,293,945**	**100.0 %**	**$ 70,677,109**	**100.0 %**

Source: California Franchise Tax Board

[1] For California resident tax returns. Calendar year 2015 is the most recent year for which data is available.

[2] Amounts are in thousands.

For Calendar Years 2007 and 2016

Sales Tax Permits and Tax Liability by Industry

	2007 (Using Business Codes) [1]			
	Number of Permits [2]	Percent of Total	Tax Liability [3]	Percent of Total
Retail:				
Apparel	48,563	4.7 %	$ 1,094,934	3.7 %
General merchandise	21,016	2.0	3,144,611	10.7
Specialty	71,686	6.9	1,791,430	6.1
Food	24,259	2.4	1,179,206	4.0
Restaurants and bars	89,036	8.6	2,712,075	9.1
Household	32,410	3.1	877,845	3.0
Building materials	12,006	1.2	1,714,457	5.8
Automotive	43,040	4.2	6,187,908	21.0
Other	140,150	13.6	1,616,352	5.5
Business and personal service	102,018	9.9	1,226,173	4.2
All other	448,736	43.4	7,910,142	26.9
Total	**1,032,920**	**100.0 %**	**$ 29,455,133**	**100.0 %**

	2016 (Using NAICS Codes) [1]			
	Number of Permits	Percent of Total	Tax Liability	Percent of Total
Retail and Food Services:				
Motor vehicle and parts dealers	35,439	3.1 %	$ 5,474,667	13.0 %
Furniture and home furnishings stores	20,410	1.8	831,353	2.0
Electronics and appliance stores	25,161	2.2	1,112,802	2.6
Building materials, garden equipment, and supplies	18,259	1.6	2,290,492	5.4
Food and beverage	35,221	3.0	1,799,074	4.3
Health and personal care stores	41,108	3.6	855,632	2.0
Gasoline stations	10,179	0.9	2,812,750	6.7
Clothing and clothing accessories stores	106,575	9.4	2,580,380	6.1
Sporting goods, hobby, book, and music stores	36,193	3.2	743,701	1.8
General merchandise stores	27,025	2.4	3,136,612	7.4
Miscellaneous store retailers	187,503	16.5	1,275,158	3.0
Nonstore retailers	57,405	5.0	761,631	1.8
Food services and drinking places	111,249	9.8	5,102,150	12.1
All other outlets	426,456	37.5	13,413,756	31.8
Total	**1,138,183**	**100.0 %**	**$ 42,190,158**	**100.0 %**

Source: California Board of Equalization (BOE)

[1] Due to the BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 and forward is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008; as a result, 2009 was the first year that the BOE used the new format with NAICS codes.

[2] As of July 1.

[3] Calculated by multiplying the taxable sales by industry shown on pages 264 and 265 by the direct sales tax rate. Amounts are in thousands.

Schedule of Personal Income Tax Rates

For Calendar Years 2007-2016

Married Filing Jointly and Surviving Spouse

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Tax Rate [1]	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level
1.0	Up to $13,654	Up to $14,336	Up to $14,120	Up to $14,248	Up to $14,632	Up to $14,910	Up to $15,164	Up to $15,498	Up to $15,700	Up to $16,030
2.0	13,655 – 32,370	14,337 – 33,988	14,121 – 33,478	14,249 – 33,780	14,633 – 34,692	14,911 – 35,352	15,165 – 35,952	15,499 – 36,742	15,701 – 37,220	16,031 – 38,002
4.0	32,371 – 51,088	33,989 – 53,642	33,479 – 52,838	33,781 – 53,314	34,693 – 54,754	35,353 – 55,794	35,953 – 56,742	36,743 – 57,990	37,221 – 58,744	38,003 – 59,978
6.0	51,089 – 70,920	53,643 – 74,466	52,839 – 73,350	53,315 – 74,010	54,755 – 76,008	55,795 – 77,452	56,743 – 78,768	57,991 – 80,500	58,745 – 81,546	59,979 – 83,258
8.0	70,921 – 89,628	74,467 – 94,110	73,351 – 92,698	74,011 – 93,532	76,009 – 96,058	77,453 – 97,884	78,769 – 99,548	80,501 – 101,738	81,547 – 103,060	83,259 – 105,224
9.3	89,629 – 1,000,000	94,111 – 1,000,000	92,699 – 1,000,000	93,533 –1,000,000	96,059 – 1,000,000	97,885 – 500,000	99,549 – 508,500	101,739 – 519,688	103,061 – 526,444	105,225 – 537,500
10.3	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	500,001 – 600,000	508,501 – 610,200	519,689 – 623,624	526,445 – 631,732	537,501 – 644,998
11.3	—	—	—	—	—	600,001 – 1,000,000	610,201 – 1,000,000	623,625 – 1,000,000	631,733 – 1,000,000	644,999 – 1,000,000
12.3	—	—	—	—	—	$1,000,001 and over	1,000,001 – 1,017,000	1,000,001 – 1,039,374	1,000,001 – 1,052,886	1,000,001 – 1,074,996
13.3	—	—	—	—	—	—	$1,017,001 and over	$1,039,375 and over	$1,052,887 and over	$1,074,997 and over

Single and Married Filing Separately

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Tax Rate [1]	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level
1.0	Up to $6,827	Up to $7,168	Up to $7,060	Up to $7,124	Up to $7,316	Up to $7,455	Up to $7,582	Up to $7,749	Up to $7,850	Up to $8,015
2.0	6,828 – 16,185	7,169 – 16,994	7,061 – 16,739	7,125 – 16,890	7,317 – 17,346	7,456 – 17,676	7,583 – 17,976	7,750 – 18,371	7,851 – 18,610	8,016 – 19,001
4.0	16,186 – 25,544	16,995 – 26,821	16,740 – 26,419	16,891 – 26,657	17,347 – 27,377	17,677 – 27,897	17,977 – 28,371	18,372 – 28,995	18,611 – 29,372	19,002 – 29,989
6.0	25,545 – 35,460	26,822 – 37,233	26,420 – 36,675	26,658 – 37,005	27,378 – 38,004	27,898 – 38,726	28,372 – 39,384	28,996 – 40,250	29,373 – 40,773	29.990 – 41,629
8.0	35,461 – 44,814	37,234 – 47,055	36,676 – 46,349	37,006 – 46,766	38,005 – 48,029	38,727 – 48,942	39,385 – 49,774	40,251 – 50,869	40,774 – 51,530	41,630 – 52,612
9.3	44,815 – 1,000,000	47,056 – 1,000,000	46,350 – 1,000,000	46,767 – 1,000,000	48,030 –1,000,000	48,943 – 250,000	49,775 – 254,250	50,870 – 259,844	51,531 – 263,222	52,613 – 268,750
10.3	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	250,001 – 300,000	254,251 – 305,100	259,845 – 311,812	263,223 – 315,866	268,751 – 322,499
11.3	—	—	—	—	—	300,001 – 500,000	305,101 – 508,500	311,813 – 519,687	315,867 – 526,443	322,500 – 537,498
12.3	—	—	—	—	—	500,001 – 1,000,000	508,501 – 1,000,000	519,688 – 1,000,000	526,444 – 1,000,000	537,499 – 1,000,000
13.3	—	—	—	—	—	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over

Head of Household

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Tax Rate [1]	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level
1.0	Up to $13,662	Up to $14,345	Up to $14,130	Up to $14,257	Up to $14,642	Up to $14,920	Up to $15,174	Up to $15,508	Up to $15,710	Up to $16,040
2.0	13,663 – 32,370	14,346 – 33,989	14,131 – 33,479	14,258 – 33,780	14,643 – 34,692	14,921 – 35,351	15,175 – 35,952	15,509 – 36,743	15,711 – 37,221	16,041 – 38,003
4.0	32,371 – 41,728	33,990 – 43,814	33,480 – 43,157	33,781 – 43,545	34,693 – 44,721	35,352 – 45,571	35,953 – 46,346	36,744 – 47,366	37,222 – 47,982	38,004 – 48,990
6.0	41,729 – 51,643	43,815 – 54,225	43,158 – 53,412	43,546 – 53,893	44,722 – 55,348	45,572 – 56,400	46,347 – 57,359	47,367 – 58,621	47,983 – 59,383	48,991 – 60,630
8.0	51,644 – 61,000	54,226 – 64,050	53,413 – 63,089	53,894 – 63,657	55,349 – 65,376	56,401 – 66,618	57,360 – 67,751	58,622 – 69,242	59,384 – 70,142	60,631 – 71,615
9.3	61,001 – 1,000,000	64,051 – 1,000,000	63,090 – 1,000,000	63,658 – 1,000,000	65,377 – 1,000,000	66,619 – 340,000	67,752 – 345,780	69,243 – 353,387	70,143 – 357,981	71,616 – 365,499
10.3	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	340,001 – 408,000	345,781 – 414,936	353,388 – 424,065	357,982 – 429,578	365,500 – 438,599
11.3	—	—	—	—	—	408,001 – 680,000	414,937 – 691,560	424,066 – 706,774	429,579 – 715,962	438,600 – 730,997
12.3	—	—	—	—	—	680,001 – 1,000,000	691,561 – 1,000,000	706,775 – 1,000,000	715,963 – 1,000,000	730,998 – 1,000,000
13.3	—	—	—	—	—	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over

Source: California Franchise Tax Board (FTB)

[1] FTB tax brackets are indexed to the California Consumer Price Index and are adjusted accordingly on a yearly basis.

Average Effective Rate

(amounts in thousands)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Personal income tax revenue [1]	$ 53,289,524	$ 55,197,062	$ 45,482,726	$ 43,884,798	$ 51,691,153	$ 54,442,733	$ 66,220,132	$ 67,584,256	$ 76,879,115	$ 78,510,777
Adjusted gross income [2]	$ 1,059,967,500	$ 972,420,100	$ 881,160,200	$ 939,888,500	$ 980,167,100	$ 1,087,823,400	$ 1,091,080,300	$ 1,216,002,700	$ 1,265,341,200	$ 1,318,362,700
Average effective rate [3]	5.0%	5.7%	5.2%	4.7%	5.3%	5.0%	6.1%	5.6%	6.1%	6.0%

[1] Personal income tax revenue is reported on a fiscal year basis.
[2] Source: California Franchise Tax Board. Fiscal year 2016 information reflects returns processed as of December 2017.
[3] The average effective rate equals personal income tax revenue divided by adjusted gross income.

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Debt Capacity

Debt capacity schedules contain information to help the reader understand the State's outstanding debt, the capacity to repay that debt, and the ability to issue additional debt in the future. This section includes the following debt capacity schedules.

Schedule of Ratios of Outstanding Debt by Type

Schedule of Ratios of General Bonded Debt Outstanding

Schedule of General Obligation Bonds Outstanding

Schedule of Pledged Revenue Coverage

Sources: Unless otherwise noted, the information in the following schedules is derived from the State's Comprehensive Annual Financial Reports.

Schedule of Ratios of Outstanding Debt by Type

For the Past Ten Fiscal Years

(amounts in thousands, except per capita)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities										
General obligation bonds [1]	$ 56,424,532	$ 68,653,507	$ 77,745,789	$ 79,469,085	$ 81,060,111	$ 82,346,211	$ 83,276,347	$ 80,509,802	$ 79,043,295	$ 78,800,117
Revenue bonds [2]	7,811,832	7,767,855	7,611,939	7,511,092	7,421,198	7,735,053	18,917,443	18,409,971	17,210,499	16,879,900
Certificates of participation and commercial paper [3]	1,736,089	1,407,908	1,342,119	1,335,340	46,098	538,593	598,094	493,770	771,215	1,158,080
Capital lease obligations [4]	4,376,410	4,456,039	4,967,290	4,882,233	5,176,341	5,319,487	260,088	274,760	370,182	416,468
Total governmental activities	**70,348,863**	**82,285,309**	**91,667,137**	**93,197,750**	**93,703,748**	**95,939,344**	**103,051,972**	**99,688,303**	**97,395,191**	**97,254,565**
Business-type activities										
General obligation bonds [1]	1,907,243	1,702,377	1,477,663	1,218,639	1,118,634	887,053	674,394	650,133	794,369	703,754
Revenue bonds [2]	23,003,097	23,053,114	24,538,094	23,290,315	24,790,918	25,558,129	12,991,827	12,670,619	13,928,374	14,955,858
Commercial paper	67,204	51,307	64,518	139,974	67,325	77,560	204,647	237,186	47,416	147,765
Capital lease obligations	—	—	—	791,489	817,687	909,871	1,250,274	1,210,409	389,385	353,453
Total business-type activities	**24,977,544**	**24,806,798**	**26,080,275**	**25,440,417**	**26,794,564**	**27,432,613**	**15,121,142**	**14,768,347**	**15,159,544**	**16,160,830**
Total primary government	**$ 95,326,407**	**$ 107,092,107**	**$ 117,747,412**	**$ 118,638,167**	**$ 120,498,312**	**$ 123,371,957**	**$ 118,173,114**	**$ 114,456,650**	**$ 112,554,735**	**$ 113,415,395**
Debt as a percentage of personal income [5, 7]	6.0%	6.6%	7.5%	7.3%	7.0%	6.7%	6.3%	5.8%	5.3%	5.1%
Amount of debt per capita [6, 7]	$ 2,630	$ 2,926	$ 3,186	$ 3,178	$ 3,198	$ 3,246	$ 3,083	$ 2,959	$ 2,886	$ 2,890

Note: Details regarding the State's outstanding debt can be found in Notes 9, 12, 13, 15, and 16 of the financial statements.

[1] Beginning in fiscal year 2013, refunding gains/losses are no longer included in bonds payable, but are shown as deferred inflows and deferred outflows of resources.

[2] Prior to fiscal year 2014, the Public Buildings Construction Fund was included in business-type activities.

[3] All certificates of participation were retired in fiscal year 2016.

[4] Prior to fiscal year 2014, governmental activities reported a capital lease obligation to the Public Buildings Construction Fund. In fiscal year 2014, the fund was reclassified from an enterprise fund to an internal service fund and the governmental activities' obligation and the fund's net investment in direct financing leases were netted against each other within governmental activities.

[5] Ratio calculated using personal income data shown on pages 282 and 283 for the prior calendar year.

[6] Amount calculated using population data shown on pages 282 and 283 for the prior calendar year.

[7] Some prior years were updated based on more current information.

Schedule of Ratios of General Bonded Debt Outstanding

For the Past Ten Fiscal Years
(amounts in thousands, except per capita)

	2008	2009	2010	2011
Net general bonded debt				
General obligation bonds [1]	$ 47,828,805	$ 61,724,439	$ 71,284,447	$ 73,516,674
Economic Recovery bonds	10,502,970	8,631,445	7,939,005	7,171,050
Less: restricted debt service fund	552,326	894	113,172	143,777
Net Economic Recovery bonds [2]	**9,950,644**	**8,630,551**	**7,825,833**	**7,027,273**
Net general bonded debt	**$ 57,779,449**	**$ 70,354,990**	**$ 79,110,280**	**$ 80,543,947**
Net general bonded debt as a percentage of personal income [3, 5]	3.6%	4.4%	5.1%	5.0%
Amount of net general bonded debt per capita [4, 5]	$ 1,594	$ 1,922	$ 2,140	$ 2,157

	2012	2013	2014	2015	2016	2017
Net general bonded debt						
General obligation bonds [1]	$ 75,791,795	$ 78,001,049	$ 79,368,794	$ 80,215,650	$ 79,837,664	$ 79,503,871
Economic Recovery bonds	6,386,950	5,232,215	4,581,745	944,285	—	—
Less: restricted debt service fund	330,297	278,425	318,171	818,321	—	—
Net Economic Recovery bonds [2]	**6,056,653**	**4,953,790**	**4,263,574**	**125,964**	**—**	**—**
Net general bonded debt	**$ 81,848,448**	**$ 82,954,839**	**$ 83,632,368**	**$ 80,341,614**	**$ 79,837,664**	**$ 79,503,871**
Net general bonded debt as a percentage of personal income [3, 5]	4.7%	4.5%	4.5%	4.0%	3.7%	3.6%
Amount of net general bonded debt per capita [4, 5]	$ 2,172	$ 2,182	$ 2,182	$ 2,077	$ 2,047	$ 2,026

Note: Details regarding the State's general bonded debt outstanding can be found in Note 15 of the financial statements.

[1] Beginning in fiscal year 2013, refunding gains/losses are no longer included in bonds payable, but are shown as deferred inflows and deferred outflows of resources.

[2] In fiscal year 2016, the outstanding balance of the Economic Recovery bonds was defeased and the balance in the restricted debt service fund was transferred out.

[3] Ratio calculated using personal income data shown on pages 282 and 283 for the prior calendar year.

[4] Amount calculated using population data shown on pages 282 and 283 for the prior calendar year.

[5] Some prior years were updated based on more current information.

Schedule of General Obligation Bonds Outstanding

June 30, 2017
(amounts in thousands)

Governmental activity		
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection	$	1,978,855
California Library Construction and Renovation		235,635
California Park and Recreational Facilities		9,825
California Parklands		2,030
California Safe Drinking Water		45,965
California Stem Cell Research and Cures		1,110,470
California Wildlife, Coastal, and Park Land Conservation		93,015
Children's Hospital		1,210,760
Class Size Reduction Public Education Facilities		4,843,665
Clean Air and Transportation Improvement		619,040
Clean Water		7,625
Clean Water and Water Conservation		3,570
Clean Water and Water Reclamation		16,625
Community Parklands		2,115
County Correctional Facility Capital Expenditure		11,625
County Correctional Facility Capital Expenditure and Youth Facility		55,165
Disaster Preparedness and Flood Prevention		2,240,240
Earthquake Safety and Public Buildings Rehabilitation		51,945
Fish and Wildlife Habitat Enhancement		4,485
Higher Education Facilities		306,285
Highway Safety, Traffic Reduction, Air Quality, and Port Security		16,550,025
Housing Emergency Shelter		1,563,055
Housing and Homeless		1,170
Kindergarten-University Public Education Facilities		29,108,050
Lake Tahoe Acquisitions		50
New Prison Construction		21,910
Passenger Rail and Clean Air		25,775
Public Education Facilities		1,142,125
Safe, Clean, Reliable Water Supply		477,725
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection		1,275,430
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection		2,959,265
Safe Neighborhood Parks		1,299,355
Safe, Reliable High-Speed Passenger Train		2,024,145
School Building and Earthquake		11,970
School Facilities		828,390
Seismic Retrofit		999,040
State, Urban, and Coastal Park		3,175
Veterans' Homes		33,685
Veterans Housing and Homeless Prevention		2,650
Voting Modernization		165
Water Conservation		17,970
Water Conservation and Water Quality		22,595
Water Quality, Supply, and Infrastructure		119,015
Water Security, Clean Drinking Water, Coastal and Beach Protection		2,502,165
Total governmental activity		**73,837,840**
Business-type activity		
California Water Resources Development		88,300
Veterans' Farm and Home Building		613,440
Total business-type activity		**701,740**
Total outstanding general obligation bonds		**74,539,580**
Unamortized bond premiums/discounts		4,964,291
Total general obligation bonds payable	**$**	**79,503,871**

Source: California State Treasurer's Office

Schedule of Pledged Revenue Coverage

For the Past Ten Fiscal Years
(amounts in thousands)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
Housing Loans	2008	$ 130,139	$ 21,263	$ 108,876	$ 56,225	$ 33,333	$ 89,558	1.22
	2009	109,636	21,838	87,798	22,205	33,699	55,904	1.57
	2010	85,321	16,404	68,917	111,085	34,874	145,959	0.47
	2011	89,224	15,802	73,422	130,770	32,619	163,389	0.45
	2012	84,830	20,322	64,508	88,105	24,914	113,019	0.57
	2013	66,050	18,369	47,681	51,554	16,271	67,825	0.70
	2014	65,247	19,452	45,795	47,620	14,926	62,546	0.73
	2015	57,742	24,413	33,329	12,960	14,095	27,055	1.23
	2016	53,428	21,916	31,512	64,085	21,525	85,610	0.38
	2017	52,117	30,926	21,191	118,685	11,368	130,053	0.16
Water Resources	2008	$ 989,275	$ 773,362	$ 215,913	$ 100,945	$ 114,213	$ 215,158	1.00
	2009	914,837	694,598	220,239	80,347	130,219	210,566	1.04
	2010	1,042,843	837,459	205,384	97,360	124,296	221,656	0.93
	2011	1,096,196	880,540	215,656	108,870	117,668	226,538	0.95
	2012	1,045,812	852,404	193,408	116,150	121,804	237,954	0.81
	2013	1,127,195	822,637	304,558	174,660	145,660	320,320	0.95
	2014	973,508	798,653	174,855	150,911	107,727	258,638	0.68
	2015	1,019,378	607,407	411,971	203,481	200,563	404,044	1.02
	2016	1,086,650	796,591	290,059	171,455	84,099	255,554	1.14
	2017	1,223,340	941,984	281,356	134,185	34,408	168,593	1.67
Water Pollution Control	2008	$ 71,404	$ 4,521	$ 66,883	$ 23,585	$ 8,422	$ 32,007	2.09
	2009	59,923	4,416	55,507	22,930	7,747	30,677	1.80
	2010	53,365	9,880	43,485	23,655	6,928	30,583	1.42
	2011	49,585	4,876	44,709	24,390	5,996	30,386	1.47
	2012	50,183	2,849	47,334	24,285	4,984	29,269	1.62
	2013	51,642	1,055	50,587	45,755	533	46,288	1.09
	2014	54,968	1,739	53,229	13,000	355	13,355	3.99
	2015	56,350	1,092	55,258	13,000	293	13,293	4.16
	2016	59,034	321	58,713	13,000	2,199	15,199	3.86
	2017	65,635	350	65,285	12,940	12,458	25,398	2.57

(continued)

Source: California State Controller's Office

[1] Total gross revenue includes non-operating interest revenue. Building authorities' revenue includes operating transfers in. The nature of the revenue pledged for each type of debt is as follows: investment and interest earnings for Housing Loans bonds and Water Pollution Control bonds; charges for services and sales for Water Resources bonds; power sales revenue for Electric Power bonds; rental revenue for Public Buildings Construction bonds, High Technology Education bonds, CSU Channel Island Financing Authority bonds, and building authorities bonds; residence fees for California State University bonds; tobacco settlements and investment earnings for the Golden State Tobacco Securitization Corporation bonds; and federal transportation funds for Grant Anticipation Revenue Vehicles.

[2] Total operating expenses are exclusive of depreciation, interest expense, and amortization (recovery) of long-term prepaid charges and refunding gains/losses. Prior to fiscal year 2012, bond issuance costs were amortized over the term of the bond. Beginning fiscal year 2012, bond issuance costs are operating expenses in the fiscal year incurred.

[3] Debt service requirements include principal and interest of revenue bonds.

[4] All revenue bonds have been redeemed.

[5] In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.

[6] Federal transportation funds are the only source of state revenue to pay these bonds, and the state obligation to pay debt service on these bonds is limited to and dependent on receipt of the federal funds.

[7] Some prior years were updated based on more current information.

Schedule of Pledged Revenue Coverage (continued)

For the Past Ten Fiscal Years
(amounts in thousands)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
Electric Power	2008	$ 5,362,000	$ 4,323,000	$ 1,039,000	$ 470,000	$ 447,000	$ 917,000	1.13
	2009	4,560,000	3,604,000	956,000	493,000	399,000	892,000	1.07
	2010	3,908,000	3,007,000	901,000	518,000	373,000	891,000	1.01
	2011	2,317,000	1,427,000	890,000	460,000	344,000	804,000	1.11
	2012	915,000	29,000	886,000	556,000	354,000	910,000	0.97
	2013	488,000	(408,000)	896,000	574,000	341,000	915,000	0.98
	2014	835,000	(46,000)	881,000	611,000	312,000	923,000	0.95
	2015	799,000	(132,000)	931,000	618,000	268,000	886,000	1.05
	2016	728,000	(182,000)	910,000	669,000	253,000	922,000	0.99
	2017	945,000	(29,000)	974,000	690,000	215,000	905,000	1.08
Public Buildings Construction	2008	$ 384,816	$ 33,566	$ 351,250	$ 342,582	$ 331,355	$ 673,937	0.52
	2009	366,151	78,489	287,662	360,559	335,248	695,807	0.41
	2010	430,069	120,565	309,504	377,998	367,055	745,053	0.42
	2011	423,775	507	423,268	394,490	383,185	777,675	0.54
	2012	426,960	13,211	413,749	405,585	384,400	789,985	0.52
	2013	616,041	13,479	602,562	554,985	395,073	950,058	0.63
	2014	431,890	14,403	417,487	412,085	439,888	851,973	0.49
	2015	462,703	3,646	459,057	782,975	492,868	1,275,843	0.36
	2016	413,807	6,455	407,352	1,192,065	452,796	1,644,861	0.25
	2017	447,238	6,899	440,339	481,680	402,201	883,881	0.50
High Technology Education [4]	2008	$ 20,600	$ 3,511	$ 17,089	$ 22,265	$ 13,344	$ 35,609	0.48
	2009	15,975	3,837	12,138	36,730	11,704	48,434	0.25
	2010	13,015	5,009	8,006	19,665	9,977	29,642	0.27
	2011	10,498	681	9,817	19,995	8,878	28,873	0.34
	2012	8,452	—	8,452	21,105	7,754	28,859	0.29
	2013	5,585	—	5,585	22,275	6,568	28,843	0.19
	2014	424	—	424	24,771	847	25,618	0.02
California State University [5]	2008	$ 640,209	$ 511,895	$ 128,314	$ 105,229	$ 115,928	$ 221,157	0.58
	2009	811,454	261,628	549,826	43,572	129,238	172,810	3.18
	2010	599,572	577,765	21,807	47,815	151,988	199,803	0.11
	2011	3,722,414	5,455,059	(1,732,645)	56,344	172,231	228,575	(7.58)
	2012	4,165,118	5,770,880	(1,605,762)	138,535	174,914	313,449	(5.12)
	2013	4,215,258	5,754,800	(1,539,542)	126,395	181,969	308,364	(4.99)
	2014	4,505,589	6,376,502	(1,870,913)	257,964	173,424	431,388	(4.34)
	2015	4,780,280	6,363,534	(1,583,254)	400,412	177,642	578,054	(2.74)
	2016	4,937,116	6,672,956	(1,735,840)	114,585	166,964	281,549	(6.17)
	2017	5,030,325	7,479,645	(2,449,320)	120,570	200,678	321,248	(7.62)
CSU Channel Islands Financing Authority [4]	2008	$ 245	$ 13	$ 232	$ —	$ 556	$ 556	0.42
Building Authorities	2008	$ 79,077	$ 68	$ 79,009	$ 47,475	$ 27,260	$ 74,735	1.06
	2009	78,733	68	78,665	48,594	25,028	73,622	1.07
	2010	76,535	—	76,535	50,948	34,058	85,006	0.90
	2011	63,168	—	63,168	51,957	20,071	72,028	0.88
	2012	57,386	—	57,386	36,473	22,889	59,362	0.97
	2013	53,441	—	53,441	38,400	18,390	56,790	0.94
	2014	53,157	—	53,157	39,895	29,882	69,777	0.76
	2015	54,090	—	54,090	38,800	19,701	58,501	0.92
	2016	48,722	—	48,722	19,815	14,502	34,317	1.42
	2017	40,718	—	40,718	27,420	10,096	37,516	1.09
Golden State Tobacco Securitization Corporation [7]	2008	$ 445,097	$ —	$ 445,097	$ 129,120	$ 326,631	$ 455,751	0.98
	2009	493,448	—	493,448	116,960	320,679	437,639	1.12
	2010	393,487	—	393,487	138,260	316,038	454,298	0.87
	2011	361,974	—	361,974	60,230	315,268	375,498	0.96
	2012	368,853	—	368,853	65,765	312,815	378,580	0.97
	2013	555,392	—	555,392	623,510	308,056	931,566	0.60
	2014	355,918	—	355,918	50,910	325,884	376,794	0.94
	2015	414,992	394	414,598	133,900	292,173	426,073	0.97
	2016	365,300	586	364,714	70,535	299,935	370,470	0.98
	2017	370,612	462	370,150	745,888	308,638	1,054,526	0.35
Grant Anticipation Revenue Vehicles [6]	2008	$ 71,945	$ —	$ 71,945	$ 50,985	$ 20,960	$ 71,945	1.00
	2009	77,193	—	77,193	55,275	21,918	77,193	1.00
	2010	83,272	—	83,272	62,335	20,937	83,272	1.00
	2011	84,294	—	84,294	64,785	19,509	84,294	1.00
	2012	84,290	—	84,290	67,730	16,560	84,290	1.00
	2013	84,296	—	84,296	70,990	13,306	84,296	1.00
	2014	84,289	—	84,289	74,400	9,889	84,289	1.00
	2015	84,289	—	84,289	78,090	6,199	84,289	1.00
	2016	11,393	—	11,393	8,970	2,423	11,393	1.00
	2017	11,390	—	11,390	9,360	2,030	11,390	1.00

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Demographic and Economic Information

The ***demographic and economic*** schedules contain trend information to help the reader understand the environment in which the State's financial activities occur. This section includes the following demographic and economic schedules.

Schedule of Demographic and Economic Indicators

Schedule of Employment by Industry

Schedule of Demographic and Economic Indicators

For the Past Ten Calendar Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Population (in thousands) [1]										
California	36,250	36,604	36,961	37,333	37,677	38,011	38,335	38,681	38,994	39,250
% Change	0.6%	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%	0.9%	0.8%	0.7%
United States	301,231	304,094	306,772	309,348	311,663	313,998	316,205	318,563	320,897	323,128
% Change	1.0%	1.0%	0.9%	0.8%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Total personal income (in millions) [1]										
California	$ 1,583,852	$ 1,616,530	$ 1,560,649	$ 1,617,134	$ 1,727,434	$ 1,838,567	$ 1,861,957	$ 1,986,026	$ 2,133,664	$ 2,212,691
% Change	3.9%	2.1%	-3.5%	3.6%	6.8%	6.4%	1.3%	6.7%	7.4%	3.7%
United States	$ 11,995,419	$ 12,492,705	$ 12,079,444	$ 12,459,613	$ 13,233,436	$ 13,904,485	$ 14,068,960	$ 14,811,388	$ 15,547,661	$ 15,912,777
% Change	5.4%	4.1%	-3.3%	3.1%	6.2%	5.1%	1.2%	5.3%	5.0%	2.3%
Per capita personal income [1, 2]										
California	$ 43,692	$ 44,162	$ 42,224	$ 43,317	$ 45,849	$ 48,369	$ 48,570	$ 51,344	$ 54,718	$ 56,374
% Change	3.2%	1.1%	-4.4%	2.6%	5.8%	5.5%	0.4%	5.7%	6.6%	3.0%
United States	$ 39,821	$ 41,082	$ 39,376	$ 40,277	$ 42,461	$ 44,282	$ 44,493	$ 46,494	$ 48,451	$ 49,246
% Change	4.4%	3.2%	-4.2%	2.3%	5.4%	4.3%	0.5%	4.5%	4.2%	1.6%
Labor force and employment (in thousands)										
California										
Civilian labor force	17,921	18,203	18,208	18,316	18,385	18,511	18,573	18,941	18,996	19,099
Employed	16,961	16,890	16,145	16,052	16,227	16,740	17,044	17,600	17,894	18,141
Unemployed	960	1,313	2,064	2,265	2,158	1,771	1,530	1,341	1,102	957
Unemployment rate	5.4%	7.2%	11.3%	12.4%	11.7%	9.6%	8.2%	7.1%	5.8%	5.0%
United States employment rate	4.6%	5.8%	9.3%	9.6%	8.9%	8.1%	7.4%	6.2%	5.3%	4.9%

Sources: Economic Research Unit, California Department of Finance; Bureau of Economic Analysis, U.S. Department of Commerce; Labor Market Information Division, California Employment Development Department; and Bureau of Labor Statistics, U.S. Department of Labor.

[1] Some prior years were updated based on more current information.

[2] Calculated by dividing total personal income by population.

Schedule of Employment by Industry

For Calendar Years 2007 and 2016

	2007		2016	
	Employees	Percent of Total State Employment	Employees	Percent of Total State Employment
Industry				
Services	6,300,900	39.6 %	7,522,300	44.3 %
Government				
Federal	247,000	1.6	247,200	1.5
Military	53,700	0.3	60,200	0.4
State and Local	2,247,600	14.1	2,267,400	13.4
Retail trade	1,688,800	10.6	1,682,500	9.9
Manufacturing	1,469,100	9.2	1,305,600	7.7
Information, finance, and insurance	1,084,100	6.8	1,067,700	6.3
Construction and utilities	950,500	6.1	832,900	4.9
Wholesale trade	716,600	4.5	722,500	4.3
Transportation and warehousing	449,700	2.8	526,500	3.1
Farming	383,700	2.4	426,700	2.5
Real estate	283,500	1.8	278,400	1.6
Natural resources and mining	26,700	0.2	24,500	0.1
Total	**15,901,900**	**100.0 %**	**16,964,400**	**100.0 %**

Source: Labor Market Information Division, California Employment Development Department

Operating Information

The ***operating information*** schedules assist the reader in evaluating the size, efficiency, and effectiveness of the State's government. This section includes the following operating information schedules.

Schedule of Full-time Equivalent State Employees by Function

Schedule of Operating Indicators by Function

Schedule of Capital Asset Statistics by Function

Schedule of Full-time Equivalent State Employees by Function

For the Past Ten Fiscal Years

Fiscal Year	General Government	Education	Health and Human Services	Natural Resources and Environmental Protection	State and Consumer Services	Business, Transportation, and Housing	Corrections and Rehabilitation	Total
2008	21,825	134,832	49,330	20,868	15,840	42,139	58,284	343,118
2009	22,347	135,720	50,996	21,985	16,350	42,254	60,957	350,609
2010	30,390	133,642	43,663	22,223	15,868	40,590	59,401	345,777
2011	32,535	138,017	48,638	23,611	17,043	44,844	67,272	371,960

Fiscal Year	General Government[1]	Education	Health and Human Services	Natural Resources and Environmental Protection	Business, Consumer Services, and Housing[1]	Transportation[1]	Corrections and Rehabilitation	Total
2012	44,673	131,039	46,431	24,199	6,236	41,758	62,472	356,808
2013	43,241	132,492	43,431	23,796	5,395	39,222	58,742	346,319
2014	43,858	136,244	44,343	24,156	5,409	39,015	60,871	353,896
2015	45,383	139,958	44,589	24,996	5,552	39,636	60,745	360,859
2016	42,904	146,552	40,943	22,804	5,083	39,050	53,344	350,680
2017	44,844	154,479	41,350	23,880	5,153	38,375	53,662	361,743

Source: Annual Governor's Budget Summary, California Department of Finance

Note: The number of full-time equivalent employees is calculated by counting each person who works full time as one full-time equivalent and those who work part time as fractional equivalents based on time worked.

[1] Effective July 1, 2013, under the Governor's 2012 Reorganization Plan No. 2, a significant reorganization took place that impacted previously reported functions. The Government Operations Agency, including but not limited to Franchise Tax Board, Department of General Services, and the Public Employees' Retirement System, was created and added to the General Government function. Also, 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.

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Schedule of Operating Indicators by Function

For the Past Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government										
State Lottery										
Total revenue [1]	$ 3,050	$ 2,955	$ 3,041	$ 3,439	$ 4,371	$ 4,446	$ 5,035	$ 5,525	$ 6,276	$ 6,233
Allocation to Education Fund [1]	$ 1,069	$ 1,028	$ 1,072	$ 1,103	$ 1,300	$ 1,262	$ 1,328	$ 1,364	$ 1,563	$ 1,499
Judicial Council of California										
Supreme Court [2, 9]										
Cases filed	10,752	9,485	9,759	10,328	9,232	8,029	7,907	7,860	8,079	N/A
Cases disposed	10,581	9,674	9,528	10,186	9,713	8,481	7,765	7,546	7,946	N/A
Courts of Appeal [9]										
Notices of appeal filed [3]										
Civil	5,913	5,958	6,122	6,258	6,505	6,052	5,983	6,062	5,935	N/A
Criminal	6,681	6,819	6,857	6,877	6,387	6,004	6,373	7,113	6,714	N/A
Juvenile	2,900	2,858	2,759	2,106	2,830	2,713	2,857	3,036	3,025	N/A
Trial Courts [9]										
Total civil cases [4]										
Filings	1,582,092	1,729,796	1,648,074	1,572,623	1,458,898	1,358,481	1,265,129	1,147,282	1,147,318	N/A
Dispositions	1,280,201	1,537,400	1,530,314	1,591,033	1,436,658	1,327,078	1,216,115	1,116,842	1,022,678	N/A
Department of Food and Agriculture										
Milk production (million lbs.) [5, 9]	41,203	39,512	40,385	41,462	41,801	41,256	42,339	40,897	40,469	N/A
Farm land (thousand acres) [5, 9]	25,400	25,500	25,500	25,600	25,600	25,500	25,500	25,400	25,400	N/A
Education										
Public Colleges and Universities										
Fall enrollment [9]										
Community Colleges	1,823,727	1,822,835	1,747,231	1,655,073	1,582,303	1,582,453	1,578,782	1,593,882	1,591,268	N/A
California State University	437,008	433,054	412,372	426,534	436,560	446,530	460,200	474,571	478,638	N/A
University of California	226,040	231,853	234,464	236,691	238,617	244,126	252,263	257,438	270,112	278,996
K-12 Schools										
Fall enrollment										
Public	6,275,469	6,252,011	6,190,425	6,217,002	6,220,993	6,226,989	6,236,672	6,235,520	6,226,737	6,228,235
Private	564,734	536,393	531,111	515,143	497,019	516,119	511,286	503,295	500,543	490,966

(continued)

Sources: California State Lottery; Judicial Council of California; U.S. Department of Agriculture, National Agricultural Statistics Service; California Departments of the California Highway Patrol, Finance, Fish and Wildlife, Education, Public Health, Motor Vehicles, Transportation, and Corrections and Rehabilitation; Employment Development Department; California Energy Commission; and Franchise Tax Board.

[1] Dollars in millions.

[2] Includes death penalty cases, habeas related to automatic appeals, petitions for review, original proceedings, and State Bar matters.

[3] Includes only one notice of appeal per case.

[4] Includes personal injury, property damage, wrongful death, small claims, family law, probate, and other cases.

[5] Data based on calendar year.

[6] Total nonfarm and farm.

[7] Data compiled from a 10% sample of California licensed drivers.

[8] A center-line mile is measured by the yellow dividing strip that runs down the middle of the road, regardless of the number of lanes on each side.

[9] Some prior years were updated based on more current information.

[10] The amount for fiscal year 2017 is projected.

N/A = Not Available

Schedule of Operating Indicators by Function (continued)

For the Past Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Health and Human Services										
Department of Public Health										
Vital statistics										
Live births [5, 9, 10]	551,567	526,774	509,974	502,023	503,788	494,390	500,748	504,304	507,917	511,110
Department of Social Services										
Calfresh programs households (avg. per month)	892,992	1,067,358	1,340,857	1,576,042	1,757,387	1,898,283	2,004,016	2,102,031	2,130,583	2,032,818
Employment Development Department										
Number of employed [5, 6, 9]	15,142,000	14,326,300	14,476,400	14,614,600	15,240,400	16,109,200	16,062,300	16,474,800	16,904,100	N/A
Resources										
Department of Fish and Wildlife										
Sport fishing licenses sold [9, 5]	2,857,236	2,838,776	2,410,008	2,483,680	2,580,762	2,539,244	2,490,383	2,484,124	2,507,149	2,497,353
Hunting licenses sold [9, 5]	1,670,190	1,679,864	1,677,864	1,863,202	1,988,422	2,032,788	1,979,809	2,130,872	2,142,312	1,940,730
California Energy Commission										
Electrical energy generation plus net imports (gigawatt hours) [9]	307,431	298,452	291,189	293,827	302,416	296,408	297,237	296,041	290,571	N/A
Business, Consumer Services, and Housing										
Franchise Tax Board										
Personal Income Tax [5, 9]										
Number of tax returns filed	14,806,335	14,638,204	14,814,427	15,042,359	15,152,800	15,487,100	15,877,000	16,257,600	16,547,100	N/A
Taxable income [1]	$ 799,490	$ 729,658	$ 794,758	$ 838,347	$ 948,523	$ 949,655	$ 1,064,347	$ 1,107,474	$ 1,154,906	N/A
Total tax liability [1]	$ 41,676	$ 38,870	$ 44,472	$ 43,921	$ 58,652	$ 55,679	$ 66,583	$ 68,498	$ 71,348	N/A
Corporation Tax [5, 9]										
Number of tax returns filed	722,358	727,675	738,224	754,315	784,086	801,045	828,080	865,593	N/A	N/A
Income reported for taxation [1]	$ 67,921	$ 55,367	$ 96,965	$ 93,456	$ 96,772	$ 101,913	$ 122,976	$ 140,534	N/A	N/A
Total tax liability [1]	$ 9,106	$ 7,858	$ 8,604	$ 7,808	$ 6,921	$ 7,166	$ 8,593	$ 9,235	N/A	N/A
Transportation										
California Highway Patrol										
Total number of DUI arrests [5, 9]	97,019	95,135	89,814	86,901	79,993	76,860	73,425	65,016	60,202	52,549
Department of Motor Vehicles										
Motor vehicle registration [5, 9]	31,920,649	31,799,398	31,987,821	31,802,483	31,946,422	32,903,847	33,550,486	34,346,325	35,310,563	N/A
License issued by age [5, 7, 9]										
Under age 18	244,481	229,545	218,997	227,069	224,809	221,385	223,024	221,250	225,569	N/A
Between 18-80	22,922,361	22,910,011	23,001,119	23,150,222	23,462,971	23,824,697	24,195,705	25,089,910	25,639,270	N/A
Over age 80	552,150	560,491	579,397	579,207	602,508	597,350	595,739	603,691	619,807	N/A
Department of Transportation										
Highway center-line miles – rural [5, 8, 9]	10,811	10,808	10,785	10,780	10,784	10,315	10,312	10,407	10,259	N/A
Highway center-line miles – urban [5, 8, 9]	4,393	4,384	4,375	4,353	4,363	4,789	4,787	4,685	4,833	N/A
Correctional Programs										
Department of Corrections and Rehabilitation										
Division of Adult Institutions										
Institution population at December 31 each year	170,283	167,922	162,200	147,181	132,768	134,333	134,431	127,815	129,415	130,263
Division of Juvenile Justice										
Institution population at June 30 each year	1,877	1,589	1,474	1,263	922	712	675	681	690	638

(concluded)

Schedule of Capital Asset Statistics by Function

For the Past Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government										
Department of Food and Agriculture										
Vehicles and mobile equipment [1]	818	803	746	809	804	792	747	747	752	677
Square footage of structures (in thousands)	453	466	466	466	466	455	455	455	455	462
Department of Justice										
Vehicles and mobile equipment	826	870	816	677	531	527	520	520	484	511
Department of Military										
Vehicles and mobile equipment	206	182	208	249	233	211	211	211	217	218
Square footage of structures (in thousands)	3,387	3,383	3,154	3,530	3,511	3,623	4,019	3,977	3,965	3,954
Department of Veterans Affairs										
Veterans homes	3	5	6	6	6	8	8	8	8	8
Vehicles and mobile equipment	251	120	113	132	143	267	285	285	235	280
Square footage of structures (in thousands)	1,598	1,683	1,600	2,086	2,086	2,488	2,543	2,541	2,541	2,552
Education										
California State University										
Vehicles and mobile equipment [1]	3,994	4,015	4,338	4,415	4,415	4,466	4,619	4,619	4,558	4,286
Campuses	23	23	23	23	23	23	23	23	23	23
Square footage of structures (in thousands)	63,971	66,686	69,049	71,287	73,785	73,866	73,316	73,988	75,292	75,786
Health and Human Services										
Department of Developmental Services										
Vehicles and mobile equipment	839	701	569	818	789	632	424	571	640	559
Developmental centers	7	7	5	5	5	4	4	3	3	3
Square footage of structures (in thousands)	5,186	5,187	5,185	5,294	5,294	5,279	5,308	4,699	3,664	3,664
Department of State Hospitals [2]										
Vehicles and mobile equipment	638	658	665	709	718	699	886	752	678	674
State hospitals	5	5	5	5	5	7	7	7	8	5
Square footage of structures (in thousands)	6,364	6,348	6,331	6,331	6,336	6,457	6,460	6,445	6,445	5,944

(continued)

Source: California Department of General Services (DGS)

[1] For fiscal year 2008, DGS was not able to obtain complete data from the agency.

[2] In fiscal year 2012, portions of the Department of Mental Health became the Department of State Hospitals.

Schedule of Capital Asset Statistics by Function (continued)

For the Past Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Resources										
Department of Fish and Wildlife										
Vehicles and mobile equipment	2,868	3,640	2,630	3,180	3,012	2,896	2,954	2,954	3,104	3,126
Square footage of structures (in thousands)	1,192	1,269	1,301	1,313	1,317	1,317	1,311	1,311	1,297	1,322
Department of Forestry and Fire										
Vehicles and mobile equipment	3,043	3,067	2,598	2,804	2,810	2,845	2,748	2,748	3,151	3,073
Square footage of structures (in thousands)	3,869	3,851	3,947	3,943	3,935	3,641	3,632	3,664	3,666	3,677
Department of Parks and Recreation										
Vehicles and mobile equipment	3,023	3,220	3,102	3,715	4,200	3,311	3,489	3,489	3,538	3,542
State Parks	279	278	278	279	280	280	279	280	280	280
Acres of state park land (in thousands)	1,248	1,331	1,365	1,334	1,333	1,590	1,590	1,605	1,605	1,617
Square footage of structures (in thousands)	6,350	6,350	6,350	6,433	6,623	6,598	6,751	6,761	6,790	7,363
State Lands Commission										
Vehicles and mobile equipment	49	57	47	50	42	42	41	41	41	43
Acres of land (in thousands)	4,491	4,491	4,491	4,491	4,491	4,489	4,489	4,482	4,480	4,480
Business, Consumer Services, and Housing										
Department of Consumer Affairs										
Vehicles and mobile equipment	726	718	574	578	574	518	554	554	588	596
Department of General Services										
Vehicles and mobile equipment	7,558	6,736	5,761	5,670	4,991	5,226	5,053	5,053	4,697	4,476
Square footage of structures (in thousands)	18,084	18,084	18,394	18,602	19,180	19,098	19,367	19,448	19,311	19,487
Transportation										
California Highway Patrol										
Vehicles and mobile equipment	5,228	5,914	5,422	5,337	5,013	5,341	5,170	5,170	5,167	5,336
Square footage of structures (in thousands)	1,118	1,118	1,135	1,135	1,149	1,149	1,166	1,169	1,211	1,191
Department of Motor Vehicles										
Vehicles and mobile equipment	434	417	366	366	366	294	295	295	287	276
Square footage of structures (in thousands)	1,848	1,855	1,855	1,842	1,842	1,842	1,845	1,786	1,780	1,777
Department of Transportation										
Vehicles and mobile equipment	11,098	13,346	11,302	12,759	12,690	11,767	11,596	11,596	11,776	11,585
Square footage of structures (in thousands)	6,229	6,434	6,444	6,519	8,131	8,170	7,960	7,965	7,968	7,960
Correctional Programs										
Department of Corrections and Rehabilitation										
Vehicles and mobile equipment [1]	7,908	7,778	5,787	5,985	5,952	5,156	5,137	5,968	5,291	8,079
Prisons and juvenile facilities	41	39	39	39	39	37	37	39	39	39
Square footage of structures (in thousands)	40,831	40,852	41,228	41,399	41,399	40,606	40,726	40,590	40,485	42,198

(concluded)

STATE OF CALIFORNIA
Office of the State Controller

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APPENDIX K

NOTICE OF SALE

NOTICE OF SALE

$101,755,000*

STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CS (Non-AMT)

NOTICE IS HEREBY GIVEN, that separate bids will be received on April 4, 2019 (the "Bid Date"), by the Honorable Fiona Ma, CPA, Treasurer of the State of California ("State Treasurer"), at the time and in the manner described below, for the purchase of two separate groups of bonds that will include different bonds as set forth below ("Bid Group A" and "Bid Group B," each a "Bid Group" and collectively, the "Bid Groups") together comprising the State of California Veterans General Obligation Bonds, Series CS (Non-AMT) (collectively, the "Offered Veterans G.O. Bonds"), expected to be dated and scheduled to be delivered on April 11, 2019. Bid Group A is comprised of the Offered Veterans G.O. Bonds maturing on December 1, 2049 (described in the Preliminary Official Statement as the PAC Bonds). Bid Group B is comprised of the Offered Veterans G.O. Bonds that are not included in Bid Group A. Each Bid Group will be sold separately, each on an all-or-none basis. Each bidder may submit separate bid(s) for one or more Bid Groups at its option. The sale and delivery of Bid Group A is dependent upon the sale and delivery of Bid Group B. The sale and delivery of Bid Group B is not dependent upon the sale and delivery of Bid Group A. Bids for the Offered Veterans G.O. Bonds will be evaluated and awarded as set forth below. Bidding procedures and sale terms are as follows. Capitalized terms used in this Notice of Sale and that are not defined shall have the same meanings ascribed to them in the Preliminary Official Statement (as defined below).

The State Treasurer reserves the right, prior to the acceptance of bids, to modify or amend this Notice of Sale (this Notice of Sale, together with any modifications or amendments, is referred to herein as the "Notice of Sale"), including (but not limited to) changing any or all of the following: (i) the aggregate principal amount of each Bid Group, (ii) the principal amount of each maturity in a Bid Group, (iii) the maturity schedule of each Bid Group, and (iv) the requirements relating to the interest rates on initial offering prices of or purchase prices for the Offered Veterans G.O. Bonds of a Bid Group. Any such modifications or amendments will be disseminated via MuniOS (www.munios.com) and posted on the Bid Service (as defined below) not later than 1:00 p.m. California time on April 3, 2019, which is one day prior to the Bid Date (provided that any delay in making such modification or amendment shall not affect the validity of the sale of the Offered Veterans G.O. Bonds). Any such modification or amendment will also be available on the State Treasurer's investor relations website at www.buycaliforniabonds.com. Failure of any bidder to receive such notice from MuniOS will not affect the legality of the sale. Bidders are required to bid upon the Offered Veterans G.O. Bonds in accordance with this Notice of Sale. The State Treasurer reserves the right to postpone or cancel the sale of the Offered Veterans G.O. Bonds of each or all Bid Groups at any time.

Any questions on the bidding procedures and sale terms set forth in this Notice of Sale, or any modification or amendment thereof, or any postponement or cancellation of the sale of one or all of the Bid Groups of the Offered Veterans G.O. Bonds, should be directed to Montague

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* Subject to change by amendment, modification or adjustment as described in this Notice of Sale.

DeRose and Associates, LLC ("Municipal Advisor"), 2175 North California Boulevard, Suite 422, Walnut Creek, California 94596; telephone (925) 256-9797, Attention: Natalie Perkins (email: perkins@montaguederose.com – referencing the "Offered Veterans G.O. Bonds (CalVet Series CS)" in the email subject line).

ISSUE: The Offered Veterans G.O. Bonds are described in the Preliminary Official Statement of the State of California (the "State") dated March 26, 2019 (the "Preliminary Official Statement").

BID GROUP A: Bid Group A consists of $32,855,000* aggregate principal amount of the Offered Veterans G.O. Bonds maturing on December 1, 2049 (the "PAC Bonds").

BID GROUP B: Bid Group B consists of $68,900,000* aggregate principal amount of the Offered Veterans G.O. Bonds maturing from December 1, 2019 to December 1, 2043.

TIME: Bids on Bid Group A must be delivered at or before 8:00 a.m. California time.

Bids on Bid Group B must be delivered at or before 8:45 a.m. California time.

PLACE: Bidders may electronically deliver bids as described under "ELECTRONIC BIDS" below or, in the alternative, bids may be hand delivered to Room 261 of the Office of the State Treasurer in Sacramento, California at 915 Capitol Mall.

FORMS: Each bidder is required to submit certain certificates prior to 3:00 p.m. California time on April 3, 2019. See "CERTIFICATES TO BE COMPLETED PRIOR TO BIDDING" below.

Each bidder (and not the State Treasurer) is responsible for the timely delivery of its bid with respect to a Bid Group whether delivered electronically or by hand. The official time will be determined by the State Treasurer and not by any bidder or the Bid Service.

TERMS RELATING TO THE OFFERED VETERANS G.O. BONDS

EACH BIDDER IS DEEMED TO HAVE OBTAINED AND REVIEWED THE PRELIMINARY OFFICIAL STATEMENT PRIOR TO BIDDING FOR THE OFFERED VETERANS G.O. BONDS. THE DESCRIPTION OF THE OFFERED VETERANS G.O. BONDS CONTAINED IN THIS NOTICE OF SALE IS QUALIFIED IN ALL RESPECTS BY THE DESCRIPTION CONTAINED IN THE PRELIMINARY OFFICIAL STATEMENT.

PRINCIPAL: The Offered Veterans G.O. Bonds in Bid Group A will be subject to mandatory sinking fund redemption on December 1 in the years and the amounts set forth in this Notice of Sale. See "REDEMPTION – Sinking Fund Redemption."

The Offered Veterans G.O. Bonds in Bid Group B will mature or be subject to mandatory sinking fund redemption on December 1 in the years and the amounts set forth in the Bid Form

* Subject to change by amendment, modification or adjustment as described in this Notice of Sale.

for Bid Group B attached to this Notice of Sale. Each bid for Bid Group B must specify whether the principal amount of the Offered Veterans G.O. Bonds in Bid Group B to be paid on each applicable date will be a payment at maturity of serial bonds or a mandatory sinking fund payment on term bonds. The mandatory sinking fund payments for each term bond in Bid Group B must be on consecutive principal payment dates immediately preceding the maturity date of that term bond, provided that no term bond may have a mandatory sinking fund payment on or prior to the first optional redemption date. See "REDEMPTION – Optional Redemption."

In addition, the principal amounts of the Offered Veterans G.O. Bonds are subject to adjustments after the receipt of bids, as provided in "ADJUSTMENT OF PRINCIPAL AMOUNTS AFTER THE RECEIPT OF BIDS."

INTEREST: Bidders must specify the rate or rates of interest the Offered Veterans G.O. Bonds will bear, subject to the following limitations. Interest will accrue from the date of delivery of the Offered Veterans G.O. Bonds (the "Closing Date"), which is expected to occur on April 11, 2019. Interest on the Offered Veterans G.O. Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Offered Veterans G.O. Bonds will be payable on December 1 and June 1 beginning December 1, 2019.

The Offered Veterans G.O. Bonds in Bid Group A will bear an interest rate of 4.00%.

Bidders for the Offered Veterans G.O. Bonds in Bid Group B may specify any number of separate rates and the same rate or rates may be repeated as often as desired, but:

- No Offered Veterans G.O. Bond in Bid Group B may bear an interest rate greater than 5.00% per annum;
- No Offered Veterans G.O. Bond in Bid Group B shall bear a zero rate of interest;
- No Offered Veterans G.O. Bond in Bid Group B shall bear more than one rate of interest;
- Each interest rate specified in any bid for Bid Group B must be a multiple of one-eighth or one-twentieth of one percent (1/8 or 1/20 of 1%) per annum; and
- Each Offered Veterans G.O. Bond in Bid Group B shall bear interest from its dated date to its stated maturity date or earlier redemption at the interest rate specified in the applicable bid.

PURCHASE PRICE: The purchase price of the Offered Veterans G.O. Bonds in Bid Group A may not be (i) less than 103% of the principal amount of such Offered Veterans G.O. Bonds or (ii) more than 110% of the principal amount of such Offered Veterans G.O. Bonds.

The purchase price of the Offered Veterans G.O. Bonds in Bid Group B may not be (i) less than 97% of the principal amount of such Offered Veterans G.O. Bonds or (ii) more than 100% of the principal amount of such Offered Veterans G.O. Bonds.

INITIAL REOFFERING PRICES: The initial reoffering price of each maturity of the Offered Veterans G.O. Bonds in Bid Group B must be at par (100%). Upon a request from the State Treasurer or its agent, bidders must promptly, in any case not later than 60 minutes after receiving the notice of award, submit information specifying the initial reoffering price of each maturity in their bid for the Offered Veterans G.O. Bonds in the applicable Bid Group and such additional information related to determining the issue price of the applicable bonds as set forth in this Notice of Sale. See also "PROMPT AWARD; SUBMISSION OF SIGNED BID", "ESTABLISHMENT OF ISSUE PRICE OF THE OFFERED VETERANS G.O. BONDS" and "CERTIFICATES TO BE COMPLETED BY EACH PURCHASER PRIOR TO CLOSING" below.

REDEMPTION:

Optional Redemption

The Offered Veterans G.O. Bonds maturing on or before December 1, 2028 are not subject to optional redemption prior to their respective stated maturity dates. The Offered Veterans G.O. Bonds maturing on or after December 1, 2029 are subject to optional redemption prior to their respective stated maturity dates, at the option of the State upon request of the Department of Veterans Affairs of the State of California (the "Department"), in whole or in part by lot within each maturity, on any date on or after December 1, 2028 from any moneys made available for such purpose, at a redemption price equal to 100% of the principal amount of the Offered Veterans G.O. Bonds to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption.

Sinking Fund Redemption

The Offered Veterans G.O. Bonds in Bid Group A are subject to redemption prior to their stated maturity date, in part, by lot, from sinking fund payments, at a redemption price of 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption, without premium, on the respective dates and in the respective amounts shown below (the "PAC Bonds Mandatory Sinking Fund Payments").

Mandatory Sinking Fund Payment Dates (December 1)	**Principal Amount Redeemed**
2043	$ 2,960,000
2044	4,935,000
2045	5,150,000
2046	5,385,000
2047	5,625,000
2048	5,880,000
2049†	2,920,000

† Stated Maturity

The Offered Veterans G.O. Bonds in Bid Group B will mature or be subject to mandatory sinking fund redemption on December 1 in the years and the amounts set forth in the Bid Form for Bid Group B attached to this Notice of Sale. Each bid for Bid Group B must specify whether the principal amount of the Offered Veterans G.O. Bonds in Bid Group B to be paid on each applicable date will be a payment at maturity of serial bonds or a mandatory sinking fund payment on term bonds. The mandatory sinking fund payments for each term bond in Bid Group B must be on consecutive principal payment dates immediately preceding the maturity date of that term bond, provided that no term bond may have a mandatory sinking fund payment on or prior to the first optional redemption date.

If less than all of a maturity of the Offered Veterans G.O. Bonds in Bid Group A or less than all of a maturity of the Offered Veterans G.O. Bonds in Bid Group B that are subject to mandatory sinking fund redemption (collectively, "Term Bonds") are purchased or called for redemption (other than in satisfaction of sinking fund payments), the State Treasurer will credit the principal amount of such Term Bonds that are so purchased or redeemed against the remaining sinking fund payments relating to such Term Bonds (including the principal amounts due on the respective maturity dates), as requested by the Department; *provided, however,* with respect to the PAC Bonds, the State Treasurer will credit the principal amount of the PAC Bonds so purchased or redeemed on a pro rata basis (as nearly as practicable) against the remaining sinking fund payments for the PAC Bonds.

Special Redemption from Unexpended Proceeds

The Offered Veterans G.O. Bonds are subject to special redemption on any date prior to their respective stated maturity dates at the option of the State upon request of the Department, from the moneys deposited in the GO Bond Series Proceeds Subaccount with respect to the Offered Veterans G.O. Bonds that have not been applied to finance Contracts of Purchase (a "Special Redemption from Unexpended Proceeds").

Any such Special Redemption from Unexpended Proceeds will be pro rata among outstanding maturities of the Offered Veterans G.O. Bonds and by lot within such maturity, at the principal amount thereof to be redeemed plus accrued interest to the date fixed for redemption, without premium (except that the PAC Bonds will be redeemed at the principal amount thereof to be redeemed plus accrued interest to the date fixed for redemption, plus a premium that maintains the same yield* to the unexpended proceeds redemption date as the initial reoffering price thereof established by the initial purchaser). See "– Special Mandatory Redemption of PAC Bonds" below.

Factors which may affect the demand for Contracts of Purchase and consequently the Department's ability to use all of the proceeds of the Offered Veterans G.O. Bonds for the financing of Contracts of Purchase include not only general economic conditions, but also (among other factors) the relationship between alternative mortgage loan interest rates (including rates on mortgage loans insured or guaranteed by agencies of the Federal government, rates on conventional mortgage loans and the rates on other Contracts of Purchase available from the Department), the interest rates being charged on Contracts of Purchase by the Department, the general level of home purchase and construction activity in the State and the demographics of the eligible veterans population. These factors could cause a lack of demand for Contracts of Purchase financed by the Offered Veterans G.O. Bonds and could necessitate the exercise by the Department of its right to apply the unexpended proceeds to redeem the Offered Veterans G.O. Bonds. See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience" in the Preliminary Official Statement for information regarding the recent rate of originations of Contracts of Purchase, and "— Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds" for the interest rates on Contracts of Purchase originated since January 1, 1990. For additional information, see APPENDIX B –

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* Calculated based on the assumption that the PAC Bonds are redeemed in each semiannual period such that the amount outstanding following each such redemption equals the related PAC Bonds Outstanding Amounts as set forth in the PAC Bonds Outstanding Amounts Table in "—Special Mandatory Redemption of PAC Bonds" below.

"THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Interest Rates" in the Preliminary Official Statement.

From time to time moneys may be or become available through the issuance of Veterans G.O. Bonds (such as the Offered Veterans G.O. Bonds) and Revenue Bonds (such as the 2019 Revenue Bonds) and from other moneys available in the 1943 Fund to finance Contracts of Purchase. Since the Department has full discretion, subject to eligibility requirements and the requirements of the Federal Tax Code, in applying the proceeds of all of these bonds and other available moneys in the 1943 Fund to finance the Program, the proceeds of prior and future, if any, Veterans G.O. Bonds and Revenue Bonds and other available moneys in the 1943 Fund may be used to finance Contracts of Purchase before proceeds of the Offered Veterans G.O. Bonds are so used. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Certain Statutory Requirements" in the Preliminary Official Statement for information regarding eligibility requirements for different moneys made available by the Department and APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments" in the Preliminary Official Statement for information regarding the amount of money currently available and expected to become available to finance Contracts of Purchase upon the issuance of the Offered Veterans G.O. Bonds.

Special Redemption from Excess Revenues

The Offered Veterans G.O. Bonds are subject to special redemption on any date prior to their respective stated maturity dates, at the option of the State upon request of the Department, from Excess Revenues (as defined below) derived from any Veterans G.O. Bonds or any Revenue Bonds, except that, as described below under "—Special Mandatory Redemption of PAC Bonds," Directed Prepayments (as defined below) must be applied to redeem the PAC Bonds, and the principal amount of the PAC Bonds redeemed from Directed Prepayments and other Excess Revenues is limited. Any such special redemption from Excess Revenues (other than Directed Prepayments that must be applied to redeem PAC Bonds) may be in whole or in part and of any maturity at the option of the State upon a request of the Department and by lot within such maturity, at the principal amount thereof to be redeemed plus accrued interest to the date fixed for redemption, without premium.

"Directed Prepayments" means, with respect to any semiannual period, an amount equal to all Prepayments on Offered Veterans G.O. Bonds Contracts of Purchase, provided, however, that such Prepayments are actually received by the Department and are not otherwise required by law or under the applicable bond resolutions to pay debt service on Veterans G.O. Bonds or Revenue Bonds.

"Prepayments" means all moneys received in connection with Contracts of Purchase other than interest and scheduled repayments of principal. Prepayments on Contracts of Purchase include, but are not limited to, principal prepayments, prepayment premiums or prepayment penalties, hazard insurance payments, payments in respect of partial or complete condemnation and recoveries on defaulted Contracts of Purchase.

“Offered Veterans G.O. Bonds Contracts of Purchase” means the Contracts of Purchase financed (or for which the Department is to be reimbursed) with proceeds of the Offered Veterans G.O. Bonds (including any original issue premium).

“Excess Revenues” means, as of any date of calculation, the amount of all Revenues (as defined below) held in the revenue account established under the Revenue Bond Resolution in excess of Accrued Debt Service (as defined below).

“Revenues” means all moneys received by or on behalf of the Department representing (i) principal and interest payments on the Contracts of Purchase including all prepayments representing the same and all prepayment premiums or penalties received by or on behalf of the Department with respect to the Contracts of Purchase, (ii) interest earnings received on the investment of amounts to the extent deposited in the revenue account established under the Revenue Bond Resolution, (iii) amounts transferred to the revenue account from the bond reserve account or the loan loss account established under the Revenue Bond Resolution, and (iv) any other amounts payable by parties executing Contracts of Purchase or private participants in the Program or related to recoveries on defaulted Contracts of Purchase, including origination and commitment fees, servicing acquisition fees, liquidation proceeds, and insurance proceeds, *except* to the extent not included as “Revenues” pursuant to the provisions of any resolution authorizing the issuance of a series of Revenue Bonds.

“Accrued Debt Service” means, as of any date of determination and, as the context requires, with respect to all Revenue Bonds and Veterans G.O. Bonds (including the Offered Veterans G.O. Bonds), the sum of: (i) the aggregate amount of scheduled interest and principal (except to the extent principal is otherwise to be redeemed pursuant to clause (ii) or (iii) below) to become due after such date but on or before the end of the current debt service year, *less* the product of (x) the number of whole months remaining in the current debt service year and (y) the Monthly Debt Service Requirement; (ii) the redemption price of bonds for which notice of redemption has been issued, provided such redemption price is to be paid from amounts on deposit in the revenue account established under the Revenue Bond Resolution; and (iii) the redemption price of bonds that the Department will be obligated to redeem prior to the end of the next succeeding debt service year under the terms of any resolution governing Revenue Bonds or Veterans G.O. Bonds, to the extent that such obligation arises on account of amounts on deposit in the revenue account established under the Revenue Bond Resolution.

“Monthly Debt Service Requirement” means, as of any date of determination, one-twelfth of the aggregate amount of scheduled interest and principal to become due during the debt service year in which such date falls, as computed on the first day of such debt service year.

Excess Revenues can include Prepayments and repayments on Contracts of Purchase funded by Revenue Bonds and Veterans G.O. Bonds, investment earnings and insurance receipts and Revenues which had been set aside to be recycled into new Contracts of Purchase. All payments on Contracts of Purchase are deposited in the 1943 Fund and applied to pay debt service on the Veterans G.O. Bonds and Revenue Bonds (including mandatory redemptions of Veterans G.O. Bonds and Revenue Bonds), to finance Contracts of Purchase, to pay Program and Department expenses, and to pay certain insurance claims. The Department, subject to applicable bond authorizing resolutions, may apply Excess Revenues to redeem any Veterans G.O. Bonds or Revenue Bonds eligible for redemption. The Department’s decision to apply Excess Revenues to redeem bonds, to finance Contracts of Purchase, or for any other permitted purpose depends on many factors, including but not limited to applicable bond authorizing resolution requirements, demand for Contracts of Purchase, debt service cost savings, investment earnings, and Federal Tax Code requirements. See APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Veterans G.O. Bonds and Revenue Bonds – Selected Information With Respect to Veterans G.O. Bonds and Revenue Bonds" in the Preliminary Official Statement. The Department also collects certain premiums from veterans in respect of the Fire and Hazard Insurance Program and Disaster Indemnity Program. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Property Insurance" in the Preliminary Official Statement.

The Department's actual past prepayment experience for existing Contracts of Purchase is set forth in APPENDIX D – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience" in the Preliminary Official Statement.

Special Mandatory Redemption of PAC Bonds

The PAC Bonds are subject to special mandatory redemption from Directed Prepayments at a redemption price of 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption. Such mandatory redemptions may occur on any date but, to the extent that there are Directed Prepayments, must occur at least once during each semiannual period ending on a June 1 or December 1, commencing with the period ending December 1, 2019. Such redemptions may be made, at the option of the State as requested by the Department, from sources other than Directed Prepayments, to the extent Directed Prepayments are not sufficient to satisfy the mandatory redemption. Any such redemption from Directed Prepayments or other sources must not result in the aggregate principal amount of the PAC Bonds outstanding following such redemption to be less than the related PAC Bonds Outstanding Amount for the related semiannual period as set forth in the table immediately following this paragraph (the "PAC Bonds Outstanding Amounts Table"). The PAC Bonds Outstanding Amounts set forth in the PAC Bonds Outstanding Amounts Table may be recalculated as described below due to a redemption of Offered Veterans G.O. Bonds from unexpended proceeds as described under "—Special Redemption from Unexpended Proceeds" above (as so recalculated, the "Applicable Outstanding Amount").

PAC BONDS OUTSTANDING AMOUNTS

Semiannual Period Ending	PAC Bonds Outstanding Amounts
April 11, 2019	$32,855,000†
December 1, 2019	32,765,000
June 1, 2020	32,210,000
December 1, 2020	31,055,000
June 1, 2021	29,320,000
December 1, 2021	27,035,000
June 1, 2022	24,340,000
December 1, 2022	21,605,000
June 1, 2023	18,980,000
December 1, 2023	16,460,000
June 1, 2024	14,040,000
December 1, 2024	11,720,000
June 1, 2025	9,495,000
December 1, 2025	7,365,000
June 1, 2026	5,325,000
December 1, 2026	3,370,000
June 1, 2027	1,500,000
December 1, 2027 and each December 1 and June 1 thereafter	0

† Principal amount at issuance.

If the Offered Veterans G.O. Bonds are redeemed from unexpended proceeds as described in "—Special Redemption from Unexpended Proceeds" above, then each PAC Bonds Outstanding Amount within each applicable semiannual period will be recalculated to reflect revised assumptions regarding the Offered Veterans G.O. Bonds Contracts of Purchase due to the reduction in the amount of proceeds that will finance such Offered Veterans G.O. Bonds Contracts of Purchase. The revised assumptions include a reduction in the aggregate principal amount of Offered Veterans G.O. Bonds Contracts of Purchase, the timing of their acquisition and their interest rates. In the event the PAC Bonds Outstanding Amounts are recalculated as a result of special redemption(s) of the Offered Veterans G.O. Bonds from unexpended proceeds, the resulting weighted average life structure of the PAC Bonds may differ from the original weighted average life structure of the PAC Bonds, which is based on the factors and assumptions described under "—Projected Weighted Average Lives of PAC Bonds" below. Neither the State nor the Department provides any assurances that any such recalculation will not be materially adverse to holders of the PAC Bonds.

Directed Prepayments in excess of the amount of such payments that must be applied in any semiannual period to redeem PAC Bonds, or that are received after the payment in full of the PAC Bonds, may be applied for any authorized purpose under the Series CS Resolutions authorizing Veterans G.O. Bonds or the resolutions authorizing Revenue Bonds, including the redemption of other Offered Veterans G.O. Bonds, Veterans G.O. Bonds and Revenue Bonds.

Assumptions Used in Calculating the PAC Bonds Outstanding Amounts; PSA Model

The PAC Bonds Outstanding Amounts set forth in the PAC Bonds Outstanding Amounts Table (subject to adjustment as described above) have been calculated based upon assumptions (the "PAC Bonds Assumptions") that include, among other assumptions, that all proceeds of the Offered Veterans G.O. Bonds available to purchase Contracts of Purchase are utilized for such purchases (as described further below), and that the Directed Prepayments are received at a rate equal to 100% of Securities Industry and Financial Markets Association ("SIFMA") (formerly the Public Securities Association) standard prepayment model for 30-year mortgage loans ("PSA"), as further described below. Since Prepayments on Contracts of Purchase cannot be predicted, the actual principal amount of and characteristics of the Offered Veterans G.O. Bonds Contracts of Purchase may differ from such assumptions.

The PAC Bonds Assumptions, including those regarding the expected rate of receipt of Directed Prepayments, may differ from the assumptions contained in the Cash Flow Statement (as described in APPENDIX B of the Preliminary Official Statement) required under the Revenue Bond Resolution to be delivered in connection with the issuance of the Offered Veterans G.O. Bonds. The State and the Department make no representation that actual experience will conform to the PAC Bonds Assumptions. Age and interest rates of Contracts of Purchase are factors that can affect the speeds at which Contracts of Purchase are prepaid.

Prepayments on mortgage loans, including obligations such as the Contracts of Purchase, are commonly measured relative to a prepayment standard or model. The model represents an assumed monthly rate of prepayment of the then-outstanding principal balance of a pool of new 30-year mortgage loans, and does not purport to be either a historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Offered Veterans G.O. Bonds Contracts of Purchase.

One hundred percent PSA assumes prepayment rates of 0.2% per year of the then-unpaid principal balance of such pool of mortgage loans in the first month of the life of such mortgage loans and an additional 0.2% per year in each month thereafter (for example, 0.4% per year in the second month) until the 30^{th} month. Beginning in the 30^{th} month and in each month thereafter during the life of the mortgage loans in such pool, 100% PSA assumes a constant prepayment rate of the mortgage loans in such pool of 6% per year. Multiples will be calculated from this prepayment rate sequence; e.g., 200% PSA assumes prepayment rates will be 0.4% per year in month one, 0.8% per year in month two, reaching 12% per year in the 30^{th} month and remaining constant at 12% per year thereafter.

Projected Weighted Average Lives of PAC Bonds

The weighted average life of a bond refers to the average of the length of time that will elapse from the date of issuance of such bond to the date each installment of principal is paid, weighted by the amount of such installment. The weighted average life of the PAC Bonds will be influenced by, among other factors, the rate at which Prepayments on Offered Veterans G.O. Bonds Contracts of Purchase are received.

Set forth in the following table (the "PAC Bonds Projected Weighted Average Life Table") are the projected weighted average lives (in years) of the PAC Bonds based upon various rates of receipt of Directed Prepayments expressed as percentages of PSA. The State and the Department have made no projections as to the weighted average lives of the PAC Bonds at rates of receipt of Directed Prepayments exceeding 500% of PSA. The PAC Bonds Projected Weighted Average Life Table assumes for each rate of receipt of Directed Prepayments that, among other things:

(i) approximately $14,320,000 of Offered Veterans G.O. Bonds Contracts of Purchase will be acquired on or before April 11, 2019,

(ii) approximately $89,700,000 of Offered Veterans G.O. Bonds Contracts of Purchase will be acquired on or before December 1, 2019,

(iii) all Offered Veterans G.O. Bonds Contracts of Purchase will be prepaid at the percentage of PSA indicated in the PAC Bonds Projected Weighted Average Life Table,

(iv) all scheduled principal repayments and scheduled interest payments on the Offered Veterans G.O. Bonds Contracts of Purchase will be timely received and the Department will experience no foreclosure losses on the Offered Veterans G.O. Bonds Contracts of Purchase,

(v) if Directed Prepayments are not sufficient to redeem the PAC Bonds up to the PAC Bonds Outstanding Amount for the applicable semiannual period described above, there will be no redemption of the PAC Bonds from other sources as described above under "—Special Mandatory Redemption of PAC Bonds,"

(vi) there will be no special redemption of the Offered Veterans G.O. Bonds from unexpended proceeds as described above under "—Special Redemption from Unexpended Proceeds,"

(vii) there will be no redemption of the PAC Bonds required for compliance with the Department's tax covenants that will reduce the principal amount of PAC Bonds Outstanding to an amount less than the Applicable Outstanding Amount, and,

(viii) the PAC Bonds will be redeemed, semi-annually on the last day of each semi-annual period.

Notwithstanding such assumptions, the State (upon request of the Department) may redeem the PAC Bonds pursuant to the provisions described under "—Special Mandatory Redemption of PAC Bonds" from sources other than Directed Prepayments, including as described under "—Optional Redemption" and "—Sinking Fund Redemption", and to redeem PAC Bonds more frequently than semi-annually and on days other than the last day of a semi-annual period. Some or all of the assumptions used in preparing the PAC Bonds Projected Weighted Average Life Table are unlikely to reflect actual experience.

PAC Bonds Projected Weighted Average Life

Prepayment Speed (expressed as a percentage of PSA)	PAC Bonds Projected Weighted Average Life (in years)	
	Optional Redemption[1] Not Exercised	Optional Redemption[1] Exercised on First Eligible Date
0%	26.9	9.6
25%	16.1	8.4
50%	8.7	7.2
75%	6.2	6.0
100%	5.0	5.0
200%	5.0	5.0
300%	5.0	5.0
400%	5.0	5.0
500%	5.0	5.0

[1] See "—Redemption – Optional Redemption." The first eligible optional redemption date is December 1, 2028.

PSA does not purport to be a prediction of the anticipated rate of receipt of Directed Prepayments, and there is no assurance that such Directed Prepayments will conform to any of the assumed rates of receipt. The State and the Department make no representation as to the percentage of the principal balance of the Offered Veterans G.O. Bonds Contracts of Purchase that will be paid or prepaid as of any date or as to the overall rate of receipt of Directed Prepayments.

The projected weighted average lives reflect a projected average of the periods of time for which the PAC Bonds are outstanding. They do not reflect the period of time that any particular Beneficial Owner's PAC Bonds will remain outstanding. At each prepayment speed, some Beneficial Owners' PAC Bonds will remain outstanding for periods of time shorter than the projected weighted average life, while some Beneficial Owners' PAC Bonds will remain outstanding for longer periods of time.

SECURITY: The Offered Veterans G.O. Bonds are general obligations of the State. The California Military and Veterans Code (the "Veterans Code") establishes in the State Treasury the Veterans' Bonds Payment Fund, a revolving special fund, and requires that on the dates when funds are to be remitted to bondholders for the payment of debt service on Veterans G.O. Bonds (including the Offered Veterans G.O. Bonds), there shall be transferred to the Veterans' Bonds Payment Fund to pay the debt service on such Veterans G.O. Bonds all of the money in the Veterans' Farm and Home Building Fund of 1943 (the "1943 Fund") (but not in excess of the amount of debt service then due and payable). Debt service on Veterans G.O. Bonds (including the Offered Veterans G.O. Bonds) is payable first from the moneys required under the Veterans Code to be transferred from the 1943 Fund to the Veterans' Bonds Payment Fund and second, if the moneys transferred from the 1943 Fund to the Veterans' Bonds Payment Fund are less than debt service then due and payable, the balance is payable from the General Fund of the State (the "General Fund"). The principal of and interest on all State general obligation bonds, including Veterans G.O. Bonds (as described above), are payable from the moneys in the General Fund, 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. The 1943 Fund is required to transfer to the General Fund, as soon as it becomes available, an amount equal to the amount paid by the General Fund, if any, together with interest thereon from the remittance date until paid at the same rate of interest as borne by the applicable Veterans G.O. Bonds, compounded semiannually. The Veterans Code does not grant any lien on the 1943 Fund or the moneys therein to the holders of any Veterans G.O. Bonds.

The Veterans Code states that moneys in the Veterans' Bonds Payment Fund are (i) required to be used solely to pay debt service when due on Veterans G.O. Bonds, (ii) not considered "surplus money" for the purposes of the California Government Code and (iii) prohibited from being borrowed by, or transferred to, the General Fund or to the General Cash Revolving Fund.

Each of the various general obligation bond acts authorizing the issuance of Veterans G.O. Bonds, as amended (collectively, the "Bond Acts") provide that the State will collect annually in the same manner and at the same time as it collects other State revenue, an amount sufficient to pay principal of and interest on the Veterans G.O. Bonds authorized under such Bond Act in that year. Each of the Bond Acts also contains a continuing appropriation from the General Fund of the sum annually necessary to pay the principal of and interest on the Veterans G.O. Bonds authorized under such Bond Act as they become due and payable. No further appropriation by the State Legislature is required to pay the principal of and interest on Veterans G.O. Bonds. Under the State Constitution, the appropriation from the General Fund to pay the principal of and interest on Veterans G.O. Bonds as set forth in the related Bond Act cannot be repealed until the principal of and interest on such Veterans G.O. Bonds are paid and discharged.

The Bond Acts each provide that the Veterans G.O. Bonds issued thereunder constitute valid and binding obligations of the State, and the full faith and credit of the State is pledged for the punctual payment of the principal of, and interest on, the Veterans G.O. Bonds, as the principal and interest become due and payable. The pledge of the full faith and credit of the State alone does not create a lien on any particular moneys in the General Fund or any other assets of the State, but is an undertaking by the State to be irrevocably obligated in good faith to use its taxing powers as may be required for the full and prompt payment of the principal of and interest on all State general obligation bonds as they become due and payable, including the Veterans G.O. Bonds to the extent that the moneys transferred from the 1943 Fund to the Veterans' Bonds Payment Fund are less than debt service then due and payable. The only provision of the State Constitution that creates a higher priority for any State fiscal obligation is a provision directing that from all State revenues, there will first be set apart the moneys to be applied by the State for the support of the public school system and public institutions of higher education. In the past when cash resources in the General Fund have been constrained, State officials have worked within their powers granted by State law to manage cash resources to ensure that payments to schools and universities and for general obligation debt service would be made. On any debt service payment date, all State general obligation bonds, including the Veterans G.O. Bonds, have an equal claim on moneys then in the General Fund for payment of debt service. See the Preliminary Official Statement – "AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS."

TAX EXEMPTION: In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described in such opinion, interest on the Offered Veterans G.O.

Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Federal Tax Code") and is not treated as a preference item in calculating the alternative minimum tax under the Federal Tax Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the State and the Department in connection with the Offered Veterans G.O. Bonds and the Department in connection with its Home Purchase Revenue Bonds, 2019 Series A (the "2019A Revenue Bonds") and Bond Counsel has assumed compliance by the State and the Department with certain ongoing tax covenants to comply with applicable requirements of the Federal Tax Code to assure the exclusion of interest on the Offered Veterans G.O. Bonds from gross income under the Federal Tax Code. In the opinion of Bond Counsel to the State, interest on the Offered Veterans G.O. Bonds is exempt from personal income taxes of the State of California under State law in effect on the date of such opinion. See "TAX MATTERS" and "APPENDIX I –PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL TO THE STATE" in the Preliminary Official Statement and see also "CERTIFICATES TO THE STATE TO BE COMPLETED BY EACH PURCHASER PRIOR TO CLOSING" below.

LEGAL OPINIONS ON THE VALIDITY AND PAYMENT OF THE OFFERED VETERANS G.O. BONDS: The opinions of the Honorable Xavier Becerra, Attorney General of the State ("Attorney General") and Bond Counsel to the State referred to in the Preliminary Official Statement under "LEGAL MATTERS," the proposed forms of which are included in APPENDIX H and APPENDIX I, respectively, to the Preliminary Official Statement, will be furnished to the State Treasurer and available to each bidder awarded an Offered Veterans G.O. Bond (each, a "Purchaser") on the Closing Date.

LITIGATION CERTIFICATE: On the Closing Date each Purchaser will be furnished a customary certificate of the Attorney General that to the Attorney General's knowledge, other than as disclosed in the Official Statement, there is not now pending in federal or state court (with service of process on the State having been accomplished) or threatened any litigation (i) seeking to restrain or enjoin the sale, issuance, execution, or delivery of the Offered Veterans G.O. Bonds, (ii) challenging the validity of the Offered Veterans G.O. Bonds or any proceeding of the State or the Department taken with respect to the foregoing, or (iii) challenging the entitlement to their respective offices of any of the officers who are responsible for the execution and delivery of the Offered Veterans G.O. Bonds on behalf of the State. For purposes of the above certifications, the term "to the Attorney General's knowledge" does not include the performance of a docket search of federal or state court filings. The term "to the Attorney General's knowledge" does include discussions between the certificate signatory and senior legal staff and executive staff within the Attorney General's Office responsible for coordinating and managing litigation matters for the State. For purposes of the above certifications, no matter will be deemed to be "threatened" litigation because it is the subject of an administrative claim or matter. Pursuant to Article 4, Chapter 1, Part 1, Division 3 of Title 2 of the Government Code and other laws, the Attorney General is not counsel to all state agencies for all matters. Accordingly, there may be litigation matters pending or threatened of which the Attorney General has no actual knowledge.

ADDITIONAL INFORMATION: Prospective bidders are advised to read the entire Preliminary Official Statement. Copies of the Preliminary Official Statement may be obtained from the State Treasurer by calling 1-800-900-3873. The Preliminary Official Statement is also available on the State Treasurer's investor relations website at www.buycaliforniabonds.com and at www.munios.com.

TERMS OF THE SALE

FORM OF BID: Each bid must be unconditional, and in the amount provided under "PURCHASE PRICE" in this Notice of Sale. By submitting a bid, the bidder agrees to all of the terms and conditions of this Notice of Sale and certifies that it is an underwriter of municipal bonds that has an established industry reputation for underwriting new issuances of municipal bonds. Bids for each Bid Group are not required to be submitted on the applicable Bid Form attached to this Notice of Sale. However, each bid must include the information required by that Bid Form. In submitting a bid, each bidder acknowledges that the bid is an offer to purchase all of the Offered Veterans G.O. Bonds of the applicable Bid Group, and if accepted, will become a contract to purchase such Offered Veterans G.O. Bonds on the terms contained in this Notice of Sale. *All bids shall be deemed to incorporate all of the applicable terms of this Notice of Sale.*

ELECTRONIC BIDS: Solely as an accommodation to bidders, the State Treasurer will accept bids delivered electronically through the following service ("Bid Service"):

Ipreo
1359 Broadway, Second Floor
New York, New York 10018
(212) 849-5023

Each bidder submitting an electronic bid agrees by doing so that (i) it is solely responsible for all arrangements with the Bid Service, (ii) the Bid Service is not acting as an agent of the State Treasurer, and (iii) the State Treasurer is not responsible for ensuring or verifying bidder compliance with the Bid Service's procedures. The State Treasurer is not responsible for, and each bidder expressly assumes the risk of and responsibility for, any noncompliant, incomplete, inaccurate or untimely bid submitted by such bidder through any means, including the Bid Service. Instructions for submitting electronic bids must be obtained by each bidder from the Bid Service. The State Treasurer shall be entitled to assume that any bid received via the Bid Service has been made by a duly authorized agent of the bidder. *If any provision of this Notice of Sale conflicts with information provided by the Bid Service, this Notice of Sale shall control.*

THE STATE TREASURER, THE DEPARTMENT, THE MUNICIPAL ADVISOR AND BOND COUNSEL ASSUME NO RESPONSIBILITY FOR ANY ERROR CONTAINED IN ANY BID SUBMITTED ELECTRONICALLY, OR FOR FAILURE OF ANY BID TO BE TRANSMITTED, RECEIVED OR OPENED AT THE OFFICIAL TIME FOR RECEIPT OF BIDS. THE STATE TREASURER SHALL NOT BE REQUIRED TO ACCEPT THE TIME KEPT BY THE BID SERVICE AS THE OFFICIAL TIME. THE STATE TREASURER ASSUMES NO RESPONSIBILITY FOR INFORMING ANY BIDDER PRIOR TO THE DEADLINE FOR RECEIVING BIDS THAT ITS BID IS NONCOMPLIANT OR NOT RECEIVED.

GOOD FAITH DEPOSIT: Each bidder is required to provide to the State Treasurer, by no later than 7:30 a.m. California time on the Bid Date, a good faith deposit for each Bid Group for which they submit a bid, as described as follows:

Bidders submitting bids only on Bid Group A must submit the required Bid Group A good faith deposit of $170,000.

Bidders submitting bids only on Bid Group B must submit the required Bid Group B good faith deposit of $340,000.

Bidders submitting bids for both Bid Group A and Bid Group B must submit a single combined Bid Group A and Bid Group B good faith deposit of $510,000.

The required deposit must be in the form of a wire transfer of immediately available funds.

Bidders may obtain the wire instructions for the wire transfer by submitting a written request via email to publicfinance@treasurer.ca.gov at the State Treasurer's Office at least one day prior to the Bid Date. Bidders must reference the "Offered Veterans G.O. Bonds (CalVet Series CS)" in the email subject line. In addition, bidders are required to provide written wire instructions for return of the bidder's good faith deposit as part of its correspondence with the State Treasurer's Office, if such bidder is not awarded the Offered Veterans G.O. Bonds. Good faith deposit amounts of bidders not receiving an award of a Bid Group will be returned pursuant to the written transfer instructions so provided.

The State Treasurer will use reasonable efforts to promptly return good faith deposits to any bidder not awarded Offered Veterans G.O. Bonds.

The applicable good faith deposit of each Purchaser will, upon the award of its bid, become the property of the State and will be credited to the purchase price of the Offered Veterans G.O. Bonds in the applicable Bid Group, at the time of delivery of such Offered Veterans G.O. Bonds. In the event a bidder wins more than one Bid Group, the good faith deposit will be credited to the purchase price of each Bid Group won by such bidder in the same proportions as the good faith deposits specified in the second and third paragraphs of this section.

For the avoidance of any doubt, if a bidder submits a good faith deposit of $510,000 and such bidder receives an award of one or more Bid Groups, the entire good faith deposit will, upon such award, become the property of the State and will be credited to the purchase price of the Offered Veterans G.O. Bonds in the applicable Bid Group or Bid Groups, at the time of delivery of such Offered Veterans G.O. Bonds.

If the purchase price for the Offered Veterans G.O. Bonds in Bid Group A is not paid in full when due, the defaulting Purchaser shall have no right to the Offered Veterans G.O. Bonds in Bid Group A and the entire amount of its good faith deposit (in the amount of $170,000 or $510,000, as applicable) shall be retained by the State Treasurer as and for full liquidated damages for such default and shall constitute a full release and discharge of all claims and rights of the State against such defaulting Purchaser with respect to such Offered Veterans G.O. Bonds and a waiver of any right the State may have to additional damages for any such default. By submitting a bid for the Offered Veterans G.O. Bonds in Bid Group A, each Purchaser of such Offered Veterans G.O. Bonds waives any right to claim that actual damages resulting from any such default are less than the applicable amount of the good faith deposit, and agrees that the amount of such good faith deposit is a reasonable estimate of damages that the State may suffer in the event of such a default.

If the purchase price for the Offered Veterans G.O. Bonds in Bid Group B is not paid in full when due, the defaulting Purchaser shall have no right to the Offered Veterans G.O. Bonds in Bid Group B and the entire amount of its good faith deposit (in the amount of $340,000 or $510,000, as applicable) shall be retained by the State Treasurer as and for full liquidated damages for such default and shall constitute a full release and discharge of all claims and rights of the State against such defaulting Purchaser with respect to such Offered Veterans G.O. Bonds and a waiver of any right the State may have to additional damages for any such default. By submitting a bid for the Offered Veterans G.O. Bonds in Bid Group B, each Purchaser of such Offered Veterans G.O. Bonds waives any right to claim that actual damages resulting from any such default are less than the applicable amount of the good faith deposit, and agrees that the amount of such good faith deposit is a reasonable estimate of damages that the State may suffer in the event of such a default.

In the event of a default by the Purchaser of Bid Group B, the award of the Offered Veterans G.O. Bonds in Bid Group A will be rescinded and the State will have no obligation to deliver the Offered Veterans G.O. Bonds in Bid Group A to the Purchaser of Bid Group A, and the good faith deposit of the Purchaser of Bid Group A will be returned, unless the Purchaser of Bid Group A is the defaulting Purchaser of Bid Group B, in which case the entire good faith deposit (in the amount of $510,000) shall be retained by the State Treasurer as and for full liquidated damages for such default and shall constitute a full release and discharge of all claims and rights of the State against such defaulting Purchaser with respect to such Offered Veterans G.O. Bonds and a waiver of any right the State may have to additional damages for any such default.

No interest will be paid by the State on any good faith deposit.

BASIS OF THE AWARD: The Offered Veterans G.O. Bonds in each Bid Group will be awarded to the bidder whose bid for such Bid Group will result in the lowest true interest cost ("TIC") to the State for such Offered Veterans G.O. Bonds. The TIC will be the nominal interest rate which, when compounded semiannually and used to discount the debt service payments on the Offered Veterans G.O. Bonds in the applicable Bid Group to the Closing Date, results in an amount equal to the purchase price bid for such Offered Veterans G.O. Bonds. For Bid Group A (the PAC Bonds), the debt service payment schedule to be used in calculating the TIC will be based on the PAC Bonds Mandatory Sinking Fund Payments. See "REDEMPTION – Sinking Fund Redemption." In the event that two or more bidders offer bids at the same lowest TIC for the Offered Veterans G.O. Bonds of any Bid Group, the State Treasurer will determine which bidder will be awarded the Offered Veterans G.O. Bonds of such Bid Group based on the earliest time of bid submission.

MULTIPLE BIDS FROM A SINGLE BIDDER FOR A PARTICULAR BID GROUP: In the event multiple bids are received for a Bid Group from a single bidder, the State Treasurer shall be entitled to accept the bid with the lowest TIC for the Offered Veterans G.O. Bonds of such Bid Group, calculated in accordance with the Notice of Sale, as determined by the State Treasurer, from among all such bids, and each bidder agrees by submitting any bid to be bound by such lowest bid unless such lowest bid is expressly withdrawn prior to the deadline for receiving bids. See "BASIS OF THE AWARD."

PROMPT AWARD; SUBMISSION OF SIGNED BID: The State Treasurer will take prompt action awarding the Offered Veterans G.O. Bonds of a Bid Group or rejecting all bids for such Offered Veterans G.O. Bonds. Formal notice of award will be given promptly by telephone by the State Treasurer to each Purchaser and shall constitute acceptance by the State Treasurer of such Purchaser's offer to purchase all the Offered Veterans G.O. Bonds in the applicable Bid Group on the terms contained in this Notice of Sale (including the right of the State Treasurer to rescind an award of Bid Group A if no bidder is awarded Bid Group B or in the event of default by the Purchaser of Bid Group B) and in such bid. During that telephone call, the bidder will be informed whether the competitive sale requirements described below under "ESTABLISHMENT OF ISSUE PRICE OF THE OFFERED VETERANS G.O. BONDS" have been satisfied or not satisfied. Bid evaluations or rankings by any Bid Service are not binding on the State Treasurer.

The State Treasurer will furnish to each Purchaser a copy of the applicable winning bid, including information specifying the Offered Veterans G.O. Bonds purchased pursuant to the bid and the purchase price bid for such Offered Veterans G.O. Bonds. Each Purchaser must ensure that a signed copy of its bid acknowledging the name of each of its underwriting syndicate members, if any, is submitted to the State Treasurer's Office by e-mail (publicfinance@treasurer.ca.gov) referencing "Offered Veterans G.O. Bonds (CalVet Series CS)" in the email subject line not later than 60 minutes after receiving notification of the award of the related Offered Veterans G.O. Bonds; the State Treasurer will then promptly execute the acceptance of the bid.

INSURANCE: **No bids with municipal bond insurance will be accepted.**

CUSIP NUMBERS: The Municipal Advisor will timely apply for CUSIP numbers with respect to the Offered Veterans G.O. Bonds as required by Municipal Securities Rulemaking Board's Rule G-34. Each Purchaser will be responsible for the cost of assignment of such CUSIP numbers in the related Bid Group and any CUSIP Service Bureau charges. Each Purchaser must also notify the CUSIP Service Bureau as to the final structure of the Offered Veterans G.O. Bonds awarded to such Purchaser.

It is anticipated that CUSIP numbers will be printed on the Offered Veterans G.O. Bonds, but neither the failure to print such CUSIP numbers on any Offered Veterans G.O. Bond nor any error with respect thereto will constitute cause for a failure or refusal by a Purchaser to accept delivery of and pay for Offered Veterans G.O. Bonds of a Bid Group in accordance with the terms contained in this Notice of Sale and in the accepted bid.

EXPENSES OF PURCHASER: In addition to the cost related to CUSIP numbers, each Purchaser will be responsible for the California Debt and Investment Advisory Commission fees (California Government Code Section 8856), The Depository Trust Company charges and all its other expenses related to the purchase and delivery of the applicable Offered Veterans G.O. Bonds. The cost of preparing the Offered Veterans G.O. Bonds will be borne by the State.

RIGHT OF WAIVER OR REJECTION: The State Treasurer reserves the right to reject any or all bids. The State Treasurer also reserves the right to waive, without limitation, any irregularity or informality with respect to any bid, except the time of receipt of bids.

ADJUSTMENT OF PRINCIPAL AMOUNT AFTER THE RECEIPT OF BIDS:

Bid Group A – After the opening of bids, none of (i) the aggregate principal amount, (ii) the principal amount of each sinking fund payment, nor (iii) the PAC Bonds Outstanding Amounts (as provided in the PAC Bonds Outstanding Amounts Table), with respect to the

Offered Veterans G.O. Bonds in Bid Group A will change from the amounts set forth in the Preliminary Official Statement or this Notice of Sale, as applicable.

Bid Group B – The principal amounts of the Offered Veterans G.O. Bonds in Bid Group B that are set forth in the Bid Form for Bid Group B are based on estimates of the State Treasurer as to the likely interest rates of the winning bids for Bid Group A and Bid Group B and the premiums contained in such winning bids. After selecting the Purchaser(s) of the Offered Veterans G.O. Bonds in Bid Group A and the Offered Veterans G.O. Bonds in Bid Group B, the amortization schedule for the Offered Veterans G.O. Bonds in Bid Group B may be adjusted in $5,000 increments if the State Treasurer elects to do so, to reflect the actual interest rates and the specified premiums in the winning bids to accommodate preferences of the State. Such adjustments will not (i) change the aggregate principal amount of Offered Veterans G.O. Bonds in Bid Group B to be issued from the amount set forth in the Bid Form by more than five percent (5%) nor (ii) change the principal amount of the Offered Veterans G.O. Bonds in Bid Group B due in any year by more than fifteen percent (15%). The dollar amount bid for the Offered Veterans G.O. Bonds in Bid Group B by their Purchaser will be adjusted to reflect any such adjustments in the applicable amortization schedule. Any such adjustment may change the total (but not the per bond) dollar amount of underwriter's discount and original issue premium provided in such bid. Any such adjustments will be communicated to the Purchaser within 24 hours after the opening of the bids. Any such adjustments in the amortization schedule made as described above will not affect the determination of the Purchaser or give the Purchaser any right to reject the Offered Veterans G.O. Bonds in Bid Group B. In addition, adjustments in the maturity schedule for the Offered Veterans G.O. Bonds in Bid Group B may also be made prior to the acceptance of bids as described above in the second paragraph of this Notice of Sale.

QUALIFICATION FOR SALE; COMPLIANCE WITH BLUE SKY: The State will furnish or cause to be furnished such information, execute or cause to be executed such instruments and take or cause to be taken such other reasonable action in cooperation with each Purchaser, as such Purchaser may deem necessary in order to qualify the Offered Veterans G.O. Bonds of the related Bid Group for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as such bidder may designate; *provided, however,* that the foregoing shall not require the State to register as a dealer or broker or execute a consent to service of process or to qualify as a foreign corporation in connection with such qualification, in any foreign jurisdiction or to comply with any other requirements reasonably deemed by the State to be unduly burdensome.

No Purchaser may sell, offer to sell or solicit any offer to buy, Bonds in any jurisdiction where it is unlawful for such Purchaser to make such sale, offer or solicitation, and each Purchaser shall comply with the Blue Sky and other securities laws and regulations of the states and jurisdictions in which such Purchaser sells the Offered Veterans G.O. Bonds.

SALES OUTSIDE OF THE UNITED STATES: Each Purchaser must undertake responsibility for compliance with any laws or regulations of any foreign jurisdiction in connection with any sale of the Offered Veterans G.O. Bonds of the related Bid Group to persons outside the United States. In the event that a Purchaser sells any Offered Veterans G.O. Bonds of the related Bid Group to persons outside the United States, it shall immediately notify the State Treasurer in writing.

CERTIFICATES TO BE COMPLETED PRIOR TO BIDDING: Prior to bidding on the Offered Veterans G.O. Bonds, all prospective bidders are required to submit the following certifications.

Expatriate Act Certification. The State Treasurer's Office will not contract or otherwise do business - absent a compelling public interest - with publicly-held U.S. expatriate corporations (California Public Contract Code Sections 10286-10286.1). By submitting a bid, each bidder certifies that it is not an expatriate corporation as defined in California Public Contract Code Section 10286.1. This policy is designed to ensure that companies with which the State Treasurer's Office does business meet threshold standards of corporate accountability. See EXHIBIT 1.

Darfur Contracting Act Certification. Pursuant to the Darfur Contracting Act of 2008 (California Public Contract Code Sections 10475-10490) each bidder that has had business activities or other operations outside of the United States within the previous three years, must certify that it is not a "scrutinized" company as defined in California Public Contract Code Section 10476. The Act was passed by the State Legislature and signed into law by the Governor to preclude state agencies from contracting with "scrutinized" companies. A scrutinized company is a company doing business in Sudan as defined in California Public Contract Code Section 10476. See EXHIBIT 2.

Iran Contracting Act Certification. As required by the Iran Contracting Act of 2010 (California Public Contract Code Section 2200, *et seq*.), each bidder that can reasonably be expected to earn $1,000,000 or more from the sale of the Bonds must certify that it is in compliance with the provisions of the Iran Contracting Act of 2010 which states that such entity is not on the current list of persons engaged in investment activities in Iran created by the State Department of General Services pursuant to California Public Contract Code Section 2203(b) and is not a financial institution extending twenty million dollars ($20,000,000) or more in credit to another person/vendor, for 45 days or more, if that other person/vendor will use the credit to provide goods or services in the energy sector in Iran and is identified on the current list of persons engaged in investment activities in Iran created by the State Department of General Services. See EXHIBIT 3.

Each bidder must execute and submit to the State Treasurer the Expatriate Act Certification, the Darfur Contracting Act Certification and the Iran Contracting Act Certification by 3:00 p.m. California time on April 3, 2019 as a scanned copy via email to publicfinance@treasurer.ca.gov. Bidders must reference the "Offered Veterans G.O. Bonds (CalVet Series CS)" in the email subject line.

ESTABLISHMENT OF ISSUE PRICE OF THE OFFERED VETERANS G.O. BONDS: By submitting a bid, each Purchaser confirms that each maturity of the Offered Veterans G.O. Bonds of the applicable Bid Group has been or will be offered to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the bid submitted by the Purchaser.

By submitting a bid, each Purchaser agrees to assist the State Treasurer in establishing the issue price of the Offered Veterans G.O. Bonds in the applicable Bid Group and to execute and deliver to the State Treasurer on the Closing Date the applicable Closing Issue Price Certificate, described under "CERTIFICATES TO BE COMPLETED BY EACH PURCHASER PRIOR TO CLOSING" herein, setting forth the initial offering price to the public and the sales price or prices of the Offered Veterans G.O. Bonds of the applicable Bid Group, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as EXHIBIT 4 or EXHIBIT 5, as applicable. By being a member of the syndicate that submits the winning bid for a Bid Group, each other underwriter (on behalf of itself and other entities with which it has a third-party distribution agreement) or selling group member agrees that if the certificates described in the prior sentence are insufficient to assist the State Treasurer in establishing the issue price of the Offered Veterans G.O. Bonds of such Bid Group, it shall execute and deliver to the State Treasurer on the Closing Date a certificate substantially in the form of EXHIBIT 4 or EXHIBIT 5, as applicable, to the extent necessary to assist the State Treasurer in establishing the issue price of the Offered Veterans G.O. Bonds of the applicable Bid Group. The certificates actually delivered will have such modifications as may be appropriate or necessary, in the reasonable judgment of the applicable winning bidder, the State Treasurer and Bond Counsel to accurately reflect, as applicable, the role of the signatory and the sales price or prices or the initial offering price or prices to the public of the Offered Veterans G.O. Bonds.

Any bid submitted pursuant to this Notice of Sale shall be considered a firm offer for the purchase of the applicable Offered Veterans G.O. Bonds, as specified in the bid.

Bids will not be subject to cancellation in the event that the Competitive Sale Requirements described below are not satisfied. If the Competitive Sale Requirements are not satisfied for a Bid Group, the hold-the-offering-price rule (as described below) will apply to each maturity of a Bid Group that does not satisfy the 10% Test (as defined below) as of the date and time of the applicable Bid Group award. Each prospective winning bidder agrees to comply with the hold-the-offering-price rule described in the following paragraphs, if applicable. Bidders for a Bid Group should prepare their bids on the assumption that some or all of the maturities of the Offered Veterans G.O. Bonds in the Bid Group will be subject to the hold-the-offering-price rule.

Competitive Sale Requirements Satisfied. The State Treasurer intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Offered Veterans G.O. Bonds) will apply to the respective initial sales of each Bid Group of the Offered Veterans G.O. Bonds (the "Competitive Sale Requirements").The requirements include that each Bid Group receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds.

EXHIBIT 4 is the form of Closing Issue Price Certificate to be used for a Bid Group if the Competitive Sale Requirements have been satisfied.

Competitive Sale Requirements Not Satisfied—10% Test and Hold-the-Offering-Price Rule. In the event that the Competitive Sale Requirements are not satisfied with respect to a Bid Group, the State Treasurer shall so advise the applicable winning bidder.

For each Bid Group for which the Competitive Sale Requirements were not satisfied, the issue price of Offered Veterans G.O. Bonds of such Bid Group will be determined by the State Treasurer on a maturity-by-maturity basis. The winning bidder for each Bid Group will advise the State Treasurer of the first price at which 10% of each maturity of the Offered Veterans G.O. Bonds of such Bid Group is sold to the public (the "10% Test") as of the date and time of the award of the applicable Bid Group. Any maturities of the Offered Veterans G.O. Bonds of a Bid

Group that do not satisfy the 10% Test as of the date and time of the award shall be subject to the hold-the-offering-price rule, as described below. Each CUSIP identification number within a maturity will be treated as its own maturity for purposes of establishing issue price.

EXHIBIT 5 is the form of Closing Issue Price Certificate to be used for a Bid Group if the Competitive Sale Requirements are not satisfied.

Hold-the-Offering-Price Rule. The following paragraphs describe the “hold-the-offering-price rule.”

Each winning bidder agrees, on behalf of the underwriters participating in the purchase of the Offered Veterans G.O. Bonds of the applicable Bid Group, that the underwriters will neither offer nor sell unsold Offered Veterans G.O. Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

(1) the close of the fifth (5th) business day after the sale date; or

(2) the date on which the underwriters have sold at least 10% of that maturity of the Offered Veterans G.O. Bonds to the public at a price that is no higher than the initial offering price to the public.

Each winning bidder shall within one business day report to the State Treasurer when the underwriters have sold 10% of that maturity of the Offered Veterans G.O. Bonds of the applicable Bid Group to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date. Each winning bidder shall cooperate with the State Treasurer and Bond Counsel by providing requested information to assist in establishing the issue price of the Offered Veterans G.O. Bonds and compliance with the hold-the-offering-price rule.

The State Treasurer acknowledges that, if the hold-the-offering-price rule applies with respect to a Bid Group, in making the representations set forth above, the winning bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-offering-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale to the public of the Offered Veterans G.O. Bonds of the applicable Bid Group, the agreement of each dealer who is a member of such selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a third-party distribution agreement that was employed in connection with the initial sale to the public of the Offered Veterans G.O. Bonds of the applicable Bid Group, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, as set forth in the third-party distribution agreement and the related pricing wires.

By submitting a bid, each bidder confirms with respect to the Offered Veterans G.O. Bonds in the applicable Bid Group that:

(i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which any winning bidder is a party) relating to the initial sale of the Offered Veterans G.O. Bonds to the public, together with the related pricing wires, will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such third-party distribution agreement to comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and

(ii) any agreement among underwriters or selling group member relating to the initial sale of the Offered Veterans G.O. Bonds to the public, together with the related pricing wires, will contain language obligating each underwriter or dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Offered Veterans G.O. Bonds to the public to require each broker-dealer that is a party to such third-party distribution agreement to comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder or the related underwriter and as set forth in the related pricing wires. Sales of any Offered Veterans G.O. Bonds to any person that is a related party to an underwriter participating in the initial sale of the Offered Veterans G.O. Bonds shall not constitute sales to the public for purposes of this Notice of Sale. Further, for purposes of this Notice of Sale:

(1) "public" means any person other than an underwriter or a related party to an underwriter,

(2) "underwriter" means (A) the successful bidder, (B) any person that agrees pursuant to a written contract with the State Treasurer (or with the lead underwriter with respect to the applicable Bid Group to form an underwriting syndicate) to participate in the initial sale of the Offered Veterans G.O. Bonds of the applicable Bid Group to the public and (C) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (B) to participate in the initial sale of the Offered Veterans G.O. Bonds of the applicable Bid Group to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of such Offered Veterans G.O. Bonds of the applicable Bid Group to the public),

(3) a purchaser of any of the Offered Veterans G.O. Bonds of the applicable Bid Group is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(4) "sale date" means the date that the Offered Veterans G.O. Bonds of a Bid Group are awarded by the State Treasurer to the winning bidder.

CERTIFICATES TO BE COMPLETED BY EACH PURCHASER PRIOR TO CLOSING:

Closing Issue Price Certificate. Prior to the Closing Date, each Purchaser of the Offered Veterans G.O. Bonds of a Bid Group must submit to the State Treasurer a certificate (the

"Closing Issue Price Certificate"), satisfactory to Bond Counsel, substantially in the form attached in EXHIBIT 4 or EXHIBIT 5, as applicable. In making such representations, each Purchaser must reflect the anticipated existence, if any, of a "derivative product" (*e.g.*, a tender option) offered or to be offered by such Purchaser or any affiliate in connection with the initial sale of any of the Offered Veterans G.O. Bonds of the applicable Bid Group. Each Purchaser shall also, if asked by Bond Counsel, provide additional information necessary in the judgment of Bond Counsel to determine the issue price of the Offered Veterans G.O. Bonds of the applicable Bid Group.

Closing Certificate Concerning the Preliminary Official Statement and the Official Statement. As a condition of delivery of the applicable Offered Veterans G.O. Bonds each Purchaser will be required to execute and deliver to the State Treasurer, prior to the Closing Date, a certificate to the following effect:

1. Such Purchaser, as the initial purchaser of the Offered Veterans G.O. Bonds in the applicable Bid Group, has provided to the State Treasurer the initial reoffering prices or yields on the Offered Veterans G.O. Bonds in the applicable Bid Group as printed in the Official Statement.

2. Such Purchaser has not undertaken any responsibility for the contents of the Preliminary Official Statement or the Official Statement, provided, however, that in accordance with and as part of its responsibilities under the Federal securities laws, such Purchaser has reviewed the information in the Preliminary Official Statement and the Official Statement and did not notify the State Treasurer of the need to modify or supplement the Preliminary Official Statement on or before the Bid Date, and has not notified the State Treasurer of the need to modify or supplement the Official Statement on or before the Closing Date.

PARTICIPATION GOALS: Firms owned by disabled veterans are encouraged to respond to this invitation for bid. The State Treasurer has adopted regulations and participation goals for professional bond services firms owned by disabled veterans. These participation goals are set forth in Article 3 of Subchapter 4 of Chapter 4, Division 2 of Title 2 of the California Code of Regulations in Section 1899.522. As a result of a court decision issued in 2001, the State Treasurer can no longer impose participation goals for minority and women business enterprises. However, the State Treasurer continues to collect and report data regarding minority and women business enterprise participation.

After completion of the transaction, each Purchaser will be required to submit reports to the State Treasurer concerning disabled veteran business enterprise outreach efforts and professional bond service participation in transactions related to the offer and sale of the applicable Offered Veterans G.O. Bonds. Each Purchaser will also be required to submit reports on professional bond service participation by minority and women business enterprises as well as all other businesses. The reports on minority and women business enterprises will be maintained solely for informational and data collection purposes.

The State Treasurer's annual goal for disabled veteran business enterprises' participation on competitive contracts for professional bond services is 3 percent. By submitting a bid, each bidder certifies that it is aware of the State Treasurer's regulations and participation goals for disabled veteran business enterprises offering professional bond services.

DELIVERY AND PAYMENT: The Offered Veterans G.O. Bonds will be made available to each Purchaser for inspection by electronic means, at least two business days prior to the Closing Date. Payment for the Offered Veterans G.O. Bonds must be made on the Closing Date no later than 8:00 a.m. California time and must be in funds immediately available in Sacramento, California, or in the form of a wire transfer of immediately available funds to the order of the State Treasurer. Each Purchaser has the right, at its option, to cancel its obligation to purchase the related Offered Veterans G.O. Bonds if the State fails to deliver such Offered Veterans G.O. Bonds as described above for a Closing Date within 60 days from the award to such Purchaser; in that event each Purchaser exercising its option will be entitled to the return (without payment of interest) of its good faith deposit; provided however, the sale and delivery of Bid Group A is dependent on the sale and delivery of Bid Group B. In the event that the Offered Veterans G.O. Bonds in Bid Group B are not delivered on the Closing Date, the award of the Offered Veterans G.O. Bonds in Bid Group A will be rescinded and the State will have no obligation to deliver the Offered Veterans G.O. Bonds in Bid Group A. See also "GOOD FAITH DEPOSIT."

PRELIMINARY OFFICIAL STATEMENT/OFFICIAL STATEMENT: Based in part on Certificates of the Department, the State Controller and the Department of Finance, and in reliance on a litigation certificate provided by the Attorney General, the State deems the Preliminary Official Statement for purposes of subsection (b)(1) of the Securities and Exchange Commission Rule 15c2-12 (the "SEC Rule"), to be final as of its date, except for information permitted by the SEC Rule to be omitted from the Preliminary Official Statement. The Preliminary Official Statement shall be subject to amendment or modification as deemed necessary by the State Treasurer.

Within seven business days after the award of the Offered Veterans G.O. Bonds and at least one business day prior to the delivery of the Offered Veterans G.O. Bonds, the State will furnish to each Purchaser an electronic copy of the Official Statement, including any supplements prepared by the State, in a portable document format (PDF) configured to allow the Official Statement to be saved, viewed, printed and retransmitted by electronic means.

The State will deliver, on the Closing Date, certificates executed by the Department, the State Treasurer, the State Controller and the Department of Finance, collectively to the effect that the information and statements contained in the Preliminary Official Statement (excluding any information relating to The Depository Trust Company, New York, New York; the information under the captions "PURCHASE AND REOFFERING" and "LITIGATION" contained in the front portion of, and "LITIGATION" in APPENDIX A to, the Preliminary Official Statement; the information in APPENDIX G; and information permitted by the SEC Rule to be omitted from the Preliminary Official Statement), as of its date (or the date of the last supplement thereto, if any) and as of the Bid Date, did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The State will deliver, on the Closing Date, certificates executed by the Department, the State Treasurer, the State Controller and the Department of Finance, collectively to the effect that the information and statements contained in the Official Statement (excluding any information relating to The Depository Trust Company, New York, New York; the information under the captions "PURCHASE AND REOFFERING" and "LITIGATION" contained in the front portion of, and "LITIGATION" in APPENDIX A to, the Official Statement; and the information in APPENDIX G), as of its date did not; and as of the Closing Date does not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Until the earlier of twenty-five (25) days from the "end of the underwriting period" (as defined in the SEC Rule) or the date when all of the respective Offered Veterans G.O. Bonds have been sold by the Purchaser(s), if, in the reasonable opinion of the State Treasurer and counsel to the State Treasurer any event shall occur as a result of which it is necessary to amend or supplement the Official Statement so that it does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading, the State Treasurer, may, and if requested by the Purchaser(s) will, forthwith prepare and furnish to each Purchaser any amendment of or supplement to the Official Statement (in form and substance satisfactory to the State Treasurer's counsel), which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The State Treasurer will presume that the "end of the underwriting period" will occur on the Closing Date and that all of the respective Offered Veterans G.O. Bonds have been sold by each Purchaser as of the Closing Date unless notified otherwise in writing by a Purchaser on the Closing Date. After the earlier of twenty-five (25) days from the "end of the underwriting period" or the date when all of the Offered Veterans G.O. Bonds have been sold by the Purchaser(s), the State Treasurer will no longer be obligated to amend or supplement the Official Statement.

By making a bid for one or more Bid Groups of the Offered Veterans G.O. Bonds, each Purchaser agrees to:

(i) promptly file a copy of the Official Statement, including any supplements prepared by the State, with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) website, unless such information has already been filed by another Purchaser,

(ii) provide to the State Treasurer, in writing, within 24 hours of the award of the Offered Veterans G.O. Bonds, pricing and other related information with respect to their respective Offered Veterans G.O. Bonds necessary for completion of the Official Statement and the principal amount of each CUSIP of the respective Offered Veterans G.O. Bonds allocated to each underwriter, selling group member and party to a third-party distribution agreement with a syndicate member,

(iii) disseminate to all members of such Purchaser's underwriting syndicate copies of the Official Statement, including any supplements prepared by the State,

(iv) promptly notify the State Treasurer as soon as all of the Offered Veterans G.O. Bonds in their respective Bid Group have been sold if such Purchaser has notified the State Treasurer in writing on the Closing Date that there are unsold amounts of their respective Offered Veterans G.O. Bonds as of such date, and

(v) take any and all other actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Offered Veterans G.O. Bonds in their respective Bid Group.

ADDITIONAL LETTERS RELATED TO THE PRELIMINARY OFFICIAL STATEMENT AND THE OFFICIAL STATEMENT: If any portion of the Offered Veterans G.O. Bonds in the applicable Bid Group is offered to the public by the related Purchaser(s), the State will cause to be provided to each such Purchaser, letters addressed to, among others, each such Purchaser in its capacity as an underwriter of such Offered Veterans G.O. Bonds, and dated the Closing Date, the following:

(i) from each of Orrick, Herrington & Sutcliffe LLP and Stradling Yocca Carlson & Rauth, a Professional Corporation, to the effect that, without undertaking to determine independently the accuracy, completeness or fairness of the statements contained in APPENDIX A to the Preliminary Official Statement and the Official Statement, as applicable, as a matter of fact and not opinion, no facts came to the attention of the attorneys in such firms rendering legal services with respect to APPENDIX A to the Preliminary Official Statement and the Official Statement, which caused them to believe that, as of the date of the Preliminary Official Statement (or the date of the last supplement thereto, if any) and the Bid Date and as of, with respect to the Official Statement, its date and the Closing Date, APPENDIX A to the Preliminary Official Statement and the Official Statement (except for, as applicable, (i) with respect to the Preliminary Official Statement only, permitted omissions allowed under the SEC Rule, and (ii) with respect to the Preliminary Official Statement and the Official Statement, any CUSIP numbers, financial, accounting, statistical, economic, engineering or demographic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, included therein, and information under the caption "LITIGATION," which will be expressly excluded from the scope of the letters and as to which no opinion or view will be expressed) contained or contains, as applicable, any untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) from Polsinelli LLP, to the effect that, based upon, in reliance upon and subject to, as applicable, the information made available to Polsinelli LLP in the course of its representation of the State, and Polsinelli LLP's participation in certain conferences, and in reliance thereon, and the assumptions, qualifications and limitations contained in Polsinelli LLP's letter, as a matter of fact and not opinion that no information came to the attention of the attorneys in Polsinelli LLP rendering legal services in connection with the Preliminary Official Statement and the Official Statement that caused such attorneys to believe that the (i) Preliminary Official Statement, as of its date (or the date of the last supplement thereto) and as of the Bid Date contained; and (iii) Official Statement, as of its date contained or as of the Closing Date contains any untrue statement of a material fact or omitted or omits, as applicable, to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. In addition to the assumptions, qualifications and limitations in Polsinelli LLP's letter, Polsinelli LLP will not express any opinion, view, conclusion or belief as to any of the following information included in or omitted from the Preliminary Official Statement or the Official Statement or incorporated by reference in the Preliminary Official Statement or the Official Statement, as applicable: (i) any CUSIP numbers; (ii) prices or yields on the Offered

Veterans G.O. Bonds; (iii) financial statements; (iv) economic, demographic, engineering, statistical, accounting or financial data or information; (v) forecasts, forward looking statements, numbers, charts, tables, graphs, estimates, projections or assumptions; (vi) expressions of opinion; (vii) ratings or rating agencies; (viii) information relating to The Depository Trust Company, New York, New York and its book-entry system; (ix) information relating to the tax aspects of the Department's Farm and Home Purchase Program, of the Department or of the Offered Veterans G.O. Bonds; (x) the information contained in the fifth sentence of the first paragraph, the third and fourth sentences of the second paragraph, and the third paragraph under the caption "THE OFFERED VETERANS G.O. BONDS–Redemption–Special Mandatory Redemption of PAC Bonds;" or (xi) information contained under the captions: (a) "INTRODUCTION—Financial Condition of the State General Fund;" (b) "THE OFFERED VETERANS G.O. BONDS–Redemption–Assumptions Used in Calculating the PAC Bonds Outstanding Amounts; PSA Model;" (c) "THE OFFERED VETERANS G.O. BONDS–Redemption– Projected Weighted Average Lives of PAC Bonds;" (d) "TAX MATTERS;" or (e) "LITIGATION;" (xii) information contained in APPENDICES A, C, D, E, G, H, I, J or K of the Preliminary Official Statement or the Official Statement, and (xiii) with respect to the Preliminary Official Statement, information permitted to be omitted from the Preliminary Official Statement pursuant to SEC Rule; and

(iii) from the Office of the Attorney General to the effect that, as a matter of fact and not opinion, no information came to the attention of the attorneys in its office rendering legal services in connection with the issuance of the Offered Veterans G.O. Bonds, which caused such office to believe (as of the dates indicated below) that, the information under the captions "LITIGATION" contained in the forepart of, and in APPENDIX A to, (1) the Preliminary Official Statement, as of its date (or date of the last supplement thereto), if any, and as of the Bid Date, and (2) the Official Statement, as of its date and as of the Closing Date, contained or contains, as applicable, any untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Office of the Attorney General does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Preliminary Official Statement or the Official Statement, and does not express any belief about (A) any financial statements or other financial, statistical or accounting data or information, forecasts, numbers, estimates, projections, assumptions or expressions of opinion or belief included or referred to under such captions, or (B) any portion of the Preliminary Official Statement or the Official Statement other than the information under such captions.

CONTINUING DISCLOSURE: In order to assist the Purchaser(s) in complying with the SEC Rule, the State Treasurer (on behalf of the State) and the Department will undertake, pursuant to separate Continuing Disclosure Certificates (the "Continuing Disclosure Certificates"), to provide certain annual financial information and notices of the occurrence of certain enumerated events. Forms of the respective Continuing Disclosure Certificates are set forth in APPENDIX F of the Preliminary Official Statement and will also be set forth in APPENDIX F of the Official Statement. The State Treasurer (on behalf of the State) and the Department will deliver the respective Continuing Disclosure Certificates on the Closing Date. The State has engaged Digital Assurance Corporation, Inc. ("DAC") to review and prepare a report on the State's compliance with its continuing disclosure undertakings with respect to its general obligation bonds during the past five years. Prospective bidders may obtain access to

DAC's report on its website by sending a written request via email to publicfinance@treasurer.ca.gov by no later than 12:00 noon California time on March 29, 2019. Bidders must reference the "Offered Veterans G.O. Bonds (CalVet Series CS)" in the email subject line. The State Treasurer will then request that DAC provide those bidders access to its online report. The State Treasurer can give no assurance as to the timeliness with which DAC will provide access to the online report or that the procedures performed by DAC in developing the report are sufficient for any purpose.

Dated: March 26, 2019
Sacramento, California

FIONA MA, CPA
Treasurer of the State of California

BID FORM A

BID FOR THE PURCHASE OF BID GROUP A

$32,855,000*
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CS (Non-AMT)

The Honorable Fiona Ma, CPA
Treasurer of the State of California

We offer to purchase the $32,855,000* aggregate principal amount of State of California Veterans General Obligation Bonds, Series CS (Non-AMT), expected to be dated and delivered April 11, 2019 ("Bid Group A"), for a purchase price of $_________ (representing the principal amount of Bid Group A plus a net premium of $_______), with the following terms.

Maturity Date (December 1)	Principal Amount	Interest Rate (%)
2049	$ 32,855,000	4.00

____
Account Manager

By: ________________________________
Contact: ____________________________
Telephone No.: ______________________
Fax No.: ____________________________
Email Address: ______________________

* Subject to change by amendment, modification or adjustment as described in the Notice of Sale.

BID FORM B

BID FOR THE PURCHASE OF BID GROUP B

$68,900,000*
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CS (Non-AMT)

The Honorable Fiona Ma, CPA
Treasurer of the State of California

We offer to purchase the $68,900,000* aggregate principal amount of State of California Veterans General Obligation Bonds, Series CS (Non-AMT), expected to be dated and delivered April 11, 2019 ("Bid Group B"), for a purchase price of $__________ (representing the aggregate principal amount of Bid Group B minus an underwriter's discount of $__________), with the following terms.

Principal Payment Date (December 1)	Maturing Principal Amount[1]	Interest Rate (%)	Price (%)	Serial Maturity[2]	Sinking Fund Payment[2]	Maturity Date of Term Bond[2]
2019	$ 415,000	___	100			
2020	1,700,000	___	100			
2021	1,790,000	___	100			
2022	1,875,000	___	100			
2023	1,955,000	___	100			
2024	2,045,000	___	100			
2025	2,135,000	___	100			
2026	2,230,000	___	100			
2027	2,335,000	___	100			
2028	2,435,000	___	100			
2029	2,550,000	___	100	___	___	___
2030	2,660,000	___	100	___	___	___
2031	2,785,000	___	100	___	___	___
2032	2,905,000	___	100	___	___	___
2033	3,035,000	___	100	___	___	___
2034	3,175,000	___	100	___	___	___
2035	3,320,000	___	100	___	___	___
2036	3,465,000	___	100	___	___	___
2037	3,625,000	___	100	___	___	___
2038	3,785,000	___	100	___	___	___
2039	3,955,000	___	100	___	___	___
2040	4,135,000	___	100	___	___	___
2041	4,320,000	___	100	___	___	___
2042	4,515,000	___	100	___	___	___
2043	1,755,000	___	100	___	___	___

---

* Subject to change by amendment, modification or adjustment as described in the Notice of Sale.

1 Principal amounts must be adjusted and inserted by the bidder based upon the designated maturity schedule, if any, announced via MuniOS in accordance with the notice of sale related to the Offered Veterans G.O. Bonds (the "Notice of Sale").

2 For the Offered Veterans G.O. Bonds in Bid Group B maturing from December 1, 2029 through December 1, 2043, each bid must specify whether the principal amount of the Offered Veterans G.O. Bonds in Bid Group B to be paid on each applicable date will be a payment at maturity of serial bonds or a mandatory sinking fund payment on term bonds. The mandatory sinking fund payments for each term bond in Bid Group B must be on consecutive principal payment dates immediately preceding the maturity date of that term bond, provided that no term bond may have a mandatory sinking fund payment on or prior to the first optional redemption date. See the Notice of Sale – "REDEMPTION – Optional Redemption."

____
Account Manager

By: ____________________________________
Contact: ________________________________
Telephone No.: __________________________
Fax No.: ________________________________
Email Address: __________________________

<u>EXHIBIT 1</u>

STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CS (Non-AMT)

OFFICE OF THE STATE TREASURER
California Taxpayer and Shareholder Protection Act of 2003
(Expatriate Act)

California Public Contract Code section 10286.1 generally provides that a state agency may not enter into any contract with an expatriate corporation or its subsidiaries unless the State Treasurer waives, in writing, the prohibition against contracting with such an entity upon a finding that the contract is necessary to meet a compelling public interest.

Pursuant to section 10286.1, the State Treasurer's Office will not contract or otherwise do business – absent a compelling public interest – with publicly held U.S. expatriate corporations. This policy is designed to ensure that companies with which the State Treasurer's Office does business meet threshold standards of corporate accountability.

Please check **<u>one</u>** of the following two paragraphs and sign below:

1. ☐ We are not an expatriate corporation or subsidiary of an expatriate corporation within the meaning Public Contract Code Section 10286 and 10286.1, and are eligible to contract with the State of California

OR

2. ☐ We are an expatriate corporation but we have received written permission from the State Treasurer.

<u>CERTIFICATION:</u>
I, the official named below, CERTIFY UNDER PENALTY OF PERJURY that I am duly authorized to legally bind the prospective proposer to the clause listed above. This certification is made under the laws of the State of California.

____
Firm Name

DATE: __________________ ____________________________________
Signature

EXHIBIT 2

STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CS (Non-AMT)

DARFUR CONTRACTING ACT CERTIFICATE

Pursuant to Public Contract Code section 10478, if a proposer currently or within the previous three years has had business activities, or other operations outside of the United States, it must certify that it is not a "scrutinized" company as defined in Public Contract Code section 10476.

Please check **one** of the following three paragraphs and sign below:

1. ☐ We do not currently have, or we have not had within the previous three years, business activities, or other operations outside of the United States.

OR

2. ☐ We are a scrutinized company as defined in Public Contract Code section 10476, but we have received written permission from the Department of General Services (DGS) to submit a bid or proposal pursuant to Public Contract Code section 10477(b). A copy of the written permission from DGS is included with our bid or proposal.

OR

3. ☐ We currently have, or we have had within the previous three years, business activities, or other operations outside of the United States, but we certify below that we are not a scrutinized company as defined in Public Contract Code section 10476.

CERTIFICATION

I, the official named below, CERTIFY UNDER PENALTY OF PERJURY that I am duly authorized to legally bind the prospective proposer/bidder to the clause listed above in # 3. This certification is made under the laws of the State of California.

By (Authorized Signature)	
Printed Name and Title of Person Signing	
Date Executed	*Executed in the County and State of*

EXHIBIT 3

STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CS (Non-AMT)

IRAN CONTRACTING ACT
(Public Contract Code sections 2202-2208)

Prior to bidding on, submitting a proposal or executing a contract or renewal for a State of California contract for goods or services of $1,000,000 or more, a vendor must either: a) certify it is **not** on the current list of persons engaged in investment activities in Iran created by the California Department of General Services ("DGS") pursuant to Public Contract Code section 2203(b) and is not a financial institution extending twenty million dollars ($20,000,000) or more in credit to another person, for 45 days or more, if that other person will use the credit to provide goods or services in the energy sector in Iran and is identified on the current list of persons engaged in investment activities in Iran created by DGS; or b) demonstrate it has been exempted from the certification requirement for that solicitation or contract pursuant to Public Contract Code section 2203(c) or (d).

To comply with this requirement, please insert your vendor or financial institution name and Federal ID Number (if available) and complete **one** of the options below. Please note: California law establishes penalties for providing false certifications, including civil penalties equal to the greater of $250,000 or twice the amount of the contract for which the false certification was made; contract termination; and three-year ineligibility to bid on contracts. (Public Contract Code section 2205.)

OPTION #1 – CERTIFICATION

I, the official named below, certify I am duly authorized to execute this certification on behalf of the vendor/financial institution identified below, and the vendor/financial institution identified below is **not** on the current list of persons engaged in investment activities in Iran created by DGS and is not a financial institution extending twenty million dollars ($20,000,000) or more in credit to another person/vendor, for 45 days or more, if that other person/vendor will use the credit to provide goods or services in the energy sector in Iran and is identified on the current list of persons engaged in investment activities in Iran created by DGS.

Vendor Name/Financial Institution (Printed)	*Federal ID Number (or n/a)*
By (Authorized Signature)	
Printed Name and Title of Person Signing	
Date Executed	*Executed in*

OPTION #2 – EXEMPTION

Pursuant to Public Contract Code sections 2203(c) and (d), a public entity may permit a vendor/financial institution engaged in investment activities in Iran, on a case-by-case basis, to be eligible for, or to bid on, submit a proposal for, or enters into or renews, a contract for goods and services.

If you have obtained an exemption from the certification requirement under the Iran Contracting Act, please fill out the information below, and attach documentation demonstrating the exemption approval.

Vendor Name/Financial Institution (Printed)	*Federal ID Number (or n/a)*
By (Authorized Signature)	

Printed Name and Title of Person Signing *Date Executed*

EXHIBIT 4

[IF COMPETITIVE SALE REQUIREMENTS ARE SATISFIED]

STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
SERIES CS (Non-AMT)
BID GROUP __

ISSUE PRICE CERTIFICATE OF THE PURCHASER

_______________________________ (the "Purchaser") is making these certifications in connection with the above-captioned bonds (the "Bonds") and hereby certifies and represents the following, based upon the information available to it; provided, however, that (i) the Purchaser expresses no view regarding the legal sufficiency or the correctness of any legal interpretation made by Bond Counsel, (ii) nothing herein represents the interpretation of the Purchaser of any laws, and, in particular, regulations under the Internal Revenue Code of 1986, as amended (the "Code"), and (iii) the Purchaser expresses no view regarding the legal sufficiency of any representations made herein:

A. Issue Price.

1. On __________________, the Purchaser won on a competitive basis the right to reoffer the Bonds.

2. *[FOR BID GROUP A]* As of the Sale Date, the initial offering price of the Bonds to the Public by the Purchaser is __________ (the "Expected Offering Price"). The Expected Offering Price is the price for the Bonds used by the Purchaser in formulating its bid to purchase the Bonds. Attached as Schedule A is a true and correct copy of the bid provided by the Purchaser to purchase the Bonds.

[FOR BID GROUP B] As of the Sale Date, the initial offering prices of the Bonds to the Public by the Purchaser are the prices listed in Schedule B (the "Expected Offering Prices"). The Expected Offering Prices are the prices for the Maturities of the Bonds used by the Purchaser in formulating its bid to purchase the Bonds. Attached as Schedule A is a true and correct copy of the bid provided by the Purchaser to purchase the Bonds.

3. The Purchaser was not given the opportunity to review other bids prior to submitting its bid.

4. The bid submitted by the Purchaser constituted a firm offer to purchase the Bonds.

B. Defined Terms.

1. *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party to an Underwriter.

2. *Related Party* means any entity if an underwriter and the entity are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

3. *Sale Date* means the first day on which there is a binding contract in writing for the sale of the Bonds. The Sale Date of the Bonds is ______________.

4. *Underwriter* means (i) the Purchaser, (ii) any person that agrees pursuant to a written contract with the Purchaser (to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (iii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (ii) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the Public).

5. *[FOR BID GROUP B] Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates or CUSIP identification numbers, are treated as separate Maturities.

We understand that the representations contained herein may be relied upon by the State of California in making certain of the representations contained in its federal tax certificate relating to the Bonds, and we further understand that Hawkins Delafield & Wood LLP, as Bond Counsel to the State of California, may rely upon this certificate, among other things, in providing an opinion with respect to the exclusion from gross income of interest on the Bonds pursuant to Section 103 of the Code. The undersigned is certifying only as to facts in existence on the date hereof. Nothing herein represents our interpretation of any laws or regulations under the Code or the application of any laws to these facts. The undersigned is certifying only as to facts in existence on the date hereof.

Dated: ________________, 2019 ______________________________

By: __________________________
Authorized Representative

SCHEDULE A

COPY OF UNDERWRITER'S BID

(Attached)

[FOR BID GROUP B ONLY]

SCHEDULE B

EXPECTED OFFERING PRICES

Maturity Date (December 1)	Principal Amount	Interest Rate	Expected Offering Prices

EXHIBIT 5

[IF COMPETITIVE SALE REQUIREMENTS ARE NOT SATISFIED]

STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
SERIES CS (Non-AMT)
BID GROUP __

ISSUE PRICE CERTIFICATE OF THE PURCHASER

________________________________ (the "Purchaser") is making these certifications in connection with the above-captioned bonds described in Schedule A attached hereto (the "Bonds") and hereby certifies and represents the following, based upon the information available to it; provided, however, that (i) the Purchaser expresses no view regarding the legal sufficiency or the correctness of any legal interpretation made by Bond Counsel, (ii) nothing herein represents the interpretation of the Purchaser of any laws, and, in particular, regulations under the Internal Revenue Code of 1986, as amended (the "Code"), and (iii) the Purchaser expresses no view regarding the legal sufficiency of any representations made herein:

A. [1. ***Sale of the 10% Test Maturities.*** As of the date of this certificate, for each Maturity of the 10% Test Maturities (as defined below) the first price at which at least 10% of such Maturity was sold to the Public as of the Sale Date is the respective price listed in Schedule A hereto.

2. ***Initial Offering Price of the Hold-the-Offering-Price Maturities.***

(a) The Purchaser offered the Hold-the-Offering-Price Maturities (as defined below) to the Public for purchase at the respective initial offering prices listed in Schedule A (the "Initial Offering Prices") on or before the Sale Date. A copy of the pricing wire or equivalent communication for the Bonds is attached to this certificate as Schedule B.

(b) As set forth in the Notice of Sale, by submission of its bid the Purchaser has agreed in writing that, (i) for each Maturity of the Hold-the-Offering-Price Maturities, it would neither offer nor sell any of the Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the "hold-the-offering-price rule"), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any third-party distribution agreement shall contain the agreement of each broker-dealer who is a party to the third-party distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) has offered or sold any Maturity of the Hold-the-Offering-Price Maturities at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period.]

B. Defined Terms.

(a) *10% Test Maturities* means those Maturities of the Bonds where issue price was established under Treasury Regulations Section 1.148li-1(f)(2)(i) as shown in Schedule A hereto as the "10% Test Maturities." [if Paragraph A1 is used.]

(b) *Hold-the-Offering-Price Maturities* means those Maturities of the Bonds where issue price was established under Treasury Regulations Section 1.148-1(f)(2)(ii) as shown in Schedule A hereto as the "Hold-the-Offering-Price Maturities." [if Paragraph A2 is used]

(c) *Holding Period* means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date, or (ii) the date on which the Underwriter sold at least 10% of such Hold-the-Offering-Price Maturity to the Public at prices that are no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity. [if Paragraph A2 is used]

(d) *[FOR BID GROUP A] Maturity* means the State of California Veterans General Obligation Bonds, Series CS, maturing on December 1, [TBD].

[FOR BID GROUP B] Maturity means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates or CUSIP identification numbers, are treated both as separate maturities and as one maturity for purposes of determining compliance.

(e) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter.

(f) *Related Party* means any entity if an underwriter and the entity are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

(g) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is __________.

(h) *Underwriter* means (i) the Purchaser, (ii) any person that agrees pursuant to a written contract with the Purchaser to participate in the initial sale of the Bonds to the Public, and (iii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (ii) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the Public).

We understand that the representations contained herein may be relied upon by the State of California in making certain of the representations contained in its federal tax certificate relating to the Bonds, and we further understand that Hawkins Delafield & Wood LLP, as Bond Counsel to the State of California, may rely upon this certificate, among other things, in providing an opinion with respect to the exclusion from gross income of interest on the Bonds pursuant to Section 103 of the Code. The undersigned is certifying only as to facts in existence on the date hereof. Nothing herein represents our interpretation of any laws or regulations under the Code or the application of any laws to these facts. The undersigned is certifying only as to facts in existence on the date hereof.

Dated: ________________, 2019 ______________________________

By: __________________________
Authorized Representative

SCHEDULE A

Date	***Principal Amount***	***Rate***	***Initial Offering Price***	***10% Test Maturities***	***Hold-the-Offering-Price Maturities***

SCHEDULE B

Pricing Wire