PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 23, 2018

NEW ISSUE – BOOK ENTRY ONLY

Ratings: Moody's: Aa3
S&P: AA-
Fitch: AA-
(See "RATINGS")

In the opinion of Bond Counsel to the State of California, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is exempt from State of California personal income taxes. See "TAX MATTERS."

$2,100,000,000*
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS

$1,500,000,000* VARIOUS PURPOSE GENERAL OBLIGATION BONDS	$600,000,000* VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS

Dated: Date of Delivery **Due: See "SUMMARY OF THE OFFERING"**

The State of California (the "State") is issuing $1,500,000,000* Various Purpose General Obligation Bonds (the "Construction Bonds") and $600,000,000* Various Purpose General Obligation Refunding Bonds (the "Refunding Bonds"), all bearing interest at fixed rates (collectively, the "Bonds").

The Bonds are general obligations of the State to which the full faith and credit of the State is pledged. The principal of and interest on all State general obligation bonds, including the Bonds, are payable from any moneys in the General Fund of the State, 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. See "AUTHORIZATION OF AND SECURITY FOR THE BONDS."

Interest on the Bonds is payable on April 1 and October 1 of each year, commencing October 1, 2018, at the respective rates per annum set forth in the "SUMMARY OF THE OFFERING" immediately following this cover page. Beneficial interests in the Bonds may be purchased in principal amounts of $5,000 or any integral multiple thereof in book-entry form only. See "THE BONDS—General" and APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM."

Certain of the Bonds are subject to redemption prior to their respective stated maturities as described herein. See "THE BONDS—Redemption."

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

MATURITIES, PRINCIPAL AMOUNTS,
INTEREST RATES, PRICES OR YIELDS AND CUSIPS
(See "SUMMARY OF THE OFFERING")

The Bonds are offered when, as and if issued by the State and received by the Underwriters, subject to the approval of validity by the Honorable Xavier Becerra, Attorney General of the State of California, and by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State. Orrick, Herrington & Sutcliffe LLP and Nixon Peabody LLP are serving as Co-Disclosure Counsel to the State with respect to the Bonds. Orrick, Herrington & Sutcliffe LLP and Stradling Yocca Carlson & Rauth, a Professional Corporation, are serving as Co-Disclosure Counsel to the State regarding Appendix A. Certain matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. Public Resources Advisory Group is serving as the Municipal Advisor to the State with respect to the Bonds. The Bonds are expected to be available for delivery through the facilities of The Depository Trust Company on or about March 15, 2018.

HONORABLE JOHN CHIANG
Treasurer of the State of California

Morgan Stanley (Joint Senior Manager)		BofA Merrill Lynch (Joint Senior Manager)
	Loop Capital Markets (Co-Senior Manager)	
280 Securities LLC	Academy Securities, Inc.	Alamo Capital
Backstrom McCarley Berry & Co., LLC	Barclays	BNY Mellon Capital Markets, LLC
Citigroup	Fidelity Capital Markets	FTN Financial Capital Markets
Goldman Sachs & Co. LLC	HilltopSecurities	J.P. Morgan
Mesirow Financial, Inc.	Neighborly Securities	Prager & Co., LLC
Ramirez & Co., Inc.	Raymond James	RBC Capital Markets
Siebert Cisneros Shank & Co., L.L.C.	Stifel	TD Securities
Tribal Capital Markets, LLC	UBS Financial Services, Inc.	Wedbush Securities Inc.

Official Statement Dated: March __, 2018

* Preliminary, subject to change.

SUMMARY OF THE OFFERING

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES OR YIELDS AND CUSIPS†

$1,500,000,000*
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

Base CUSIP†:

Maturity Date (October 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP† Suffix

$_____ __% Term Bonds due October 1, 20__, priced to yield ___, CUSIP† Suffix:_________

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by 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 and are included solely for the convenience of the registered owners of the applicable Bonds. Neither the State nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 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 Bonds.

$600,000,000*
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS
Base CUSIP†:

Maturity Date (October 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP† Suffix

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by 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 and are included solely for the convenience of the registered owners of the applicable Bonds. Neither the State nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 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 Bonds.

No dealer, broker, salesperson or other person has been authorized by the State or the Underwriters to give any information or to make any representations with respect to the State or the 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.

The information set forth herein has been obtained from sources that are believed to be reliable. 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 herein 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 since the date hereof.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with, and may be obtained from the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access 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 herein.

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

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED IN THE "SUMMARY OF THE OFFERING" IMMEDIATELY FOLLOWING THE FRONT COVER PAGE HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THE BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE 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 DOCUMENT.

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

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

OFFICIAL STATEMENT

$2,100,000,000[*]
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS

$1,500,000,000[*] **VARIOUS PURPOSE** **GENERAL OBLIGATION BONDS**	**$600,000,000[*]** **VARIOUS PURPOSE** **GENERAL OBLIGATION REFUNDING BONDS**

INTRODUCTION

This Introduction contains only a brief summary of the terms of the above-captioned Bonds and a brief description of this Official Statement. A full review should be made of the entire Official Statement, including the 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 complete provisions.

Description of the Bonds

This Official Statement describes $2,100,000,000[*] aggregate principal amount of (i) various purpose general obligation bonds to be issued by the State consisting of ________ (__) series of bonds in the aggregate principal amount of $1,500,000,000[*] (the "Construction Bonds") and (ii) various purpose general obligation refunding bonds to be issued by the State consisting of ________ (__) series of bonds in the aggregate principal amount of $600,000,000[*] (the "Refunding Bonds" and, together with the Construction Bonds, the "Bonds"). The Bonds are described further below under "THE BONDS." The 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 Bonds. Beneficial interests in the Bonds may be purchased in book-entry form only, in denominations of $5,000 or any integral multiple thereof. See "THE BONDS—General" and APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM."

The issuance of each series of Bonds is authorized by the related general obligation bond act identified in Exhibit 1 (each a "Bond Act" and collectively, the "Bond Acts") approved by the voters of the State and by a resolution of the applicable finance committee designated under such Bond Act (each a "Resolution" and collectively, the "Resolutions"). On any debt service payment date, all general obligation bonds, including the Bonds, have an equal claim on moneys then in the General Fund of the State Treasury (the "General Fund") for payment of debt service.

[*] Preliminary, subject to change.

Plan of Finance

Proceeds of the Construction Bonds will be used to: (i) fund certain projects under certain of the Bond Acts identified in Exhibit 1, (ii) pay certain of the State's outstanding general obligation commercial paper notes (the "CP Notes") that were issued to fund certain projects under certain of the Bond Acts identified in Exhibit 1 as they mature, and (iii) pay certain costs of issuance of the Construction Bonds.

Proceeds of the Refunding Bonds will be used to: (i) current refund certain of the State's outstanding general obligation bonds for debt service savings and (ii) pay certain costs of issuance of the Refunding Bonds. See "THE BONDS—Plan of Refunding."

Upcoming General Obligation Bond Sales

In addition to the Bonds described in this Official Statement, the State currently expects to issue taxable general obligation bonds prior to May 1, 2018. Whether such taxable general obligation bonds are issued, and the date and principal amount of any such issuance, are subject to change based upon legal, market and other factors. For additional information about future issuance plans, see APPENDIX A—"THE STATE OF CALIFORNIA—STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Future Issuance Plans; General Fund Debt Ratio."

Security and Source of Payment for the Bonds

The principal of and interest on all State general obligation bonds, including the Bonds, are payable from 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. See "AUTHORIZATION OF AND SECURITY FOR THE BONDS—Security." Also see 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."

Redemption of Bonds

Certain of the Bonds are subject to redemption prior to their respective stated maturity dates as described herein. See "THE 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." Investors should review the whole 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, while the State has also been building up reserves. Based on the projections in the 2018-19 Governor's Budget, by the end of fiscal year 2018-19, the Budget Stabilization Account ("BSA"), also called the State's "rainy day fund," is projected to achieve the maximum constitutional goal for fiscal year 2018-19 of $13.5 billion, including a $3.5 billion supplemental transfer to the BSA in excess of the legally required transfer. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves—Budget Stabilization Account."

In recent years, 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 2018-19 Governor's Budget proposes to pay down an additional $1.5 billion in various debts and liabilities in fiscal year 2018-19. 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 fiscal policies, the uncertain impact of the recent changes in federal tax law and the 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"). The State has committed to significant increases in annual payments to these systems to reduce the unfunded liabilities, including a $6 billion supplemental pension payment to CalPERS in fiscal year 2017-18 that the Department of Finance projects will save $11 billion (net of interest cost on the loan used to make this supplemental pension payment) in State contributions to CalPERS from all State fund sources over the next two decades, assuming actuarial and investment assumptions are realized. As of the 2018-19 Governor's Budget, total savings over the next two decades for the General Fund and the special funds that contribute to CalPERS, net of principal of and interest payments on the loan, is estimated to be $4.8 billion. 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" and EXHIBIT 1—"PENSION SYSTEMS—CalPERS—Member and State Contributions."

The State also has a significant unfunded liability with respect to other postemployment benefits ("OPEB"). Strategies to prefund these costs were established in 2015, and today, nearly all State employees now contribute towards prefunding OPEB costs. See "ECONOMIC AND BUDGET RISKS" 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 this Official Statement

The information set forth herein has been obtained from official sources that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder or any future use of this Official

Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

All financial and other information presented or incorporated by reference in this Official Statement has been provided by the State from its records, except for information expressly attributed to other sources. The presentation of historic information, including tables of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the State. 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 concerning the State, including financial information, is available from State agencies, State agency publications and State agency websites. Such information includes websites operated by 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 in APPENDIX A—"THE STATE OF CALIFORNIA—FINANCIAL STATEMENTS."

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

This Official Statement does not constitute an offer to sell the Bonds or the solicitation of an offer to buy, nor shall there be any sale of, the 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.

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 Bonds are outstanding (the "Annual Report"), commencing with the report to be filed on or before April 1, 2018, containing fiscal year 2016-2017 financial information, and to provide notice of the occurrence of certain enumerated events. The specific nature of the information to be contained in the Annual Report and the notices of events and certain other terms of the continuing disclosure obligation are set forth in APPENDIX C—"FORM OF

CONTINUING DISCLOSURE CERTIFICATE." The State Treasurer has adopted policies and procedures designed to ensure compliance with these undertakings.

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 a related event notice on the Electronic Municipal Market Access ("EMMA") website of the Municipal Securities Rulemaking Board ("MSRB"), currently located at http://emma.msrb.org.

The State's Annual Reports and other required reports relating to the Bonds will be available from the EMMA website 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 herein.

AUTHORIZATION OF AND SECURITY FOR THE BONDS

Authorization

The issuance of each series of Bonds is authorized by the related Bond Act identified in Exhibit 1 approved by the voters of the State and by the related Resolution. Each Bond Act and the State General Obligation Bond Law 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, provide for the authorization, sale, issuance, use of proceeds, repayment and refunding of the related series of Bonds.

Security

The Bonds are general obligations of the State, and each series of the Bonds is payable in accordance with the applicable Bond Act and Resolution out of 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. Each Bond Act provides 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 related series of Bonds in that year. Each Bond Act also contains a continuing appropriation from the General Fund of the sum annually necessary to pay the principal of and interest on the related series of Bonds as they become due and payable. No further appropriation by the Legislature is required to pay the principal of and interest on the Bonds. Under the State Constitution, the appropriation to pay the principal of and interest on the Bonds as set forth in the Bond Acts cannot be repealed until the principal of and interest on the related Bonds are paid and discharged.

Each Bond Act provides that the bonds issued thereunder shall be and shall constitute a valid and binding obligation 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 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 general obligation bonds as they become due. 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 general obligation bonds have an equal claim on moneys then in the General Fund for payment of debt service. See APPENDIX A—"THE STATE OF CALIFORNIA—CASH MANAGEMENT" and "—STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—General Obligation Bonds."

The Bonds are general obligations of the State, and holders of the Bonds do not assume any specific project risk related to any of the projects financed or refinanced.

Remedies

Under each Resolution, it is an event of default of the State to fail to pay or cause to be paid, when due, principal of or interest or premium on any Bond issued pursuant thereto or to declare a moratorium on the payment of, or to repudiate, any such Bond.

The Resolutions do not contain any provision providing for the acceleration of the Bonds. Each Resolution states that in the case that one or more events of default occurs, then, and in every such case, the registered Bondholder 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 therein, or in aid of the exercise of any power granted therein, or to enforce any other legal or equitable right vested in the registered Bondholders by the Resolution or the Bonds or by law. Beneficial owners of the Bonds (the "Beneficial Owners") cannot protect and enforce such rights except through the registered Bondholder. See "THE BONDS—General" and APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM."

Since the State has never failed to make a debt service payment on any general obligation bond when due, the exact steps that would be taken, or the remedies available to Bondholders, have never been tested. There are no cross-default provisions among general obligation bonds, so any default with respect to any particular issue of bonds would not provide any remedy to holders of other bonds that are not affected. The State is not eligible to file for protection under the federal bankruptcy laws.

THE BONDS

General

The Bonds will be registered in the name of a nominee of DTC, which will act as securities depository for the Bonds. Beneficial interests in the Bonds may be purchased in book-entry form only in denominations of $5,000 or any integral multiple thereof.

The Bonds will be dated and accrue interest from the date of their delivery, and will mature on the dates and in the amounts set forth in the "SUMMARY OF THE OFFERING" immediately following the front cover page hereof. Interest on the Bonds will be calculated on the basis of a 360-day year comprising twelve 30-day months. Interest on the Bonds is payable on April 1 and October 1 in each year commencing on October 1, 2018 at the rates shown in the "SUMMARY OF THE OFFERING" immediately following the front cover page hereof. If any payment on the 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 day determined not to constitute a Business Day pursuant to the book-entry only system of DTC. 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) will be paid by the State Treasurer directly to DTC on behalf of the State. 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 Bonds. The record date for the payment of interest on the 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.

Neither the State Treasurer nor the Underwriters can give any assurance 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 Bonds paid 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 Underwriters are 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 Bonds or for any error or delay relating thereto.

See APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM." The information in APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM" has been furnished by DTC. No representation is made by the State or the Underwriters as to the accuracy or completeness of such information.

Except as otherwise expressly set forth herein, the terms of each series of Bonds are substantially identical. The State may assign each maturity of the Bonds reflected in the "SUMMARY OF THE OFFERING" to one or more Bond Acts, rather than having all of the Bonds mature proportionally by Bond Act across the entire maturity schedule.

Proceeds of the Bonds may not be borrowed for cash flow management or other budgetary purposes.

Identification, Authorization and Purposes of the Bonds

Construction Bonds. The Construction Bonds are being issued to (i) fund certain projects under certain of the Bond Acts identified in Exhibit 1, (ii) pay certain CP Notes that were issued to fund certain projects under certain of the Bond Acts identified in Exhibit 1 as they mature, and

(iii) pay certain costs of issuance of the Construction Bonds. CP Notes to be refunded with the proceeds of the Construction Bonds will be repaid within 90 days after the issuance of the Construction Bonds. The Construction Bonds are being issued as ________ (__) separate series under ________ (__) separate Bond Acts, each authorized by the voters, as set forth in Exhibit 1. Proceeds of the Construction Bonds will be used to finance or refinance capital facilities or other voter approved costs authorized under the related Bond Acts to further the public purpose of such Bond Acts. The public purpose of each Bond Act is generally described in Exhibit 1.

Refunding Bonds. The Refunding Bonds are being issued to (i) current refund certain of the State's outstanding general obligation bonds for debt service savings and (ii) pay certain costs of issuance of the Refunding Bonds. The Refunding Bonds are being issued as ________ (__) series under ________ (__) separate Bond Acts, each authorized by the voters, as set forth in Exhibit 1. Proceeds of the Refunding Bonds will be used to refund bonds that were issued to finance or refinance capital facilities or other voter approved costs authorized under the related Bond Acts to further the public purpose of such Bond Acts. The public purpose of each Bond Act is generally described in Exhibit 1.

Plan of Refunding*

The State will deposit a portion of the net proceeds of the sale of the Refunding Bonds in the amount of $___________ into a separate account (the "Refunding Escrow Account") within the refunding escrow fund of the State Treasury established pursuant to Section 16784 of the California Government Code (the "Refunding Escrow Fund") to refund selected maturities of outstanding State general obligation bonds in an aggregate principal amount of $_____________ (the "Refunded Bonds") and to redeem the Refunded Bonds on their respective redemption date. The Refunded Bonds will be repaid within 90 days of the issuance of the Refunding Bonds. Amounts held in the Refunding Escrow Account will be invested in the State Surplus Money Investment Fund, which is a portion of the State's Pooled Money Investment Account, described in APPENDIX A—"THE STATE OF CALIFORNIA—INVESTMENT OF STATE FUNDS," or held as cash. See "VERIFICATION."

Proceeds of the Refunding Bonds deposited in the Refunding Escrow Account will be irrevocably dedicated to pay the principal of, premium, if any, and interest on the Refunded Bonds as they come due and may only be used for payment of debt service on the Refunded Bonds. Any proceeds of the Refunding Bonds in excess of the amount necessary to pay the Refunded Bonds may be used for certain expenses associated with the issuance of the Refunding Bonds and for other purposes permitted under Section 16782 of the California Government Code.

Exhibit 2 to this Official Statement ("Exhibit 2") details the principal amounts, maturity dates, interest rates, redemption date and redemption prices of the bonds that may be refunded.

Redemption

*Optional Redemption.** The Bonds maturing on or before October 1, 202_ are not subject to optional redemption prior to their respective stated maturity dates. The Bonds maturing on or

* Preliminary, subject to change.

after October 1, 202_ are subject to optional redemption prior to their respective stated maturity dates, in whole or in part, in such order of maturity as may be designated by the State Treasurer and by lot within any maturity, on any date on or after October 1, 202_, at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Sinking Fund Redemption.* The Construction Bonds maturing on October 1, 20__, are subject to redemption prior to their stated maturity date, in part, by lot, from sinking fund payments made by the State, at a redemption price of 100% of the principal amount thereof plus accrued interest to the sinking fund payment date fixed for redemption, without premium, on October 1 of the years, and in the amounts, designated below:

Sinking Fund Payment Date (October 1)	Principal Amount Redeemed

† Maturity

Adjustment of Sinking Fund Payments Upon Partial Optional Redemption. If one or more maturities of the Construction Bonds subject to sinking fund redemption (the "Term Bonds") are called for optional redemption in part (see "Redemption—*Optional Redemption*" above), the remaining sinking fund installments for the Term Bonds of such maturity or maturities shall be adjusted as determined by the State Treasurer.

Notice of Redemption. When any of the Bonds are to be redeemed, the State Treasurer is to give notice of redemption by mail and/or mutually acceptable electronic means only to DTC (not to the Beneficial Owners of the Bonds) not less than 20 or more than 60 days prior to the date fixed for redemption. DTC, in turn, is to send the notice of redemption to its Participants for distribution to the Beneficial Owners of the Bonds. See APPENDIX B— "THE BOOK–ENTRY ONLY SYSTEM." The notice from the State Treasurer will state, among other things, that the Bonds or a designated portion thereof (in the case of partial redemption of a Bond) are to be redeemed, the dated date of the Bonds, the date fixed for redemption, the maturities of the Bonds to be redeemed and the redemption price. The notice will also state that after the date fixed for redemption no further interest will accrue on the principal of any Bonds called for redemption. The notice of redemption may also state that such redemption may be cancelled in whole or in part by the State Treasurer upon written notice to DTC no later than five Business Days prior to the date fixed for redemption. Notice of redemption shall be provided to the EMMA portal or any successor thereto.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price being held by the State Treasurer, the Bonds so called for redemption shall, on the redemption date designated in such notice, become due and

* Preliminary, subject to change.

payable at the redemption price specified in such notice, interest on the Bonds so called for redemption shall cease to accrue and the holders of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof (including interest, if any, accrued to the redemption date).

Amendments to Resolutions or Bonds

The State or the State Treasurer may at any time modify or amend any of the Resolutions, including any supplemental certificates thereto setting forth the terms of the Bonds, with respect to any outstanding Bonds and may amend such outstanding Bonds and the rights and obligations of the Bondholders of such outstanding Bonds and of the State, without notice to or the consent of any Bondholder, but only to make such provisions for the purpose of (i) curing any ambiguity or curing, correcting or supplementing any defective provision contained in a Resolution or (ii) complying with requirements of the Internal Revenue Code of 1986, as amended (the "Code"), in order to satisfy the covenants of the State set forth in each Resolution relating to maintaining the tax exemption of interest on the Bonds; in each case as the applicable finance committee or the State Treasurer, respectively, may deem necessary or desirable, and which shall not adversely affect the interests of the Bondholders of the affected Bonds.

Refunding of the Bonds

Pursuant to the Bond Acts and the provisions of California Government Code Section 16780 *et seq.* (the "Refunding Law"), refunding bonds may be issued to refund Bonds at or prior to their stated maturity dates. Pursuant to Section 16784 of the Refunding Law, the proceeds of such refunding bonds and other funds as described therein must be deposited into the Refunding Escrow Fund and invested in Permitted Investments (defined below) or held uninvested. The amounts deposited in the Refunding Escrow Fund can be used only for the payment of the principal of, premium, if any, and interest on the refunded Bonds as they come due and for other purposes set forth in Section 16782 of the Government Code, including payment of costs of issuance of the refunding bonds. A separate account or accounts will be created within the Refunding Escrow Fund for each issue of refunding bonds.

"Permitted Investments" means (i) bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States is pledged for the payment of principal and interest, including receipts, certificates or any other evidences of an ownership interest in the investments identified in this clause (i) or in specified portions thereof; (ii) bonds or interest-bearing notes or obligations that are guaranteed as to principal and interest by a federal agency of the United States; (iii) pre-refunded municipal bonds which are rated no lower than the investments identified in clause (i) by each rating agency rating such bonds; (iv) bonds, consolidated bonds, collateral trust debentures, consolidated debentures or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended; debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended; bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act; bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act as amended and bonds of any federal home loan bank established under that act; obligations of the Federal Home

Loan Mortgage Corporation; bonds, notes and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act as amended; and bonds, notes and other obligations guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act as amended, provided, however that the Permitted Investments specified in this clause (iv) shall be rated by at least two of any three rating agencies rating such obligations not lower than the higher of (1) the rating on the Bonds to be refunded at the time of the original issuance thereof and (2) the rating on the Bonds to be refunded at the time of refunding; or (v) deposit in the State Surplus Money Investment Fund.

In any refunding for which proceeds of refunding bonds (and other funds, if any) are deposited into the Refunding Escrow Fund for payment of Bonds greater than 90 days prior to the date of retirement of such Bonds, unless the moneys on deposit are held in the State Surplus Money Investment Fund or as uninvested cash or both and are sufficient to pay when due all of the principal, premium, if any, and interest on such refunded Bonds until maturity or the date fixed for redemption without accounting for investment earnings thereon, the State Treasurer is required to obtain a report from a firm of independent public accountants verifying the sufficiency of such deposit.

[Remainder of Page Intentionally Left Blank]

ANNUAL DEBT SERVICE REQUIREMENTS

Construction Bonds. The following table sets forth the scheduled amounts of principal (whether at maturity or by sinking fund payments), interest and the fiscal year total debt service payments due on the Construction Bonds.

Fiscal Year Ended June 30	Principal	Interest	Fiscal Year Total Debt Service
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
Total	**$**	**$**	**$**

Refunding Bonds. The following table sets forth the scheduled amounts of principal, interest and the fiscal year total debt service payments due on the Refunding Bonds.

Fiscal Year Ended June 30	Principal	Interest	Fiscal Year Total Debt Service
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
Total	**$**	**$**	**$**

For additional information regarding the debt service payment obligations of the State, see APPENDIX A—"THE STATE OF CALIFORNIA—STATE DEBT TABLES."

LEGAL MATTERS

The opinion of the Honorable Xavier Becerra, Attorney General of the State (the "Attorney General"), approving the validity of the Bonds will be delivered concurrently with the issuance of the Bonds. The opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State ("Bond Counsel"), approving the validity of the Bonds and addressing certain tax matters will be delivered concurrently with the issuance of the Bonds. The proposed forms of such legal opinions are set forth in APPENDIX D—"PROPOSED FORMS OF LEGAL OPINIONS." Orrick, Herrington & Sutcliffe LLP and Nixon Peabody LLP are serving as Co-Disclosure Counsel to the State with respect to the Bonds ("Bond Co-Disclosure Counsel"). Orrick, Herrington & Sutcliffe LLP and Stradling Yocca Carlson and Rauth, a Professional Corporation, are serving as Co-Disclosure Counsel to the State regarding Appendix A ("Appendix A Co-Disclosure Counsel"). Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP ("Underwriters' Counsel").

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

TAX MATTERS

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from

State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX D—"PROPOSED FORMS OF LEGAL OPINIONS."

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and exempt from State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The State has made certain representations and covenanted to comply with certain restrictions, conditions, and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state, or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the State, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The State has covenanted, however, to comply with the requirements of the Code.

Unless separately engaged, Bond Counsel is not obligated to defend the State or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the State and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the State legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues, may affect the market price for, or the marketability of, the Bonds, and may cause the State or the Beneficial Owners to incur significant expense.

LITIGATION

There is not now pending (with service of process on the State having been accomplished) or threatened any litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Bonds or challenging the validity of the Bonds or any proceedings of the State 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 Bonds when due. See APPENDIX A—"THE STATE OF CALIFORNIA— LITIGATION."

UNDERWRITING

The Bonds are being purchased by an underwriting group consisting of the underwriters listed on the cover page hereof (the "Underwriters"). Morgan Stanley & Co. LLC and Merrill, Lynch, Pierce, Fenner & Smith Incorporated are acting as the representatives of the Underwriters with respect to the Bonds.

The Underwriters have agreed to purchase the Bonds for an aggregate purchase price of $____________ (representing the principal amount of the Bonds of $__________, [plus/less net original issue premium/discount] of $_____________, less an Underwriters' discount of $___________). The initial public offering prices of the Bonds may be changed from time to time by the Underwriters.

The bond purchase contract relating to the Bonds (the "Bond Purchase Contract") provides that (i) the Underwriters will purchase all (but not less than all) of the Bonds, and (ii) the obligations to make such purchases are subject to certain terms and conditions set forth in such Bond Purchase Contract including, among others, the approval of certain legal matters by counsel.

Several of the Underwriters have provided letters to the State Treasurer relating to their distribution practices or other affiliations for inclusion in this Official Statement, which are set forth in Appendix E. The State does not guarantee the accuracy or completeness of the information contained in such letters and the information therein is not to be construed as a representation of the State or of any Underwriter other than the Underwriter providing such representation.

FINANCIAL STATEMENTS

The State of California Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016 (the "Financial Statements") is included as Appendix F to this Official Statement. These Financial Statements have been examined by the State Auditor to the extent indicated in the report. The State's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, is expected to be released by the State Controller in late March 2018, and will be available on the website of the State Controller.

The State Controller's unaudited reports of the General Fund cash receipts and disbursements for the period from July 1, 2016 through June 30, 2017 and July 1, 2017 through January 31, 2018 are included as Exhibit 2 to Appendix A to this Official Statement. The State Controller's unaudited reports of General Fund cash receipts and disbursements for the period from July 1, 2017 through February 28, 2018 will be included in the final Official Statement if available. See APPENDIX A—"THE STATE OF CALIFORNIA—FINANCIAL STATEMENTS."

RATINGS

All of the Bonds have received ratings of "Aa3" 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 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 Bonds. The State cannot predict the timing or impact of future actions by the rating agencies.

VERIFICATION

Upon delivery of the Bonds, Causey Demgen & Moore P.C., independent certified public accountants, will deliver a report that the firm has verified the mathematical accuracy of certain computations relating to the adequacy of the cash and the maturing principal of and interest on the investments to pay, when due, the maturing principal of and interest on the Refunded Bonds as described under "THE BONDS — Plan of Refunding." Bond Counsel will rely on this report in reaching their conclusion that the interest on the Refunding Bonds is excluded from gross income for federal tax purposes.

MUNICIPAL ADVISOR

Public Resources Advisory Group is serving as the Municipal Advisor to the State in connection with the issuance of the 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 Bonds. Quotations from and summaries and explanations of the 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. Copies of the Resolutions may be obtained upon written request from the Office of the State Treasurer.

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 or agreement between the State and the purchasers or holders of any of the Bonds.

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

STATE OF CALIFORNIA
JOHN CHIANG
Treasurer of the State of California

EXHIBIT 1

BOND ACTS, PURPOSES AND SERIES

CONSTRUCTION BONDS*

The Construction Bonds will be issued in the amounts and series, and under the Bond Acts as set forth below. Proceeds of the Construction Bonds will be used to finance or refinance projects related to the public purpose of the applicable Bond Act. The public purpose of each Bond Act is generally described below.

Bond Act	Finance Committee	Public Purpose of the Bond Act	Series Designation	Amount ($)
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act Finance Committee	Clean Water , Clean Air, Safe Neighborhood and Coastal Protection		
Children's Hospital Bond Act of 2004	Children's Hospital Bond Act Finance Committee	Children's Hospital		
Children's Hospital Bond Act of 2008	Children's Hospital Bond Act Finance Committee	Children's Hospital		
Disaster Preparedness and Flood Prevention Bond Act of 2006	Disaster Preparedness and Flood Prevention Bond Finance Committee	Disaster Preparedness and Flood Prevention		
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality and Port Security		
Housing and Emergency Shelter Trust Fund Act of 2002	Housing Finance Committee	Housing and Emergency Shelter		
Housing and Emergency Shelter Trust Fund Act of 2006	Housing Finance Committee	Housing and Emergency Shelter		
Kindergarten Through Community College Public Education Facilities Bond Act of 2016	State School Building Finance Committee	K-12 Public Education Facilities		
Kindergarten-University Public Education Facilities Bond Act of 2002	State School Building Finance Committee	K-12 Public Education Facilities		

*Preliminary, subject to change

Bond Act	**Finance Committee**	**Public Purpose of the Bond Act**	**Series Designation**	**Amount ($)**
Kindergarten-University Public Education Facilities Bond Act of 2004	Higher Education Facilities Finance Committee	Public Higher Education Facilities		
Kindergarten-University Public Education Facilities Bond Act of 2004	State School Building Finance Committee	K-12 Public Education Facilities		
Kindergarten-University Public Education Facilities Bond Act of 2006	Higher Education Facilities Finance Committee	Public Higher Education Facilities		
Kindergarten-University Public Education Facilities Bond Act of 2006	State School Building Finance Committee	K-12 Public Education Facilities		
New Prison Construction Bond Act of 1988	1988 Prison Construction Committee	Public Safety		
Public Education Facilities Bond Act of 1996	Higher Education Facilities Finance Committee	Public Higher Education Facilities		
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006	Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Finance Committee	Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection		
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection		
Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century (Only projects to be funded pursuant to Section 2704.095 of the California Streets and Highways Code)	High-Speed Passenger Train Finance Committee	High Speed Rail		
Veterans Housing and Homeless Prevention Bond Act of 2014	Housing for Veterans Finance Committee	Veterans Housing		
Water Quality, Supply, and Infrastructure Improvement Act of 2014	Water Quality, Supply, and Infrastructure Improvement Finance Committee	Water Quality, Supply, and Infrastructure Improvement		
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 Finance Committee	Water Security, Clean Drinking Water, Coastal and Beach Protection		

REFUNDING BONDS*

The Refunding Bonds will be issued in the amounts and series, and under the Bond Acts as set forth below. Proceeds of the Refunding Bonds will be used to refund bonds issued to finance or refinance capital facilities or other voter approved costs related to the public purpose of the applicable Bond Act. The public purpose of each Bond Act is generally described below.

Bond Act	Finance Committee	Public Purpose of the Bond Act	Series Designation	Amount ($)
1988 School Facilities Bond Act	State School Building Finance Committee	K-12 Public School Facilities		
1992 School Facilities Bond Act	State School Building Finance Committee	K-12 Public School Facilities		
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act Finance Committee	Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection		
California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	California Library Construction and Renovation Finance Committee	Library Construction and Renovation		
California Safe Drinking Water Bond Law of 1988	Safe Drinking Water Finance Committee	Safe Drinking Water		
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Higher Education Facilities Finance Committee	Public Higher Education Facilities		
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	State School Building Finance Committee	K-12 Public Education Facilities		
Clean Air and Transportation Improvement Bond Act of 1990	Transportation Improvement Finance Committee	Clean Air & Transportation Improvement		
Clean Water and Water Reclamation Bond Law of 1988	Clean Water and Water Reclamation Finance Committee	Clean Water and Water Reclamation		

*Preliminary, subject to change

Bond Act	Finance Committee	Public Purpose of the Bond Act	Series Designation	Amount ($)
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	1988 County Correctional Facility Capital Expenditure and Youth Facility Finance Committee	Correctional Facilities		
Higher Education Facilities Bond Act of 1988	Higher Education Facilities Finance Committee	Public Higher Education Facilities		
Higher Education Facilities Bond Act of June 1990	Higher Education Facilities Finance Committee	Public Higher Education Facilities		
Higher Education Facilities Bond Act of June 1992	Higher Education Facilities Finance Committee	Public Higher Education Facilities		
Kindergarten-University Public Education Facilities Bond Act of 2002	Higher Education Facilities Finance Committee	Public Higher Education Facilities		
Kindergarten-University Public Education Facilities Bond Act of 2002	State School Building Finance Committee	K-12 Public Education Facilities		
Public Education Facilities Bond Act of 1996	Higher Education Facilities Finance Committee	Public Higher Education Facilities		
Public Education Facilities Bond Act of 1996	State School Building Finance Committee	K-12 Public Education Facilities		
Safe, Clean, Reliable Water Supply Act	Safe, Clean, Reliable Water Supply Finance Committee	Safe, Clean and Reliable Water Supply		
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection		
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection		
School Facilities Bond Act of 1990	State School Building Finance Committee	K-12 Public School Facilities		

Bond Act	**Finance Committee**	**Public Purpose of the Bond Act**	**Series Designation**	**Amount ($)**
School Facilities Bond Act of 1992	State School Building Finance Committee	K-12 Public School Facilities		
Seismic Retrofit Bond Act of 1996	Seismic Retrofit Finance Committee	Seismic Retrofit		
Water Conservation Bond Law of 1988	Water Conservation Finance Committee	Water Conservation		
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 Finance Committee	Water Security, Clean Drinking Water, Coastal and Beach Protection		

[THIS PAGE INTENTIONALLY LEFT BLANK]

EXHIBIT 2

REFUNDED BONDS*

At any time prior to the execution and delivery of the Bond Purchase Contract bonds may be added or deleted. The Refunded Bonds will be selected based upon market conditions, bond structure or other factors at the time of pricing, and the State Treasurer's internal guidelines for issuing general obligation refunding bonds. Selection of the bonds to be refunded is at the sole and absolute discretion of the State Treasurer.

In the following table, "Prior Bonds" refers to an issue of State general obligation bonds consisting of multiple series under separate Bond Acts, having a dated date as shown in the first column of the table. The amounts in the column "Principal Amount of Refunded Bonds" represent the respective amounts of such Prior Bonds that constitutes Refunded Bonds. The difference between the amounts in the column "Aggregate Principal Amount Outstanding" and the column "Principal Amount of Refunded Bonds" represents Prior Bonds not selected by the State Treasurer to be refunded with proceeds of the Refunding Bonds, which amount of Prior Bonds will remain outstanding after the redemption date.

The following table is a list of bonds that may be refunded with proceeds of the Refunding Bonds.

Dated Date of Prior Bonds	CUSIP† (1306)	Aggregate Principal Amount Outstanding ($)	Principal Amount of Refunded Bonds ($)	Maturity Date	Interest Rate (%)	Redemption Date	Redemption Price (%)
4/23/2013	3B4K5	231,865,000		10/1/2024	5.000	4/16/2018	100
4/23/2013	3B5F5	150,000,000		10/1/2025	5.000	4/16/2018	100
4/23/2013	3B4Q2	362,315,000		10/1/2029	5.000	4/16/2018	100

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by 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 and are included solely for the convenience of the registered owners of the applicable Bonds. Neither the State nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 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 Bonds.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

THE STATE OF CALIFORNIA

February 23, 2018

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

Page

TABLE OF CONTENTS
(continued)

Page

TABLE OF CONTENTS
(continued)

Page

TABLE OF CONTENTS

Page

TABLES
(continued)

TABLE OF CONTENTS

Page

TABLES
(continued)

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 2018-19 Governor's Budget and economic forecasts, including an identification of certain Recent Developments 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 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 described 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 material risks related thereto, is generally not included in APPENDIX A or, if included, is not described in detail (e.g., information related to the California Air Resources Board's cap and trade program or transportation funds).

APPENDIX A is provided specifically for use in connection with the sale of securities described 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 2017 was 39.6 million residents, which was 12 percent of the total U.S. population.

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. 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 2018-19 BUDGET—"Economic Assumptions Underlying the 2018-19 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, while the state has also been building up reserves. Based on the projections in the 2018-19 Governor's Budget, by the end of fiscal year 2018-19, the Budget Stabilization Account ("BSA"), also called the state's "rainy day fund," is projected to achieve the maximum constitutional goal for fiscal year 2018-19 of $13.5 billion, including a $3.5 billion supplemental transfer to the BSA in excess of the legally required transfer. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves—Budget Stabilization Account."

In recent years, 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 2018-19 Governor's Budget proposes to pay down an additional $1.5 billion in various debts and liabilities in fiscal year 2018-19. 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 fiscal policies, the uncertain impact of the recent changes in federal tax law and the 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"). The state has committed to significant increases in annual payments to these systems to reduce the unfunded liabilities, including a $6 billion supplemental pension payment to

CalPERS in fiscal year 2017-18 that the Department of Finance projects will save $11 billion (net of interest cost on the loan used to make this supplemental pension payment) in state contributions to CalPERS from all state fund sources over the next two decades, assuming actuarial and investment assumptions are realized. As of the 2018-19 Governor's Budget, total savings over the next two decades for the General Fund and the special funds that contribute to CalPERS, net of principal of and interest payments on the loan, is estimated to be $4.8 billion. 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" and EXHIBIT 1—"PENSION SYSTEMS—CalPERS—Member and State Contributions."

The state also has a significant unfunded liability with respect to other postemployment benefits ("OPEB"). Strategies to prefund these costs were established in 2015, and today, nearly all state employees now contribute towards prefunding OPEB costs. See "ECONOMIC AND BUDGET RISKS" 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 and 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 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 in APPENDIX F 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 2017-18 and 2018-19, the 2018-19 Governor's Budget projects $131.9 billion and $135.2 billion in resources for the General Fund, respectively, and $126.5 billion and $131.7 billion in expenditures from the General Fund, respectively. The fiscal year 2017-18 resources are comprised of $127.3 billion of revenues and transfers, and a $4.6 billion fund balance carried over from fiscal year 2016-17. The fiscal year 2018-19 resources are comprised of $129.8

billion of revenues and transfers, and a $5.4 billion fund balance carried over from fiscal year 2017-18. The 2018-19 Governor's Budget projects $2.3 billion in the Special Fund for Economic Uncertainties ("SFEU") and $13.5 billion in the BSA at the end of fiscal year 2018-19. See "GOVERNOR'S PROPOSED FISCAL YEAR 2018-19 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. 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 a combination of external borrowing, if required, and internal borrowing by the General Fund from over 700 special funds. The state ended fiscal year 2016-17 with a net borrowing of $4.8 billion from special funds. Similar to fiscal years 2015-16, 2016-17, and 2017-18, the 2018-19 Governor's Budget projects the state will not have any need to use external cash flow borrowing in fiscal year 2018-19. 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 primarily or secondarily from moneys in the General Fund, the financial information contained in APPENDIX A relates principally to revenues and expenditures of, or moneys available for transfer to, the General Fund and material risks related thereto.

State Indebtedness and Other Obligations

As of February 1, 2018, the state had approximately $82.3 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 February 1, 2018, there were approximately $32.1 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 $4.2 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 2017-18, the annually-required General Fund pension contributions to CalPERS and CalSTRS are estimated to be approximately $3.4 billion and $2.8 billion, respectively. For fiscal year 2018-19, the annually-required General Fund pension contributions to CalPERS and CalSTRS are estimated to be approximately $3.6 billion and $3.1 billion, respectively. The state is also making a one-time $6 billion supplemental pension payment to CalPERS in fiscal year 2017-18. 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 pension payment is being funded through an internal cash loan; the General Fund share of the repayment over the expected term of the loan (approximately $3.4 billion) will be repaid through expected future Proposition 2 debt repayment funds. The remaining balance is to be repaid from special funds that contribute to CalPERS and will benefit from this loan. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2" and EXHIBIT 1—"PENSION SYSTEMS" for details.

Legislation with respect to both CalPERS and CalSTRS and changes made by both systems in actuarial assumptions in the last several years, including expected investment returns and funding methodologies, are expected to result in significant annual increases in the amount the state is required to pay from the General Fund in the foreseeable future. The 2018-19 Governor's Budget included these factors in estimating General Fund contributions to both pension systems. See EXHIBIT 1—"PENSION SYSTEMS—Prospective Funding Status; Future Contributions."

The combined contributions to CalPERS and CalSTRS which include contributions for California State University ("CSU") in fiscal year 2017-18, represent about 5.0 percent of all proposed General Fund expenditures in fiscal year 2017-18, excluding the supplemental pension payment to CalPERS described above. The combined contributions to CalPERS and CalSTRS which include contributions for CSU in fiscal year 2018-19, represent about 5.1 percent of all proposed General Fund expenditures in fiscal year 2018-19. See "GOVERNOR'S PROPOSED FISCAL YEAR 2018-19 BUDGET."

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

Financial Statements

APPENDIX F to this Official Statement, which is incorporated into APPENDIX A, contains the Audited Basic Financial Statements of the state for the year ended June 30, 2016, 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, 2016.

In addition, EXHIBIT 2 to APPENDIX A contains the State Controller's unaudited reports of General Fund cash receipts and disbursements for the period from July 1, 2016 through January 31, 2018. 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.

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).

"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."

"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."

"SFEU" means the Special Fund for Economic Uncertainties, created pursuant to Government Code Section 16418.

"2017-18 Budget" means the 2017 Budget Act plus related legislation to implement the budget.

"2017 Budget Act" means the Budget Act for fiscal year 2017-18, enacted on June 27, 2017.

"2018-19 Governor's Budget" means the proposed Governor's Budget for fiscal year 2018-19, released on January 10, 2018.

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 2018-19 Governor's Budget

On January 10, 2018, the Governor released his proposed budget for fiscal year 2018-19. The proposal continues to pay down debts and liabilities, increases the rainy day fund balance to the maximum amount allowed by the state constitution, invests in education and health care, and maintains a structurally balanced budget through fiscal year 2021-22. See "PROPOSED FISCAL YEAR 2018-19 BUDGET."

2017 Federal Tax Reform Legislation

On December 22, 2017, President Trump signed federal tax reform legislation that will have an as yet undetermined effect on the state's General Fund. The 2018-19 Governor's Budget economic and revenue forecasts were completed prior to enactment of this federal tax reform legislation and thus assumes no change in federal tax law. The 2018-19 May Revision will include a preliminary analysis of the projected effects of this federal tax reform on the state's General Fund. The state anticipates that the impact of federal tax reform legislation 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 not be apparent for some time. Therefore, any analysis of the projected effects of this federal tax reform legislation on the state's General Fund revenues may change significantly over time. See "GOVERNOR'S PROPOSED FISCAL YEAR 2018-19 BUDGET—Development of Revenue Estimates" and "ECONOMIC AND BUDGET RISKS."

Recent Cash Receipts

In February, the Department of Finance reported that, based on agency cash receipts, tax receipts for January were $2.581 billion (18.5 percent) above the 2018-19 Governor's Budget forecast of $13.949 billion. Fiscal year 2017-18 cash receipts are $2.877 billion (3.9 percent) above the 2018-19 Governor's Budget forecast of $73.297 billion.

GOVERNOR'S PROPOSED FISCAL YEAR 2018-19 BUDGET

The 2018-19 Governor's Budget, released on January 10, 2018, proposes a multi-year plan that is balanced through fiscal year 2021-22, provides a $3.5 billion supplemental transfer to the BSA (rainy day fund) to reach its maximum constitutional goal for fiscal year 2018-19, and continues to pay down budgetary debt from past years.

General Fund revenues and transfers for fiscal year 2018-19 are projected at $129.8 billion; an increase of $2.5 billion, or 2.0 percent, compared with a revised estimate of $127.3 billion for fiscal year 2017-18. These estimates reflect transfers to the BSA of $5.1 billion, which includes the $3.5 billion supplemental transfer mentioned above, in fiscal year 2018-19 and $1.7 billion in fiscal year 2017-18. 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 2018-19 are projected at $131.7 billion; an increase of $5.2 billion, or 4.1 percent, compared with a revised estimate of $126.5 billion for fiscal year 2017-18. The main components of the increase in expenditures are: a $2.0 billion increase in health and human services costs, including a $1.5 billion increase in Medi-Cal local assistance costs, and a $2.2 billion increase in education costs, including a $1.7 billion increase for K-12 education. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures."

The 2018-19 Governor's Budget assumes continued expansion of the economy but its economic and revenue forecasts were finalized prior to the enactment of federal tax reform legislation at the end of December 2017. The 2018-19 Governor's Budget includes the following proposals for fiscal year 2018-19:

- Proposition 98 — $78.3 billion guaranteed total funding, of which $54.6 billion is General Fund. See "STATE FINANCES—Proposition 98 and K-14 Funding."

- Higher Education — total state funding of $15.9 billion for all major segments of higher education, including $15.5 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 of $61.1 billion, including $37.4 billion General Fund and $23.7 billion from special funds, for these programs. See "STATE FINANCES—Health and Human Services."

- Public Safety — total state funding of $14.7 billion, including $11.8 billion General Fund and $2.9 billion from special funds, for Corrections and Rehabilitation. See "STATE FINANCES—California Department of Corrections and Rehabilitation."

- The following table summarizes the proposed General Fund budget in the 2018-19 Governor's Budget and compares it to the General Fund budget for the current fiscal year as revised in the 2018-19 Governor's Budget and as of the enactment of the previous budget act:

TABLE 1
General Fund Budget Summary
(Dollars in Millions)

	As of 2017 Budget Act	As of 2018-19 Governor's Budget	
Fiscal Year	**2017-18**	**2017-18**	**2018-19**
Prior Year Balance	$ 1,622	$ 4,611	$ 5,351
Revenues and Transfers	125,880	127,252	129,792
Total Resources Available	**$ 127,502**	**$ 131,863**	**$ 135,143**
Non-Proposition 98 Expenditures	72,465	73,771	77,126
Proposition 98 Expenditures	52,631	52,741	54,564
Total Expenditures	**$ 125,096**	**$ 126,512**	**$ 131,690**
Fund Balance	$ 2,406	$ 5,351	$ 3,453
Reserve for Liquidation of Encumbrances	980	1,165	1,165
Special Fund for Economic Uncertainties	1,426	4,186	2,288
Budget Stabilization Account/ "Rainy Day Fund"	$ 8,486	$ 8,411	$ 13,461

Source: State of California, Department of Finance.

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. However, the 2018-19 Governor's Budget economic and revenue forecasts were finalized prior to the enactment of the federal tax reform at the end of December and therefore assumed no federal tax changes. Some behavioral impacts due to the expectation of federal tax changes were included, which resulted in modest increased shifting of certain income items from 2017 to 2018 when federal tax rates were expected to be lower.

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 2018-19 May Revision will include a preliminary analysis of the projected effects of recent federal tax reform 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 not be apparent for some time. Therefore, any analysis of 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 2018-19 Governor's Budget projects continued growth in both the national and state economies. Certain significant elements of the forecast are set forth in Table 2.

National Economy. In 2017, real Gross Domestic Product grew by 2.3 percent reflecting positive contributions from personal consumption, business investment, and exports. Going forward, U.S. real GDP is expected to remain above 2 percent as the expansion continues into a tenth year. In 2017, the labor force expanded by 1.1 million while nonfarm employment increased by 2.1 million. The national unemployment rate reached 4.1 percent in December 2017, the lowest since December 2000 and approaching the modern historic low of 3.8 percent in April 2000. Jobs continued to be added albeit at a slower pace, as fewer people looked for work. U.S. overall inflation was 1.3 percent in 2016 and 2.1 percent in 2017. After the interest rate hikes in March, June, and December, the Federal Reserve is expected to continue gradually raising interest rates over the next few years.

California Economy. California's real GDP increased by 3.3 percent in 2016, and totaled $2.6 trillion at current prices, making California the sixth largest economy in the world. California's unemployment rate fell to 4.3 percent in December 2017, the lowest on record dating back to 1976. As the labor market is tightening, job growth has been gradually slowing, with an average monthly gain of 29,000 jobs in 2017, following average monthly gains of 30,000 in 2016 and 42,000 in 2015. Average wages are starting to rise but at a slower rate than in previous periods of very low unemployment due in part to the baby boomer retirement. As retirees tend to be higher-paid than workers just starting their careers, total and average wage growth rates will be muted. While this demographic shift slowed labor force growth to only 0.6 percent in 2017, growth is expected to rise back to the population growth rate of 0.8 percent after 2018 as wage increases generated by a tight labor market will attract more, relatively younger workers into the labor force.

Consumer prices are slowly starting to move modestly higher as commodity prices stabilize and wages continue to rise. California inflation rose 2.9 percent in 2017 and is expected to increase by 3.0 percent in 2018 and 2.9 percent in 2019. In comparison, U.S. inflation rose 2.1 percent in 2017 and is expected to increase by 2.1 percent in 2018 and 2.2 percent in 2019. Inflation remained concentrated in housing most notably in California since 2014. Housing inflation climbed 3.3 percent in the U.S. and 4.9 percent in California in 2017.

Housing permits are starting to grow at a faster rate, but there is still a shortage after years of permits lagging population growth. Housing permits issued by local authorities are expected to remain well below levels needed to account for population growth, a trend that is expected to continue throughout the forecast. Housing costs will continue to grow, increasing overall inflation for California.

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

Economic Assumptions Underlying the 2018-19 Governor's Budget

The revenue and expenditure estimates and projections incorporated into the 2018-19 Governor's Budget are based upon certain assumptions concerning the performance of the California, national, and global economies in calendar years 2018 and 2019. These economic assumptions are set forth below. Additional information on the state's economy is set out in the section "ECONOMY AND POPULATION."

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

TABLE 2
Selected National and California Economic Data

	2017	2018 (Projected)	2019 (Projected)
United States of America			
Real gross domestic product (percent change)	2.2	2.5	2.2
Personal income (percent change)	3.1	3.9	4.8
Nonfarm wage and salary employment (millions)	146.4	148.3	149.8
(percent change)	1.5	1.3	1.0
Housing starts (thousands)	1,190	1,253	1,372
(percent change)	1.0	5.3	9.6
California			
Personal income ($ billions)	2,304.3	2,424.3	2,519.7
(percent change)	4.1	5.2	3.9
Nonfarm wage and salary employment (thousands)	16,780.6	17,032.5	17,250.8
(percent change)	1.8	1.5	1.3
Unemployment rate (percent)	4.9	4.9	4.9
Housing units authorized (thousands)	110.1	122.0	138.9
(percent change)	9.0	10.8	13.8
Total taxable sales ($ billions)	638.4	668.3	694.4
(percent change)	4.4	4.7	3.9

Note: Percentage changes calculated from unrounded data.
Source: State of California, Department of Finance, 2018-19 Governor's Budget Forecast.

Multi-Year Budget Projections

As required by Proposition 2, in connection with the 2018-19 Governor's Budget, the Department of Finance prepared high level multi-year budget projections, as set forth below. The projections are based on federal law as of mid-December 2017 when projections were finalized, current and proposed state law and state policies included in the 2018-19 Governor's Budget. They reflect a variety of assumptions, including assumptions concerning state revenues and expenditures and future economic conditions (but not assuming another recession in the near term). The actual conditions may differ materially from the assumptions and there can be no assurances the projections will be achieved.

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, capital gains growth in 2017 contributes to strong growth in fiscal year 2017-18, followed by moderating rates of growth in subsequent fiscal years due to the expectation that the stock market will grow at a very low rate beginning in 2018. General Fund revenue from the major tax sources is expected to grow by 6 percent from fiscal year 2016-17 to fiscal year 2017-18, 4.6 percent from fiscal year 2017-18 to fiscal year 2018-19, 3.4 percent from fiscal year 2018-19 to fiscal year 2019-20, 2.6 percent from fiscal year 2019-20 to fiscal year 2020-21, and 3.1 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 by 2023 for all employees. By full implementation, the General Fund cost is projected to be approximately $3.4 billion annually, primarily for increased wages for home health care workers and developmental disability workers.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

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

Fiscal Year:	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Prior Year Balance	$ 4,611	$ 5,351	$ 3,453	$ 3,984	$ 3,913
Revenues and Transfers[a]	128,950	134,842	139,375	142,956	147,430
Transfer to BSA/Rainy Day Fund[b]	(1,698)	(5,050)	(456)	(358)	(418)
Total Resources Available	$ 131,863	$ 135,143	$ 142,372	$ 146,582	$ 150,925
Proposition 98 Expenditures	52,741	54,564	55,694	56,065	56,583
Non-Proposition 98 Expenditures	73,771	77,126	81,735	85,657	90,805
Prop 2 infrastructure maintenance	0	0	959	947	987
Total Expenditures	$ 126,512	$ 131,690	$ 138,388	$ 142,669	$ 148,375
Fund Balance:	$ 5,351	$ 3,453	$ 3,984	$ 3,913	$ 2,550
Reserve for Encumbrances	$ 1,165	$ 1,165	$ 1,165	$ 1,165	$ 1,165
Special Fund for Economic Uncertainties	$ 4,186	$ 2,288	$ 2,819	$ 2,748	$ 1,385
Budget Stabilization Account/ (“Rainy Day Fund”)	$ 8,411	$ 13,461	$ 13,917	$ 14,275	$ 14,693
Operating Surplus/(Deficit) with BSA/”Rainy Day Fund” Transfer	$ 740	($ 1,898)	$ 531	($ 71)	($ 1,363)

(a) The Proposition 30 and Proposition 55 revenue amounts projected in the 2018-19 Governor’s Budget are shown below (in millions):

	2017-18	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Prop 30/55 – Income Tax	$7,878	$8,083	$8,160	$8,251	8,475

(b) Transfers to the BSA are pursuant to Proposition 2. The 2018-19 Governor’s Budget includes a supplemental transfer to the BSA of $3.5 billion, in addition to the $1.5 billion required by Proposition 2. See “STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves.”

Source: State of California, Department of Finance.

CURRENT STATE BUDGET

The 2017 Budget Act, enacted on June 27, 2017, continued to build reserves and pay down budgetary debt. The 2017-18 Budget addressed the state's first budgetary challenge since 2012. Because of slowed economic growth, lagging revenues, and higher than expected expenditures in fiscal year 2016-17, the state had projected a deficit, absent corrective actions.

The 2017-18 Budget included the following $2.8 billion of solutions to address the deficit that was projected at the time of its enactment:

- Adjusted Proposition 98 Funding ($0.8 billion)—suspended the statutory supplemental appropriation for fiscal year 2016-17, which also reduced the minimum funding level for fiscal year 2017-18.

- Recaptured 2016 Budget Act Allocations ($1.6 billion)—eliminated mostly uncommitted one-time funding. The three largest components were a shift of $850 million (of the $1 billion budgeted in fiscal year 2016-17) from General Fund to lease revenue bond financing for certain infrastructure projects, $400 million set aside for affordable housing, and $300 million to modernize state office buildings planned for fiscal year 2017-18.

- Constrained Spending Growth ($0.4 billion)—limited new spending proposals to minimize Non-Proposition 98 General Fund expenditure increases in fiscal year 2017-18 compared to fiscal year 2016-17.

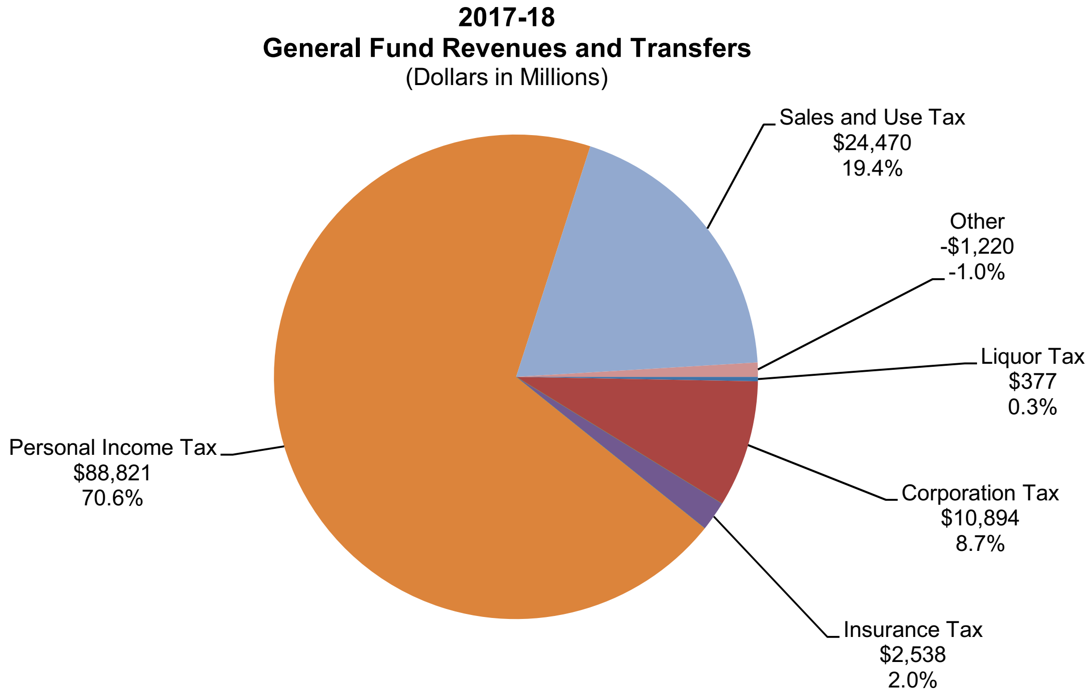
The enacted budget provided increased funding for education and slowed the rate of spending growth elsewhere to maintain a projected balanced budget through fiscal year 2019-20.

At the time of budget enactment, General Fund revenues and transfers for fiscal year 2017-18 were projected at $125.9 billion, an increase of $7.3 billion, or 6.2 percent, compared with a revised estimate of $118.5 billion for fiscal year 2016-17. These estimates included transfers to the BSA of $1.8 billion in 2017-18, and $3.0 billion in fiscal year 2016-17. 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 2017-18 were projected at $125.1 billion, an increase of over $3.7 billion, or 3.0 percent, compared with a revised estimate of $121.4 billion for fiscal year 2016-17. The main components of the increase in expenditures were: a $2.7 billion increase for K-12 education (about $1.9 billion required by Proposition 98), and a $0.9 billion increase in statewide expenditures, mostly in employee compensation and pension benefits. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures."

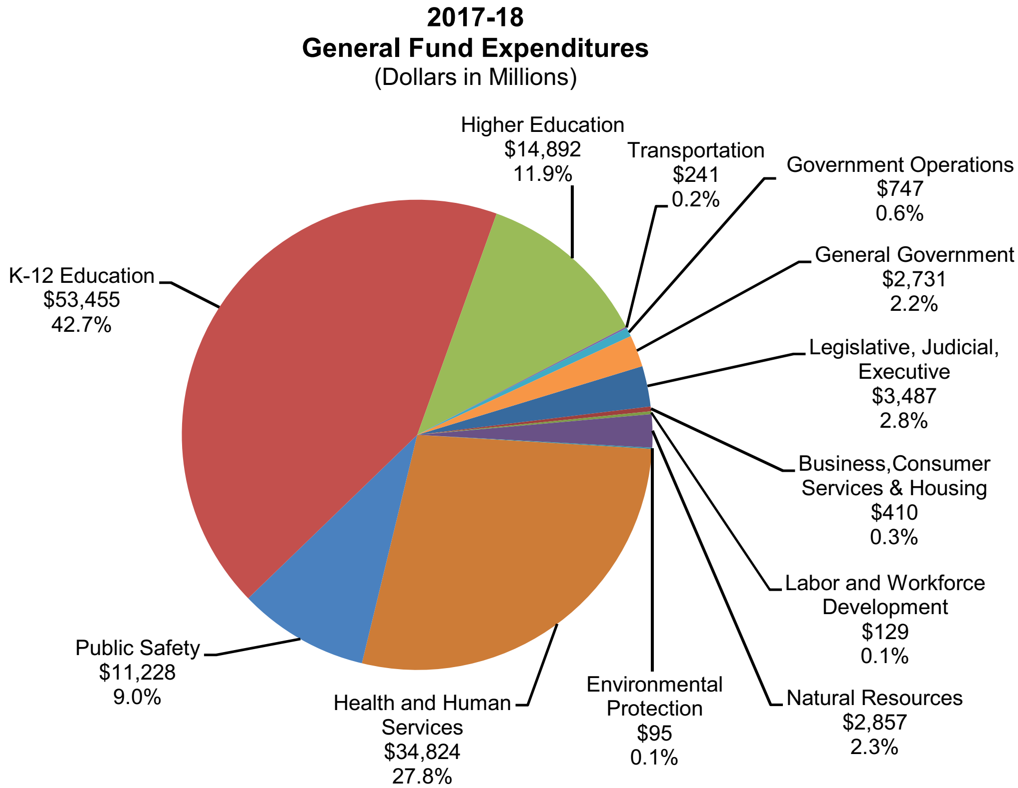
For more information on revised fiscal year 2017-18 estimates, see "Fiscal Year 2017-18 Revised General Fund Estimates in the 2018-19 Governor's Budget" and "GOVERNOR'S PROPOSED FISCAL YEAR 2018-19 BUDGET—Development of Revenue Estimates" and "—Economic Assumptions Underlying the 2018-19 Governor's Budget."

The following charts summarize the principal revenues, transfers, and expenditure components of the 2017-18 Budget as of the 2017 Budget Act.



Note: "Other" category is negative due to transfer from General Fund into the BSA of $1,773 million.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]



Note: The state's expenditures for contributions to the pension funds (4.9 percent of total General Fund expenditures when combined) and for debt service (net of various reimbursements) payable from the General Fund (4.4 percent of total General Fund expenditures when combined) are not shown separately in this chart, but are included within the applicable expenditure categories in the chart.

The 2017 Budget Act had the following major components upon enactment:

Proposition 98 — $74.5 billion guaranteed total funding for fiscal year 2017-18, of which $52.6 billion is General Fund. See "STATE FINANCES—Proposition 98 and K-14 Funding."

Higher Education — Total state funding of $15.4 billion for all major segments of Higher Education, including $14.9 billion from the General Fund (both Non-Proposition 98 and Proposition 98). The remaining state funds include special and bond funds.

Health and Human Services — $60.3 billion, including $34.8 billion General Fund and $25.4 billion from special funds, for these programs. See "STATE FINANCES—Health and Human Services."

Public Safety — Total state funding of $13.9 billion, including $11.2 billion General Fund and $2.6 billion from special funds, for Corrections and Rehabilitation. See "STATE FINANCES—California Department of Corrections and Rehabilitation."

Fiscal Year 2017-18 Revised General Fund Estimates in the 2018-19 Governor's Budget

The 2018-19 Governor's Budget makes various revisions to General Fund estimates for fiscal year 2017-18 involving the beginning fund balance, revenues and transfers, expenditures, and the ending reserve balance. These revised estimates are preliminary and subject to further adjustment after receipt of more information on final amounts for fiscal year 2017-18. The revised General Fund revenue and expenditure estimates are set forth in Table 5 below.

The 2018-19 Governor's Budget estimates the beginning General Fund balance at July 1, 2017 was $3.0 billion higher than previously estimated when the 2017 Budget Act was enacted, primarily due to expenditure savings for past and prior fiscal years. The major components making up the $3.0 billion increase consist of the following:

- $0.7 billion decrease in various Non-Proposition 98 expenditures in fiscal year 2015-16 and prior fiscal years, per the State Controller's Office.

- $0.5 billion decrease in Proposition 98 spending in fiscal year 2016-17.

- $1.6 billion decrease in Non-Proposition 98 spending in fiscal year 2016-17, including:

    - $0.3 billion decrease in expenditures in the In-Home Supportive Services program due to lower costs for overtime and increased federal funding for certain cases;

    - $0.4 billion decrease in expenditures to be spent in fiscal years 2017-18 and 2018-19.

- $0.2 billion increase in beginning fund balance due to increase in fiscal year 2016-17 encumbrances (resulting in lower spending). This is offset by a higher reserve for encumbrances, resulting in a net zero to the reserve.

As shown in Table 5, General Fund revenues and transfers increased by $1.4 billion, primarily due to higher than projected tax revenues (with personal income tax revenue and sales and use tax revenue higher by $0.6 billion and $0.7 billion, respectively).

Estimated General Fund expenditures increased by a net amount of $1.4 billion, the main components of which are the following:

- $0.7 billion increase in Natural Resources Agency expenditures, in part due to emergency fund increases related to fighting wildfires in California in 2017; and

- $0.5 billion increase in Medi-Cal expenditures, primarily due to an increase in Medi-Cal managed care costs and a delayed drug rebate repayment from fiscal year 2016-17.

The reserve for encumbrance increased by $0.2 billion since the enactment of the 2017-18 Budget.

The 2017 Budget Act projected an ending balance in the SFEU of $1.4 billion for fiscal year 2017-18. After taking account of revised estimates, the 2018-19 Governor's Budget projects an SFEU at June 30, 2018 of $4.2 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 2014-15 and 2015-16 (provided by the State Controller's Office), estimated results for fiscal years 2016-17 and 2017-18, and projected results for 2018-19 (based on the 2018-19 Governor's Budget). In addition to the SFEU, the 2018-19 Governor's Budget projects a cumulative balance of $13.5 billion in the BSA ("rainy day fund"), at June 30, 2019.

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.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

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

	Fiscal Year				
	2014-15	2015-16	Estimated 2016-17	Estimated 2017-18	Projected 2018-19
Fund Balance–Beginning of Period	$ 8,410	$ 6,460	$ 6,281	$ 4,611	$ 5,351
Restatements					
Prior Year Adjustment	164	(1,901)	(1,252)	–	–
Fund Balance–Beginning of Period, as Restated	**$ 8,574**	**$ 4,559**	**$ 5,029**	**$ 4,611**	**$ 5,351**
Revenues	$ 114,985	$ 119,113	$ 122,110	$ 129,290	$ 135,123
Other Financing Sources					
Transfers from Other Funds[b]	421	460	(3,441)	(2,038)	(5,331)
Other Additions	277	123	–	–	–
Total Revenues and Other Sources	**$ 115,683**	**$ 119,696**	**$ 118,669**	**$ 127,252**	**$ 129,792**
Expenditures					
State Operations[c]	$ 29,863	$ 29,374	$ 30,800	$ 33,455	$ 34,143
Local Assistance	85,109	84,840	88,167	92,898	97,293
Capital Outlay	168	146	304	158	255
Unclassified	–	–	(185)	–	–
Other Uses	–	–	–	–	–
Transfer to Other Funds[b]	2,657	3,614	–	–	–
Total Expenditures and Other Uses	**$ 117,797**	**$ 117,974**	**$ 119,087**	**$ 126,512**	**$ 131,690**
Revenues and Other Sources Over or (Under) Expenditures and Other Uses	$ (2,114)	$ 1,722	$ (418)	$ 741	$ (1,898)
Fund Balance					
Deferred Payroll[d]	1,026	1,082	–	–	–
Reserved for Encumbrances	967	1,016	1,165	1,165	1,165
Reserved for Unencumbered Balances of Continuing Appropriations[e]	1,145	1,112	–	–	–
Unreserved–Undesignated[f]	3,322	3,071	3,446	4,186	2,288
Fund Balance–End of Period	**$ 6,460**	**$ 6,281**	**$ 4,611**	**$5,351**	**$ 3,453**

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 in order 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, 2016, attached as APPENDIX F 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, 2016 fund balance between the two methods. See "FINANCIAL STATEMENTS."

(b) For the State Controller's 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 2016-17 through 2018-19. For those years, transfers to the BSA are reflected within the Transfers from Other Funds amounts as revenue transfers.

(c) Includes debt service on general obligation bonds. The estimated amount of General Fund debt service cost is approximately $4.8 billion each year for both fiscal years 2016-17 and 2017-18 and projected to be $4.9 billion in 2018-19. These 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; totaling approximately $2.0 billion in fiscal year 2016-17 and $2.2 billion in each of fiscal year 2017-18 and 2018-19 that offset the General Fund debt service costs of certain 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 2012-13 through 2016-17" under "STATE DEBT TABLES."

(Footnotes Continued on Following Page)

(Continued from Previous Page)

(d) Deferred Payroll, which began with the June 2010 payroll, is on-going and 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. For fiscal years 2016-17 through 2018-19, the General Fund Deferred Payroll amounts are estimated to average $1.2 billion per year and are included in the Unreserved-Undesignated row. Per statute, these 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 by the Office of the State Controller under "Reserved for Unencumbered Balances of Continuing Appropriations."

Source: Actual amounts for fiscal years 2014-15 to 2015-16; State of California, Office of the State Controller. Estimated and projected amounts for fiscal years 2016-17 through 2018-19: State of California, Department of Finance.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

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 2017-18 and 2018-19, as set forth in the 2018-19 Governor's Budget.

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

Revenue Source	2017-18 Enacted June 2017	2017-18 Revised January 2018	2018-19 Proposed January 2018
Personal Income Tax	$ 88,821	$ 89,403	$ 93,593
Sales and Use Tax	24,470	25,165	26,151
Corporation Tax	10,894	10,656	11,224
Insurance Tax	2,538	2,438	2,508
Alcoholic Beverage Taxes and Fees	377	376	382
Cigarette Tax	65	65	63
Motor Vehicle Fees	24	27	27
Other[a]	464	820	894
Subtotal	**$ 127,653**	**$ 128,950**	**$ 134,842**
Transfer to the Budget Stabilization Account/"Rainy Day Fund"	-1,773	-1,698	-5,050
Total Revenues and Transfers	**$ 125,880**	**$ 127,252**	**$ 129,792**

Expenditures by Agency	2017-18 Enacted June 2017	2017-18 Revised January 2018	2018-19 Proposed January 2018
Legislative, Judicial and Executive	$ 3,487	$ 3,221	$ 3,651
Business, Consumer Services & Housing	410	404	432
Transportation	241	239	213
Natural Resources	2,857	3,564	3,029
Environmental Protection	95	115	82
Health and Human Services	34,824	35,394	37,383
Public Safety (includes Corrections and Rehabilitation)	11,228	11,678	11,815
K-12 Education	53,455	53,489	55,167
Higher Education	14,892	14,968	15,450
Labor and Workforce Development	129	147	122
Government Operations	747	1,128	1,181
General Government			
Non-Agency Departments	730	775	766
Tax Relief/Local Government	435	428	457
Statewide Expenditures[b]	1,566	962	1,942
Total Expenditures	**$ 125,096**	**$ 126,512**	**$ 131,690**

(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.

ECONOMIC AND BUDGET RISKS

The 2017-18 Budget and the 2018-19 Governor's Budget are 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 the remainder of fiscal year 2017-18 as well as in fiscal year 2018-19 and beyond.

While the state projects a balanced budget through fiscal year 2021-22, 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 economic forecast used in connection with the 2018-19 Governor's Budget assumes continued expansion of the economy; however, by the end of fiscal year 2018-19, the current expansion will have matched the longest recovery since World War II and the Administration understands that another recession is ultimately inevitable. If inflation rises further due to the interaction between low unemployment levels and increasing consumer demand, for instance, imbalances that trigger a recession could result. The stock market recently was at an all-time high, and has been volatile. A sudden fall would likely adversely affect investment and hiring decisions at California companies, even in the absence of a recession.

- Federal Fiscal Policy — The federal administration and Congressional leaders have attempted, proposed or made major changes to the Affordable Care Act (including repeal of the individual mandate in the Affordable Care Act), Medicaid, and trade and immigration policy, in addition to other actions, which could potentially have detrimental effects on the state's budget. Other large policy changes that might affect economic growth, such as expenditure reductions and changes in interest rates, may also cause businesses and individuals to pull back on investment or consumption. At this point, it is not clear what those changes will be or when they will take effect.

The 2018-19 Governor's Budget economic and revenue forecasts were finalized prior to the enactment of the federal tax package at the end of December and therefore assumed no federal tax changes. Some behavioral impacts due to the expectation of federal tax changes were included, which resulted in modest shifting of certain income items from 2017 to 2018 when tax rates were expected to be lower.

The 2018-19 May Revision will include a preliminary analysis of the projected effects of recent federal tax reform 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 not be apparent for some time. Therefore, any analysis of the projected effects of this federal tax reform legislation on the state's General Fund revenues may change significantly over time.

- Health Care Costs — The state's Medicaid program ("Medi-Cal") continues to be one of the state's largest expenditures. Additionally, the state provides health benefits to its own employees and retirees. As the state continues to implement federal health care reform, or as the federal government continues to makes significant policy changes, General Fund spending on health care costs could increase significantly and state budgetary spending could become more 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."

- Capital Gains Volatility — Capital gains taxes 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. Proposition 2 mitigates some of this volatility by requiring spikes in capital gains tax revenue be used to repay the state's debts and liabilities, and be deposited in the BSA. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue—Personal Income Tax" and "—Budget Reserves."

- 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.

- Debts and Liabilities — The state's past budget challenges were exacerbated by an unprecedented level of debts, deferrals, and budgetary obligations accumulated during periods of economic recession in the prior two decades. Although the state has paid down a substantial amount of these debts in the past several years and has put in place plans to pay off all major state retirement-related liabilities over the next three decades, see "DEBTS AND LIABILITIES UNDER PROPOSITION 2," the state faces hundreds of billions of dollars in other long-term cost pressures, and debts and liabilities, including state retiree pension and health care costs. See "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs" and EXHIBIT 1—"PENSION SYSTEMS."

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." Starting in fiscal year 2015-16, in each fiscal year 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 included as an eligible use of Proposition 2 funds as shown in Table 6, 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.

The 2018-19 Governor's Budget proposes to repay loans from special funds ($205 million), repay transportation weight fee advances ($325 million), repay prior years of Proposition 98 underfunding (referred to as "settle up payments," $100 million), repay pre-Proposition 42 (2002) transportation loans ($235 million), prefund state retiree health care benefits ($195 million), and make the second repayment towards the $6 billion loan applied to a supplemental pension payment to CalPERS ($475 million). The Administration projects that borrowing from pre-Proposition 42 transportation funds will be repaid by the end of fiscal year 2019-20, and repayments for transportation weight fee advances and Proposition 98 settle up payments will be repaid by the end of fiscal year 2021-22.

The 2017-18 Budget reflected 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 special funds held by state departments) that will reduce unfunded liabilities, stabilize state contribution rates, and is projected by the Department of Finance to save an estimated $11 billion (net of interest on the loan) in state contributions to CalPERS from all state funded sources over the next two decades. As of the 2018-19 Governor's Budget, total savings over the next two decades for the General Fund and the special funds that contribute to CalPERS, net of principal of and interest payments on the loan, is estimated to be $4.8 billion. 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 (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 initial 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 special funds no later than June 30, 2030. The first General Fund repayment of this loan, $146 million, is being made with the fiscal year 2017-18 appropriation. The second General Fund repayment of this loan, proposed at $475 million, will be made with the fiscal year 2018-19 appropriation. The General Fund's share of the repayment of the loan over the expected term (approximately $3.4 billion estimated as of 2018-19 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 special 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
2018-19 Governor's Budget
(Dollars in Millions)

	Fiscal Year					
	Outstanding Amount at July 1, 2018 [a]	**Proposed 2018-19 Pay Down**	**Proposed 2019-20 Pay Down**	**Proposed 2020-21 Pay Down**	**Proposed 2021-22 Pay Down**	**Remaining Amount Not Currently Scheduled[b]**
Budgetary Borrowing						
Loans from special funds	$ 1,248	$ 205	$ 39	$ 288	$ 474	$ 242
Weight Fee Payments[c]	1,117	325	338	403	51	0
Underfunding of Proposition 98—Settle-Up	440	100	100	190	50	0
Repayment of pre-Proposition 42 Transportation Loans	471	235	236	0	0	0
State Retirement Liabilities (Unfunded Actuarial Estimate)						
State Retiree Health	76,533	195	260	305	315	N/A
State Employee Pensions [d]	59,578	475	442	119	515	N/A
Teachers' Pensions[e]	101,586	0	0	0	0	N/A
Judges' Pensions	3,489	0	0	0	0	N/A
Deferred payments to CalPERS	682	0	0	0	0	N/A
University of California Retirement Liabilities (Unfunded Actuarial Estimate)						
University of California Employee Pensions	10,851	0	0	0	0	N/A
University of California Retiree Health	19,331	0	0	0	0	N/A
Total	**$ 275,326**	**$ 1,535**	**$ 1,415**	**$ 1,305**	**$ 1,405**	**$ 242**

(a) For retiree health and pensions, the amounts reflect the actuarial report available at time the 2018-19 Governor's Budget was released. 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) Repayment of transportation weight fee advances was determined in the 2017-18 Budget to be a borrowing eligible for repayment under the provisions of Proposition 2's debt repayment requirements.

(d) The table does not reflect the reduction of the outstanding amount related to the $6 billion supplemental pension payment. 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 Prop 2 debt repayment funds. Actual payments will be determined annually based on availability of Proposition 2 debt repayment funds. Payments from special funds are not shown in this table.

(e) The state portion of the unfunded liability for teachers' pensions is $29.332 billion. See EXHIBIT 1—"PENSION SYSTEMS—CalSTRS."

LITIGATION

Introduction

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

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

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

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

Budget-Related Litigation

1. *Action Challenging School Financing*

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

2. *Actions Challenging Statutes That Reformed California Redevelopment Law*

There are approximately 75 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 of Water Resources, 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 California Fish & Game Code Section 5650, which regulates the deposit into state waters of materials deleterious to fish and other plant and animals. (*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.) If the trial court order is reversed and plaintiffs prevail on the merits on behalf of themselves and the purported 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. (Court of Appeal, Fourth Appellate District, Case No. D071669.) 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 Revenues—Corporation Tax" for a discussion of corporation taxes.

A pending case challenges the validity of a Board of Equalization regulation (Cal. Code Regs., tit. 18, § 1585) that 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 superior 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 and also are seeking leave to amend the complaint in the first action to add a class action claim for sales tax refunds. If plaintiffs are successful in their class action claim, that could result in an order requiring sales tax refunds potentially exceeding $1 billion. Even if plaintiffs are unsuccessful in their appeal and effort to amend, 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 lifted the stay and trial of the takings claims is currently set for September 2018.

Action Regarding Special Education

Plaintiffs in *Morgan Hill Concerned Parents Assoc. v. California Department of Education* (U.S. District Court, Eastern District of California, Case No. 2:11-cv-3471-KJM), 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.

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 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.

In the event a final decision in this matter prevented the use of bond proceeds, it is possible that the federal government may require the state to reimburse federal funds provided for the high-speed rail project if the state failed to provide other matching funds consistent with the federal grant agreement. As of February 2018, the amount of unmatched federal spending on the project was approximately $1.5 billion.

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 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. 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, 2016 (the "Financial Statements") are included as APPENDIX F 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, 2016 ("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 reports of General Fund cash receipts and disbursements for the period from July 1, 2016 through June 30, 2017 and July 1, 2017 through January 31, 2018 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), 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 if 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 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 in APPENDIX F 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 primarily or secondarily from moneys in 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 and expenditures of, or moneys available for transfer to, the General Fund.

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 tax revenues. 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-12 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 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 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.

The sales tax increase in Proposition 30 expired December 31, 2016; however, the personal income tax rates for high-income taxpayers, which were set to expire on December 31, 2018, were extended through tax year 2030 by Proposition 55. 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."

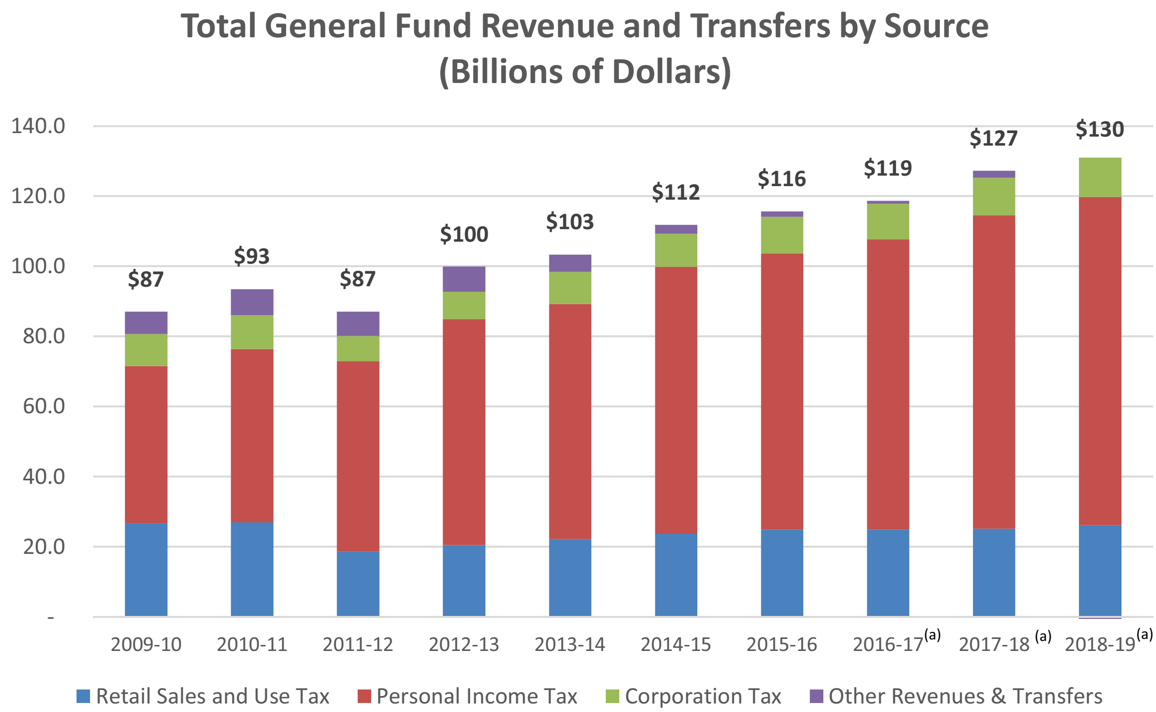
Proposition 2 directs the transfer of specified amounts of General Fund revenues to the BSA and to pay down specified debts and liabilities. It also requires spending on infrastructure including deferred maintenance once the BSA reaches the constitutional maximum balance of 10 percent of General Fund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

Sources of Tax Revenue

The 2018-19 Governor's Budget multiyear revenue forecast was finalized prior to enactment of federal tax law changes in late December 2017 and therefore does not reflect the effects of those changes in federal tax law. The upcoming 2018-19 May Revision forecast will reflect a preliminary estimate of those impacts on the state's revenue.

The following is a summary of the state's major tax revenues and tax laws. In fiscal years 2017-18 and 2018-19, 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 that are represented as reductions in the total amount of other General Fund revenues and transfers.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]



(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, $1.7 billion in fiscal year 2017-18, and $5.1 billion in fiscal year 2018-19. Each year, the transfer lowers the reported level of General Fund revenues and transfers by the amount of the transfer to the BSA.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

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
2009-10	$ 44,852	52 %	$ 26,741	31 %	$ 9,115	10 %	$ 6,333	7 %	$ 87,041
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[(a)]	82,857[(c)]	70	24,872[(c)]	21	10,116[(e)]	9	824[(g)]	1	118,669
2017-18[(a)]	89,403[(c)]	70	25,165	20	10,656[(e)]	8	2,028[(g)]	2	127,252
2018-19[(a)]	93,593[(c)]	72	26,151	20	11,224[(e)]	9	(1,176)[(g)]	-1	129,792

(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 decrease General Fund revenues by an estimated $3.5 billion in fiscal year 2011-12.

(c) Reflects the passage of Proposition 30, which temporarily increases 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 extends the three personal income tax brackets added by Proposition 30 until 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.

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 47.6 percent of the state's total PIT in tax year 2015.

The 2018-19 Governor's Budget revenue projections include the revenue expected from Proposition 30. This measure passed in 2012 provides 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 2018. 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. Voters approved Proposition 55 in 2016, extending the PIT increases from Proposition 30 through tax year 2030. The Administration projects the revenue from these additional tax brackets to be $7.2 billion in fiscal year 2016-17, $7.9 billion in fiscal year 2017-18 and $8.1 billion in fiscal year 2018-19.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

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	
2009-10[(a)]	$ 2,983	3.4%	$ 41,869	48.1%	$ 44,852	51.5%
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)]	11,439	10.2	64,731	57.9	76,169	68.1
2015-16[(b)(c)(d)]	11,478	9.9	67,258	58.2	78,735	68.1
2016-17[(b)(c)(d)]	11,351	9.6	71,506	60.3	82,857	69.8
2017-18[(b)(c)(d)]	13,029	10.2	76,374	60.0	89,403	70.3
2018-19[(b)(c)(d)]	13,259	10.2	80,334	61.9	93,593	72.1

(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-12 Education under Proposition 98.”

(c) Estimated. For fiscal year 2015-16, only the portion of total PIT attributable to capital gains remains subject to possible further revision.

(d) Revenue for fiscal year 2015-16 includes a reduction of $200 million, fiscal year 2016-17 reflects a reduction of $203 million, fiscal year 2017-18 a reduction of $343 million, and fiscal year 2018-19 a reduction of 353 million due to the state Earned Income Tax Credit.

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 2015, and the forecasted realizations for 2016 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 2018-19 Governor’s Budget projects that capital gains will account for 10.2 percent of General Fund revenues and transfers in fiscal year 2018-19. 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 are not required to collect tax on their sales. Use tax also applies to most leases of tangible personal property.

As of January 1, 2018, 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 billion in fiscal year 2017-18 and $7.3 billion in fiscal year 2018-19.

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 2018. See "2018-19 GOVERNOR'S PROPOSED BUDGET" for a projection of the SFEU balance for each of the fiscal years 2017-18 and 2018-19.

3. *Corporation Tax*

Corporation tax revenues are derived from the following taxes:

- The franchise tax and the corporate income tax are levied at an 8.84 percent rate on profits. The former is imposed on corporations for the privilege of doing business in California, while the latter is imposed on corporations that derive income from California sources but are not sufficiently present to be classified as doing business in the state.

- Banks and other financial corporations are subject to the franchise tax plus an additional tax at the rate of 2 percent on their net income. This additional tax is in lieu of personal property taxes and business license taxes.

- In general, the AMT is based on a higher level of net income computed by adding back certain tax preferences. This tax is imposed at a rate of 6.65 percent.

- A minimum franchise tax of up to $800 is imposed on corporations and Sub-Chapter S corporations. Limited partnerships are also subject to the $800 minimum franchise tax. New corporations are exempted from the minimum franchise tax for the first year of incorporation.

- Sub-Chapter S corporations are taxed at 1.5 percent of profits.

- Fees and taxes paid by limited liability companies ("LLCs"), which accounted for 10.1 percent of corporation tax revenue in fiscal year 2016-17, 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 reverses portions of the reductions 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 will increase by $871 million in fiscal year 2017-18, $911 million in fiscal year 2018-19, and $946 million in fiscal year 2019-20. The measure also, for fiscal years 2013-14 through 2017-18, dedicates 50 percent, up to a maximum of

$550 million, per year from the annual estimate of this increased revenue to funding of projects that create energy efficiency and clean energy jobs in California.

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. The 2018-19 Governor's Budget forecasts that this new law will reduce insurance tax revenue by $146 million in fiscal year 2016-17, $151 million in 2017-18, and $158 million in 2018-19, while corporation tax revenue is forecast to decrease by $240 million in 2016-17, $248 million in 2017-18, and $259 million in 2018-19. See "STATE EXPENDITURES—Health and Human Services—Replacement of the Managed Care Organization Tax."

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 fees are projected to account for approximately 30 percent of all special fund revenues in fiscal year 2018-19. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees and vehicle license fees. In fiscal year 2018-19, $17 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."

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)]	Insurance[(e)]	Motor Vehicle Fuel[(f)]	Motor Vehicle Fees[(g)]	Managed Care Organization Tax
2011-12	$17,962,461	$ 1,063,542	$ 800,677	$ 251,073	$ 5,544,530	$ 5,817,168	--
2012-13	19,161,183	1,683,780	778,703	21,379	5,492,850	5,838,702	--
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	1,805,958	754,690	--	4,957,269	6,809,481	1,632,354
2016-17[(a)]	21,346,194	1,795,735	1,155,439	--	4,800,507	7,055,892	2,123,773
2017-18[(a)]	23,259,568	2,088,826	2,006,125	--	6,743,452	8,286,022	2,228,810
2018-19[(a)]	24,458,035	2,229,393	1,956,049	--	8,158,499	9,389,790	2,563,988

(a) Estimated for fiscal years 2016-17, 2017-18, and 2018-19.

(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) Figures include insurance tax on Medi-Cal managed care plans in fiscal years 2011-12 and 2012-13.

(f) 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.

(g) Registration and weight fees, motor vehicle license fees and other fees. Includes $727 million in fiscal year 2017-18 and $1.5 billion in fiscal year 2018-19 from a new graduated fee at $25 to $175 per vehicle. See "STATE FINANCES—OTHER ELEMENTS—Local Government Impacts on State Finances."

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. *<u>Taxes on Tobacco Products</u>*

Cigarette and tobacco taxes primarily affect special funds, with $80.3 million going to General Fund and $1.16 billion going to special funds in 2016-17. 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. Lastly, Proposition 56 newly imposes 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, legalizes the recreational use of cannabis within California for persons age 21 and over, effective November 9, 2016. The measure also levies 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 will be an additional state retail excise tax equal to 15 percent of the average market price for cannabis products. Recreational cannabis will also be subject to state and local sales taxes. Medical cannabis, on the other hand, is exempted from existing state and local sales taxes. However, taxes on both medical and recreational cannabis can be levied by local governments.

State Expenditures

The four biggest categories of state expenditures—comprising approximately 90 percent of the annual budget each year—are K-12 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 twice 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 $55.2 billion from the General Fund for fiscal year 2018-19 (both Non-Proposition 98 and Proposition 98).

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. 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, but did not extend the one-quarter cent sales tax increase included in Proposition 30. See "Proposition 98 Funding for Fiscal Years 2017-18 and 2018-19" 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 2017-18 or fiscal year 2018-19. Therefore, there is no balance in the PSSSA and no deposit into the PSSSA is currently anticipated.

Proposition 98 Funding for Fiscal Years 2017-18 and 2018-19. As shown in Table 10, the funding provided K-12 schools and community colleges is estimated to grow moderately in fiscal years 2017-18 and 2018-19. The 2018-19 Governor's Budget estimates the Proposition 98 minimum guarantee to be $78.3 billion in fiscal year 2018-19, an increase of $3.8 billion over the amount assumed for fiscal year 2017-18 in the 2017 Budget Act, primarily due to an increase in projected revenues. The General Fund share is $54.6 billion, which includes approximately $8.1 billion in EPA General Fund revenues.

The 2018-19 Governor's Budget estimates a revised funding level for K-12 schools and community colleges in fiscal year 2017-18 of $75.2 billion, which is $688 million higher than the level assumed at the 2017 Budget Act, primarily due to higher than expected revenues in fiscal year 2017-18. The General Fund share is $52.7 billion, which includes approximately $7.6 billion in EPA General Fund. The local property tax share is 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.

The 2018-19 Governor's Budget reflects Proposition 98 General Fund expenditures in fiscal years 2016-17 through 2018-19, as outlined in the table below.

TABLE 10
Proposition 98 Funding
(Dollars in Millions)

	2016-17		Fiscal Year 2017-18		2018-19	Change From Revised 2017-18 to Proposed 2018-19	
	Enacted[d]	**Revised[e]**	**Enacted[f]**	**Revised[e]**	**Proposed[e]**	**Amount**	**Percent**
K-12 Proposition 98							
State General Fund	$ 38,738	$ 37,811	$ 40,540	$ 40,267	$ 41,307	$ 1,040	2.6%
Education Protection Account	6,784	6,709	6,437	6,792	7,191	399	5.9%
Local property tax revenue[a]	18,057	18,584	18,981	19,498	20,619	1,121	5.7%
Subtotals[b]	$ 63,579	$ 63,104	$ 65,958	$ 66,557	$ 69,117	$ 2,560	3.8%
CCC Proposition 98							
State General Fund	$ 4,690	$ 4,644	$ 4,859	$ 4,843	$ 5,177	$ 334	6.9%
Education Protection Account	838	829	795	839	889	50	6.0%
Local property tax revenue[a]	2,767	2,813	2,911	2,972	3,141	169	5.7%
Subtotals[b]	$ 8,295	$ 8,286	$ 8,565	$ 8,654	$ 9,207	$ 553	6.4%
Total Proposition 98							
State General Fund	$ 43,428	$ 42,455	$ 45,399	$ 45,110	$ 46,484	$ 1,374	3.0%
Education Protection Account	7,622	7,538	7,232	7,631	8,080	449	5.9%
Local property tax revenue[a]	20,824	21,397	21,892	22,470	23,760	1,290	5.7%
Totals[c]	**$ 71,874**	**$ 71,390**	**$ 74,523**	**$ 75,211**	**$ 78,324**	**$ 3,113**	**4.1%**

(a) 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 2016-17, 2017-18, and 2018-19 include the one-time distribution of cash assets held by redevelopment agencies.

(b) 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, $212 million for the K-12 Strong Workforce Program.

(c) Totals may not add due to rounding.

(d) As of the 2016 Budget Act, enacted on June 27, 2016.

(e) As of the 2018 Governor's Budget, January 10, 2018.

(f) As of the 2017 Budget Act, enacted on June 27, 2017.

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: 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 2018-19 Governor's Budget:

TABLE 11
Proposition 98 Obligations
(Dollars in Millions)

	Estimated Fiscal Year-End Balances[a]				
Obligation	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Maintenance Factor	$ 482	$ 67	$ 1,350	$ 228	$ 320
Other Settle-Up	1,517	1,261	1,043	440[b]	340[b]

[a] Proposition 98 factors and appropriations have been certified through fiscal year 2008-09.

[b] Included in "Underfunding of Proposition 98" 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 2018-19 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 2016-17, the Legislature and the Administration provided K-12 schools and community colleges with $542 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 2018-19 Governor's Budget provides $9.2 billion Proposition 98 funds for community colleges (consisting of $6.1 billion from the General Fund and $3.1 billion from local property taxes). The 2018-19 Governor's Budget proposes establishing a fully online 115th community college.

There are currently 114 community college campuses operated by 72 community college districts. These colleges provide associate degrees and certificates to students. Additionally, students may attend CCCs to meet basic skills or complete general education requirements prior to transferring to a four-year undergraduate institution. The CCCs awarded 241,695 associate degrees, certificates, and other awards in the 2016-17 school year. For the 2016-17 school year, approximately 1.1 million full-time equivalent students were enrolled at CCCs.

The CSU provides undergraduate and graduate programs, awarding about 119,500 degrees in the 2016-17 school year. The CSU enrolled 401,706 full-time students at 23 campuses in the 2016-17 school year.

The UC provides a range of undergraduate, graduate and professional programs, awarding about 72,000 degrees in the 2016-17 school year. The ten UC campuses and the Hastings College of Law enrolled 264,876 full time students in the 2016-17 school year.

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
2014-15	$3.0	$3.0	$5.0
2015-16	3.3	3.3	5.4
2016-17	3.6	3.5	5.4
2017-18	3.8	3.5	5.7
2018-19	3.8	3.5	6.1

(a) Includes costs of health benefits for CSU retirees.
(b) Includes general obligation bond debt service costs.

3. Health and Human Services

Medi-Cal. Medi-Cal, California's Medicaid program, is a health care entitlement program for low-income individuals and families who receive public assistance or otherwise lack health care coverage. Medi-Cal serves approximately 34 percent 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. However, caseload growth appears to be stabilizing. Average monthly caseload for fiscal year 2017-18 is estimated to be 13.47 million, with anticipated growth of 0.05 percent to 13.48 million in fiscal year 2018-19. The fiscal year 2017-18 increase of $543.7 million General Fund expenditures, compared to the 2017 Budget Act, includes two significant adjustments: (1) retroactive payments of drug rebates to the federal government, and (2) a higher estimate of Medi-Cal managed care costs.

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	17.7	7.9	55.1	80.7
2016-17	18.9	11.5	59.0	89.4
2017-18[(a)(b)(c)]	20.1	16.3	63.7	100.0
2018-19[(a)(d)]	21.6	12.8	67.1	101.5

(a) Estimated.

(b) Growth in General Fund spending is largely attributable to retroactive payments of drug rebates to the federal government and a higher estimate of Medi-Cal managed care costs.

(c) Growth in non-General Fund spending is due largely to tobacco initiative funding, additional revenues from the hospital quality assurance fee, and the managed care organization tax.

(d) The decrease in other funds is largely due to changes in the Hospital Quality Assurance fee as a result of federal requirements, decreased reimbursement as a result of the dissolution of the Coordinated Care Initiative, and the decrease to zero expenditures from the previous managed care organization tax.

Note: Totals may not add due to rounding.

Health Care Reform. California continues implementation of the federal Affordable Care Act (ACA). The mandatory Medi-Cal expansion simplified eligibility, enrollment, and retention rules that make it easier to get and stay on Medi-Cal. Additionally, 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 2018-19 Governor's Budget estimates that in fiscal year 2018-19, approximately 3.9 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 2018-19 Governor's Budget includes costs of $22.9 billion ($1.6 billion General Fund) in fiscal year 2018-19 for the optional expansion. 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, 2018, California is responsible for 6 percent of these costs, with California's contribution gradually increasing each fiscal 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 $2.5 billion.

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.

The following table shows IHSS caseload and related General Fund expenditures.

TABLE 14
IHSS Expenditures
(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2014-15	443,734	$2.2
2015-16	466,493	2.7
2016-17[(a)]	492,542	3.2
2017-18[(b)(c)]	518,511	3.3
2018-19[(b)(d)]	545,180	3.6

(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) Estimated.

(c) Fiscal year 2017-18 General Fund expenditures reflect (1) a revised county IHSS maintenance-of-effort structure which includes increased costs of $351.4 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.

(d) Fiscal year 2018-19 General Fund expenditures reflect (1) $285.5 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.

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 2016, 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. In September 2017, the federal government determined the state failed to meet the two-parent rate again in FFY 2016 and assessed the state $8.8 million in additional penalties, resulting in a total of $767 million in total penalty liability based on the most recent correspondence with the federal government. The earliest the assessed penalties would be imposed is FFY 2019 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	535,029	$0.6
2015-16	495,554	0.7
2016-17	452,770	0.9
2017-18[a]	425,855	0.6
2018-19[a]	400,777	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 2018-19 Governor's Budget includes approximately $2.8 billion for the SSI/SSP program from the General Fund for fiscal year 2018-19. The average monthly caseload in this program is estimated to be 1.3 million recipients in fiscal year 2018-19.

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 333,024 individuals in the community and approximately 361 individuals in state-operated facilities in fiscal year 2018-19.

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[(a)]	318,374	4.2
2018-19[(a)]	333,385	4.4

(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 42 million square feet of building space on more than 24,000 acres of land (37 square miles) statewide. The 2018-19 Governor's Budget assumes an average daily adult inmate population of 127,412 in fiscal year 2018-19 and an average daily adult parole population of 49,794 in fiscal year 2018-19.

The 2018-19 Governor's Budget includes total expenditures (excluding capital outlay) of $12 billion ($11.7 billion from the General Fund) for CDCR, including salaries and benefits of approximately $8.3 billion. The 2018-19 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 Governor sponsored, and the voters approved in 2016, Proposition 57 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 2018-19 Governor's Budget estimates that Proposition 57 will result in a population reduction of approximately 6,300 adult inmates in fiscal year 2018-19, growing to an inmate reduction of approximately 11,500 in fiscal year 2020-21. 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 2018-19 Governor's Budget includes $2.1 billion from the General Fund for the Receiver's Medical Services and Pharmacy Programs in 2018-19, compared to the 2017 Budget Act, which totaled $2 billion from the General Fund for the Receiver in fiscal year 2017-18.

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 2017, a total of 15 institutions have been transitioned back to the state, with 20 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 2011-12 through 2015-16. The information for fiscal year 2016-17 will be part of the State Controller's Budgetary/Legal Basis Annual Report, which is expected to be released in late March 2018, coinciding with release of the Audited General Purpose Financial Statements of the State for the Year Ended June 30, 2017.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

TABLE 17
Governmental Cost Funds (Budgetary Basis)
Schedule of Expenditures by Function and Character
Fiscal Years 2011-12 to 2015-16

(Dollars in Thousands)	Fiscal Year				
Function	**2011-12[(e)]**	**2012-13[(e)]**	**2013-14[(e)]**	**2014-15[(e)(f)]**	**2015-16[(e)(g)]**
Legislative, Judicial, and Executive					
Legislative	$ 331,052	$ 329,903	$ 345,319	$ 347,844	$ 362,845
Judicial	3,360,882	2,961,759	3,257,190	3,540,001	3,593,129
Executive	1,543,381	1,548,666	1,879,794	1,843,252	2,016,591
Business, Consumer Services, and Housing[(a)]	1,488,872	1,487,220	712,575	884,008	831,493
Transportation[(a)(b)]	5,452,535	5,950,645	7,389,121	7,390,367	7,560,409
Natural Resources	3,358,016	3,505,612	3,431,142	4,350,235	2,908,453
Environmental Protection	1,027,911	907,427	1,000,477	1,159,685	2,858,230
Health and Human Services	41,359,564	44,613,839	46,257,581	49,929,687	51,906,730
Corrections and Rehabilitation[(a)]	7,892,864	8,530,717	9,111,239	9,841,406	10,016,807
Education					
Education – K through 12	32,755,642	39,789,023	38,742,395	48,853,440	47,105,843
Higher Education	9,256,322	9,055,279	10,659,644	12,658,443	13,470,420
Labor and Workforce Development	700,449	710,343	726,075	773,047	811,335
Government Operations[(a)]	--	--	888,422	946,248	972,837
General Government					
General Administration	1,712,184	1,948,034	1,851,530	2,880,301	2,316,440
Debt Service	6,561,871	5,721,714	6,305,806	6,439,994	5,871,876
Tax Relief	434,385	427,285	421,734	416,755	413,953
Shared Revenues	1,997,607	3,660,110	2,082,676	1,879,362	2,139,016
Other Statewide Expenditures	1,453,787	1,365,657	1,109,007	2,891,100	1,440,270
Expenditure Adjustment for Encumbrances[(c)]	2,195,656	(136,097)	30,739	(633,345)	(503,745)
Credits for Overhead Services by General Fund	(485,301)	(592,314)	(642,848)	(602,749)	(671,457)
Statewide Indirect Cost Recoveries	(109,807)	(132,847)	(133,400)	(147,349)	(148,980)
Total	$ 122,287,872	$ 131,651,975	$ 135,426,218	$ 155,641,732	$ 155,272,495
Character					
State Operations	$ 39,579,635	$ 39,122,859	$ 39,266,400	$ 43,274,995	$ 43,170,643
Local Assistance[(d)]	81,820,212	91,890,033	95,620,340	111,421,332	111,415,101
Capital Outlay	888,025	639,083	539,478	945,405	$ 686,751
Total	$ 122,287,872	$ 131,651,975	$135,426,218	$ 155,641,732	$ 155,272,495

(a) The Governor's Reorganization Plan (GRP), which became operative on July 1, 2013, cut the number of state agencies from twelve to ten and eliminated or consolidated dozens of departments and entities, thereby making government more efficient and reducing unnecessary spending. The GRP created a new functional category called Government Operations and several departments/functions moved around. 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 2011-12, the Department of Transportation (DOT) changed the basis of financial reporting from a modified accrual basis to a cash basis for the State Highway Account (Fund 0042), the Public Transportation Account (Fund 0046), the Traffic Congestion Relief Fund (Fund 3007), the Transportation Investment Fund (Fund 3008), and the Transportation Deferred Investment Fund (Fund 3093). This change resulted in a reduction of the reported expenditures by DOT in these funds for fiscal year 2011-12 due to expenditures incurred, but not paid in fiscal year 2011-12 not being accrued, and the fiscal year 2010-11 reported accruals being reversed. Therefore, in fiscal year 2012-13, reported expenditures increased. The change to cash basis financial reporting for these funds was done at the direction of the Department of Finance, in accordance with the following statutes: Streets and Highways Code Section 183(c), for Fund 0042; Public Utilities Code Section 99310.6, for Fund 0046; Government Code Section 14556.5(b), for Fund 3007; Revenue and Taxation Code Section 7104.3, for Fund 3008; and Revenue and Taxation Code Section 7105(g), for Fund 3093.

(Footnotes Continued on Following Page)

(Continued from Previous Page)

(c) Large variances between fiscal years are normal. In fiscal years 2011-12 and 2012-13, the change to cash basis financial reporting by the DOT in Funds 0042, 0046, 3007, 3008, and 3093 accounts for most of the large variance between the two fiscal years. In fiscal year 2014-15, the increase in Local Assistance expenditures in funds that had no prior year reversal of encumbered expenditures, such as the Greenhouse Gas Reduction Fund (Fund 3228), accounts primarily for the much greater encumbrance adjustment amount than in fiscal year 2013-14.

(d) In fiscal year 2009-10, Proposition 1A of 2004 was suspended when Governor Schwarzenegger declared a fiscal emergency allowing the state to offset local assistance expenditures with $1.9 billion of property tax revenue borrowed from the local governments. The state repaid the obligation, plus interest, in June 2013. Additionally, $1.7 billion of local property tax revenues were shifted to offset General Fund costs in fiscal year 2009-10, $350 million were shifted in fiscal year 2010-11 and in fiscal year 2011-12 another $43 million were shifted.

(e) Executive Orders 12/13-A, 13/14-A, 14/15-A, 15/16-A, and 16/17-A were issued by the Department of Finance, as authorized under Control Section 12.45 of the Budget Acts of 2011, 2012, 2013, 2014 and 2015 respectively, and pursuant to Government Code Sections 12472.5 and 13302, to defer the June 2012, June 2013, June 2014, June 2015 and June 2016 payroll expenditures for various governmental and nongovernmental cost funds to July 2012, July 2013, July 2014, July 2015, and July 2016. This affected all State departments paid through the uniform payroll system.

(f) Six FI$Cal Wave 1 departments did not submit their required year-end statements to the State Controller's Office for fiscal year 2014-15 in time to be included in the BLBAR. These departments' amounts reported in the BLBAR include the June 30, 2015 cash balances plus accruals derived from actual activities reported through October 28, 2015.

(g) Twelve FI$Cal Wave 2 departments submitted estimated financial statements to the State Controller's Office for fiscal year 2015-16 to be 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 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 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 provide a multiyear budget forecast to help better manage the state's longer term finances. Under current projections, Proposition 2 will result in $14.7 billion in the BSA by fiscal year 2021-22 (including a supplemental transfer to the BSA of $3.5 billion proposed in the 2018-19 Governor's Budget for fiscal year 2018-19, above the amount required by Proposition 2) and $10.6 billion in additional reductions of debts and liabilities in its first seven years of operation. See Table 6 for the current debt payment plan.

STATE FINANCES—OTHER ELEMENTS

Pension Systems

The state participates in two principal retirement systems, CalPERS and CalSTRS. In each case, the state makes annual contributions from the General Fund. 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 $3.6 billion and $3.1 billion, respectively, for fiscal year 2018-19.

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, 2016, approximately 178,750 retirees were enrolled to receive health benefits and 149,560 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, 2016, included as APPENDIX F to this Official Statement.

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. The long-term costs for the state's OPEB may negatively affect the state's financial condition and impact its credit rating if the state does not adequately manage such costs.

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 ("GRS"), 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 actuarial 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, and represents 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 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 publically available trend studies. The state continues to use the 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 has adopted Investment Strategy 1, and 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.

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 per the CalPERS' CERBT Investment Strategy 1.

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 postemployment benefits from fiscal years 2013-14 to 2018-19 and does not reflect any future liability for current employees or annuitants. It is anticipated that these costs will 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. A recent 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
2013-14	$ 1,382,717	$ 1,378,709	$ 225,332	$ 22,000	$ 0	$ 1,630,049	$ 1,604,041[(d)]
2014-15	1,461,931	1,455,931	255,638	38,000	0	1,755,569	1,711,569
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[(a)]	1,771,294	1,766,694	291,006	188,523	91,615	2,250,823	2,149,315
2018-19[(a)]	1,891,350	1,887,150	311,289	372,515	193,571	2,575,154	2,392,010

(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, the Administration initiated 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. The Administration implemented the prefunding strategy, as well as changes to retiree health benefits for new employees, through the collective bargaining process. Statutory language passed as part of the 2015-16 Budget 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 include MOUs requiring 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 phases 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. As the Administration has negotiated successor contract agreements with all 21 bargaining units, all rank and file and related excluded state employees will be required to make OPEB contributions to begin prefunding those benefits and address the $76.5 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 approximately $570 million set aside in the prefunding trust fund to pay for future retiree health benefits. By the end of fiscal year 2017-18, the trust fund balance is projected to approach $1 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 2015-16 Budget 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 Administration's 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 non-tax proceeds. 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 2014-15 through 2018-19.

TABLE 20
State Appropriations Limit
(Dollars in Millions)

	Fiscal Year				
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**
State Appropriations Limit	$ 89,902	$ 94,042	$ 99,787	$ 103,390	$ 108,782[a]
Appropriations Subject to Limit	-78,274	-85,918	-83,637[a]	-91,686[a]	-96,756[a]
Amount (Over)/Under Limit	$ 11,628	$ 8,124	$ 16,150[a]	$ 11,704[a]	$ 12,026[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 from approximately 1,200 in Alpine County to approximately 10.2 million in Los Angeles County. Counties are responsible for the provision of many basic services, including indigent health care, welfare, jails, and public safety in unincorporated areas. There are also nearly 500 incorporated cities in California and thousands of special districts formed to provide various services. As summarized below, the fiscal condition of local governments and the relationship between local and state finances can have an impact on the state's financial condition and flexibility.

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 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 2018-19 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 2017-18 and 5.6 percent in fiscal year 2018-19. 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 2018-19 Governor's Budget estimates that Proposition 98 General Fund savings are \$1.4 billion in fiscal year 2016-17, \$1.5 billion in fiscal year 2017-18, and \$1.6 billion in fiscal year 2018-19. Proposition 98 General Fund savings are projected to average approximately \$1.9 billion per year from fiscal year 2019-20 through fiscal year 2021-22, 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 Which 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 2018-19: (1) a state special fund sales tax of 1.0625 percent (projected to total $7.3 billion) and (2) $699.6 million in vehicle license fees. 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 $2.9 billion in fiscal year 2017-18, and $2.4 billion in fiscal year 2018-19.

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 2018-19 Governor's Budget, the General Fund is projected to have up to approximately $26 billion of internal funds (excluding the BSA and the SFEU) available during the remainder of fiscal year 2017-18 and at least $27 billion during fiscal year 2018-19. See "—Inter-Fund Borrowings" for a further description of this process. See Table 21 for estimates of internal borrowable resources through June 30, 2019.

One fund from which moneys may be borrowed to provide additional cash resources to the General Fund is the BSA, which is currently funded at $8.5 billion and is projected to increase to $9.9 billion for most of fiscal year 2018-19 and 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 not 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-1980s and have always been paid at maturity. No RANs were issued in fiscal years 2015-16 and 2016-17 or are planned in fiscal years 2017-18 and 2018-19. 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, 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 2014-15 through 2016-17 and estimates the amount available in fiscal years 2017-18 and 2018-19 based on the 2018-19 Governor's Budget. See EXHIBIT 2 to APPENDIX A. The amount of internal borrowable resources fluctuates throughout the year.

TABLE 21
Internal Borrowable Resources
(Cash Basis)
(Dollars in Millions)

	Fiscal year ended June 30[a]				
	2015	**2016**	**2017**	**2018[b]**	**2019[b]**
Available Internal Borrowable Resources	$ 28,291	$ 35,866	$ 41,822	$ 38,131	$ 45,071
Outstanding Loans					
From Special Fund for Economic Uncertainties	0	0	1,749	1,426	2,288
Budget Stabilization Account	0	646	3,091	1,394	2,435
From Special Funds and Accounts	0	0	0	0	0
Total Outstanding Internal Loans	$ 0	$ 646	$ 4,839	$ 2,820	$ 4,723
Unused Internal Borrowable Resources	$ 28,291	$ 35,219	$ 36,983	$ 35,310	$ 40,348

(a) Numbers may not add due to rounding.

(b) Estimated.

Source: Fiscal years ended June 30, 2015 through June 30, 2017: State of California, Office of the State Controller.
Fiscal years ended June 30, 2018 and June 30, 2019: 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 were issued since fiscal year 2014-15 or are planned in the current fiscal year or fiscal year 2018-19.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

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 2016-17 and 2017-18

The state's cash position was strong entering fiscal year 2016-17, as the General Fund ended the previous year with internal loans of less than $1 billion. The state's cash flow projections for fiscal year 2016-17 indicated that internal borrowings would be sufficient and available to meet the normal peaks and valleys of the state's cash needs, while maintaining a cushion at all times of at least $2.5 billion. Accordingly, the state did not issue any RANs in fiscal year 2016-17, only the third time this has occurred since the commencement of annual RANs borrowings in the early 1980s.

The state entered fiscal year 2017-18 with General Fund internal loans at June 30, 2017 of $4.8 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 $17 billion at the end of each month. Taking into account intra-month cash flows and the remaining supplemental pension payment to CalPERS expected in April 2018 and PMIA loans, the State Controller's Office projects that the state will have a cash cushion of at least $15 billion at any time during the remainder of fiscal year 2017-18 (including the availability of $8.5 billion in the BSA).

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 years 2017-18 and 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, if the PMIB determines that it is in the best interests of the state to do so, the PMIB may fix the rate of interest paid on registered warrants at no more than 12 percent per annum. If issued with a maturity date, the principal and interest on such warrant will not be due until that date (although it may be optionally redeemed early if the state has sufficient Unapplied Money to do so) and the state may make other payments prior to that maturity date. If a registered warrant is issued without a maturity date, or its maturity date has occurred, it becomes redeemable by the holders on the date determined by the State Controller, with the approval of the PMIB.

State law generally requires that registered warrants be redeemable in the order they are issued but not prior to their maturity date, if any. The state last issued registered warrants in 2009. The State Controller was able to manage cash resources to ensure that higher Priority Payments, such as for schools and debt service, were made on time when registered warrants were issued. The issuance of the registered warrants permitted the state to pay Priority Payments with regular warrants which could be cashed.

2. Reimbursement Warrants

In lieu of issuing individual registered warrants to numerous creditors, state law provides an alternative procedure whereby the Governor, upon request of the State Controller, may authorize utilizing the General Cash Revolving Fund in the State Treasury to borrow from other state special funds to meet payments authorized by law. The State Controller may then issue "reimbursement warrants" (sometimes called "revenue anticipation warrants" or "RAWs") for sale to investors to reimburse the General Cash Revolving Fund, thereby increasing cash resources for the General Fund to cover required payments. The General Cash Revolving Fund exists solely to facilitate the issuance of reimbursement warrants. Reimbursement warrants have a fixed maturity date which may not be later than the end of the fiscal year following the year in which they were issued.

The principal of and interest on reimbursement warrants must be paid by the State Treasurer on their respective maturity dates from any Unapplied Money in the General Fund and available for such payment. In the event that Unapplied Money is not available for payment on the respective maturity dates of reimbursement warrants, and refunding reimbursement warrants (see "—Refunding Reimbursement Warrants") have not been sold at such times as necessary to pay such reimbursement warrants, such reimbursement warrants will be paid, together with all interest due thereon (including interest accrued at the original interest rate after the maturity date), at such times as the State Controller, with the approval of the PMIB, may determine.

The state has issued reimbursement warrants on several occasions in order to meet its cash needs when state revenues were reduced because of a recession, and the state incurred budget deficits. The state last issued reimbursement warrants in June 2002 and in June 2003.

3. Refunding Reimbursement Warrants

If it appears to the State Controller that, on the maturity date of any reimbursement warrant there will not be sufficient Unapplied Money in the General Fund to pay maturing reimbursement warrants, the State Controller is authorized under state law, with the written approval of the State Treasurer, to issue and sell refunding reimbursement warrants to refund the prior, maturing reimbursement warrants. Proceeds of such refunding reimbursement warrants must be used exclusively to repay the maturing warrants. In all other respects, refunding reimbursement warrants are treated like reimbursement warrants, as described above.

STATE INDEBTEDNESS AND OTHER OBLIGATIONS

General

The State Treasurer is responsible for the sale of most debt obligations of the state and its various authorities and agencies. The state has always paid when due the principal of and interest on its general obligation bonds, general obligation commercial paper notes, lease-revenue obligations and short-term obligations, including RANs and RAWs. Additional information regarding the state's long-term debt appears in the section "STATE DEBT TABLES."

Capital Facilities Financing

1. General Obligation Bonds

The state Constitution prohibits the creation of general obligation indebtedness of the state unless a bond measure is approved by a majority of the electorate voting at a general election or a direct primary. Each general obligation bond act provides a continuing appropriation from the General Fund of amounts for the payment of debt service on the related general obligation bonds, subject under state law only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. Under the state Constitution, appropriations to pay debt service on any general obligation bonds cannot be repealed until the principal of and interest on such bonds have been paid. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures." Certain general obligation bond programs, called "self-liquidating bonds," receive revenues from specified sources so that moneys from the General Fund are not expected to be needed to pay debt service, but the General Fund will pay the debt service, pursuant to the continuing appropriation contained in the bond act, if the specified revenue source is not sufficient. The principal self-liquidating general obligation bond program for the state is the veterans general obligation bonds, which are supported by mortgage repayments from housing loans made to military veterans of the state.

General obligation bonds are typically authorized for infrastructure and other capital improvements at the state and local level. Pursuant to the state Constitution, general obligation bonds cannot be used to finance state budget deficits.

A summary of the general obligation bonds outstanding as well as authorized by the voters but unissued, as of February 1, 2018, 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 on the investor relations website of the State Treasurer.

General Obligation Bonds
(as of February 1, 2018)

Authorized and Outstanding		**Authorized but Unissued***	
Primarily Payable from General Fund	Self-Liquidating	Primarily Payable from General Fund	Self-Liquidating
$73.1 billion	$738.9 million	$32.1 billion	$261.1 million

* 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 5.61 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.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

Type of Bonds	Outstanding Principal Amount ($000) as of February 1, 2018	Current Variable Rate Interest Mode	Liquidity Support[(a)]	Other Information as of February 1, 2018
General Obligation	$2,296,495	Daily/Weekly VRDO	Letters of Credit	
General Obligation	925,000	Indexed Floating Rate to Respective Mandatory Tender Dates	None	Mandatory Tenders on December 3, 2018, December 1, 2020, December 1, 2021, April 1, 2022, and December 1, 2022
General Obligation	100,000	Indexed Floating Rate to Respective Mandatory Redemption Dates	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, December 1, 2021, and April 1, 2020
General Obligation	69,620	Indexed Floating Rate to Respective Maturity Dates	None	Fixed Maturities on each May 1 in the years 2018 through 2020
TOTAL	$4,141,115			

(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 February 1, 2018, 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 February 1, 2018, is set forth in the following table.

Lease-Revenue Obligations
(as of February 1, 2018)

Outstanding General Fund Supported Issues	Authorized but Unissued
$9.2 billion	$4.2 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 June 30, 2017.

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 remaining part of fiscal year 2017-18 through the maturity of the outstanding BABs (mostly 20 to 30 years from issuance) based on the 35 percent subsidy rate is approximately $6.64 billion for the general obligation BABs and $168.9 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

The 2018-19 Governor's Budget assumes approximately $3.2 billion of new money general obligation bonds (some of which may initially be in the form of commercial paper notes) and approximately $707 million of lease-revenue bonds are expected to be issued in fiscal year 2018-19. 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 revenue estimates contained in the 2018-19 Governor's Budget and bond issuance estimates referred to in the preceding paragraph, the General Fund Debt Ratio is estimated to equal approximately 6.28 percent in fiscal year 2017-18 and 6.26 percent in fiscal year 2018-19.

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 $1.8 billion in each of fiscal year 2017-18 and fiscal year 2018-19. Including the estimated offsets reduces the General Fund Debt Ratio to 4.84 percent in fiscal year 2017-18 and 4.82 percent in fiscal year 2018-19. 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 2012-13 THROUGH 2016-17" 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, and 2015 with an outstanding principal amount of approximately $2.22 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 the Legislature for a General Fund appropriation in the event there are insufficient tobacco settlement revenues to pay debt service with respect to the enhanced bonds, and certain other available amounts, including the reserve fund for the enhanced bonds, are depleted. This appropriation has been requested and approved by the Legislature 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 February 1, 2018, the balance of the reserve fund for the enhanced bonds is approximately $152.5 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.

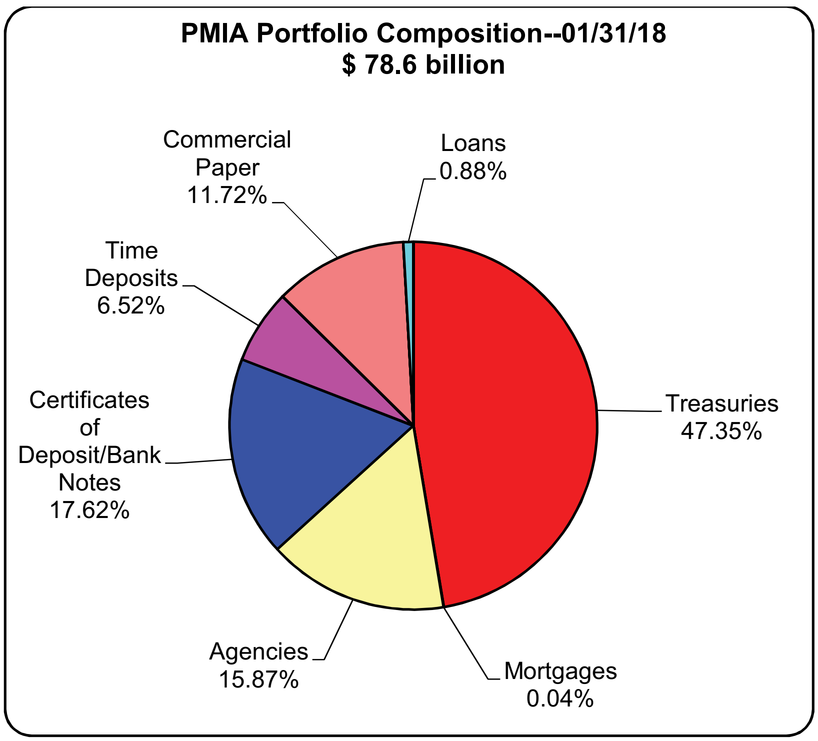
State law established the Health Facility Construction Loan Insurance Fund (the "Fund") as a trust fund which is continuously appropriated and may only be used for purposes of this program. The Fund is used as a depository of fees and insurance premiums and any recoveries and is the initial source of 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 December 31, 2017, OSHPD insured 81 loans to nonprofit or publicly owned health facilities throughout California with a current outstanding aggregate par amount of approximately $1.529 billion, and a cash balance of approximately $162.3 million. The actuarial study of the Fund as of June 30, 2014, was completed in July 2016 (the "2014 actuarial study"). Based upon a number of assumptions, the 2014 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 2043-44. Even under the "most pessimistic scenario," the 2014 actuarial study found that there was a 70 percent likelihood that the Fund's reserves as of June 30, 2014 would protect against any General Fund losses until at least fiscal year 2022-23, and a 90 percent likelihood that the Fund's reserves as of June 30, 2014 would protect against any General Fund losses until at least fiscal year 2019-20. There can be no assurances that the financial condition of the Fund has not materially declined since the 2014 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 January 31, 2018, the PMIA held approximately $56.5 billion of state moneys, and $22.1 billion invested for about 2,428 local governmental entities through the Local Agency Investment Fund ("LAIF"). The assets of the PMIA as of January 31, 2018 are shown in the following chart.



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 January 31, 2018 was 179 days. Over the prior 12 months, the average life has ranged from 179 days to 194 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. Before passage of Proposition 28 on June 5, 2012, Assembly members were limited to three terms in office and Senators to two terms. Proposition 28 reduced the total amount of time a person may serve in the Legislature from 14 to 12 years, but allows a person to serve a total of 12 years in either the Assembly, the Senate, or a combination of both. The new term limits law applies only to members of the Legislature elected after the measure was passed.

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 are as follows:

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

Office	Name	Party Affiliation	First Elected
Governor	Edmund G. Brown Jr.	Democrat	2010*
Lieutenant Governor	Gavin Newsom	Democrat	2010
Controller	Betty T. Yee	Democrat	2014
Treasurer	John Chiang	Democrat	2014
Attorney General	Xavier Becerra	Democrat	**
Secretary of State	Alex Padilla	Democrat	2014
Superintendent of Public Instruction	Tom Torlakson	Democrat	2010
Insurance Commissioner	Dave Jones	Democrat	2010

* Previously served as Governor 1975-83, prior to term limit law.

** Replaced Kamala D. Harris who left office when she was elected to the U.S. Senate in 2016.

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.

Board of Equalization Reforms—The Legislature reorganized the State Board of Equalization ("BOE") and created the California Department of Tax and Fee Administration ("CDTFA") effective July 1, 2017. The CDTFA performs most of the statutory duties formerly performed by the BOE, including administration of the sales and use tax, fuel taxes, cigarette and tobacco product taxes, and a host of fees.

The BOE now only performs those duties assigned to it by the State Constitution. Those duties include equalizing county property tax rates and administration of state-assessed property taxes, the alcohol excise tax, and the tax on insurers. The BOE continues to operate under four elected Board Members and the State Controller.

Effective January 1, 2018, responsibility for handling almost all tax appeals shifted from the BOE to the Office of Tax Appeals ("OTA"). The OTA decides tax appeals using panels of three administrative law judges who meet specified criteria and who are selected through the civil service process. The reorganization of the BOE is not expected to affect the level of tax revenue the state receives.

Employee Relations

The 2018-19 Governor's Budget estimates the state work force for fiscal year 2018-19 at approximately 371,000 positions. Approximately 162,000 of those positions represent state employees of the legislative and judicial branches of government, and institutions of higher education. Of the remaining 209,000 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, the Administration has negotiated successor contract agreements with all bargaining units that represent state employees. A key priority for the Administration during bargaining was addressing the state's unfunded retiree health care obligation ($76.5 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." In 2018, the Administration will negotiate with 4 of the state's 21 BUs, whose contracts with the state will expire in late June or early July 2018.

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 "2018-19 GOVERNOR'S PROPOSED BUDGET—Development of Revenue Estimates."

In July 2017, California's total population reached 39.6 million residents, an increase of 0.83 percent since July 2016. Since the national census on April 1, 2010, the state has grown by 2.4 million persons. California's population growth rate is expected to increase to 0.86 percent in 2018 and in 2019, resulting in a population of 40.0 million in July 2018 and 40.3 million in July 2019.

Natural increase (births minus deaths) will account for most of the growth during this time; however, net migration into the state is expected to continue to contribute to population growth. California's population is projected to reach 40.6 million people by July 2020.

California has a younger population than the remainder of the U.S., reflected in a lower median age (36.4 in 2016, compared to the U.S. average of 37.9). As of July 2017, there were an estimated 9.2 million Californians under age 18 (23.2 percent of the total population, versus 22.6 percent for the U.S. overall), and nearly 5.7 million age 65 and older (14.3 percent of the total, versus 15.6 percent nationally).

In California as in the remainder of the U.S., fertility rates are declining. The crude birth rate (births per 1,000 population) fell from 13.7 in 2010 to 12.6 in 2015 in California, and from 13.0 to 12.4 per 1,000 for the U.S. overall. Life expectancy in California (81.4 in 2015) is higher than the U.S. average (78.8) and is expected to continue growing. The combination of declining fertility and longer lives will lead to a higher median age and a dependency ratio that is closer to the remainder of the U.S.

Population growth rates vary by age group. The state's overall projected five-year growth rate of 4.3 percent (from 2017-2022) is higher than the anticipated 2.2 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 1.2 percent and the college-age group (18-24 years old) to decrease by 0.4 percent, while the preschool-age group (0-4 years old) is expected to decline by 3.1 percent. The population of the retirement-age group (age 65 and older) is expected to expand rapidly (22 percent).

The following table shows population totals for California and the U.S.

TABLE 23
Population

Year	California Population[(a)]	Annual Percent Change	United States Population[(a)]	Annual Percent Change	California as % of United States
2008	36,856,222	0.8%	304,374,846	0.9%	12.1%
2009	37,077,204	0.6	307,006,550	0.9	12.1
2010	37,335,085	0.7	309,338,421	0.8	12.1
2011	37,675,507	0.9	311,644,280	0.7	12.1
2012	38,042,780	1.0	313,993,272	0.8	12.1
2013	38,373,780	0.9	316,234,505	0.7	12.1
2014	38,739,767	0.9	318,622,525	0.8	12.2
2015	39,059,823	0.8	321,039,839	0.8	12.2
2016	39,345,154	0.7	323,405,935	0.7	12.2
2017	39,673,648	0.8	325,719,178	0.7	12.2

(a) Population as of July 1.

Source: U.S. figures from U.S. Department of Commerce, Bureau of the Census; California figures from State of California, Department of Finance.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

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.

TABLE 24
Labor Force
(Thousands)

Year	Labor Force	Employment	Unemployment Rate California	Unemployment Rate United States
2008	18,178	16,854	7.3%	5.8%
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	18,624	16,959	8.9	7.4
2014	18,755	17,349	7.5	6.2
2015	18,893	17,723	6.2	5.3
2016	19,103	18,065	5.4	4.9
2017[a]	19,224	18,303	4.8	4.4

[a] Preliminary.

Final 2017 data and revisions to prior years will be released in March 2018.

Source: State of California, Employment Development Department.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

The following table shows California's nonfarm payroll employment distribution and growth for 2007 and 2017.

TABLE 25
Nonfarm Payroll Employment by Major Sector
2007 and 2017
(Thousands)

	Employment		Distribution of Employment	
Industry Sector	**2007**	**2017[(a)]**	**2007**	**2017[(a)]**
Mining and Logging	26.7	22.9	0.2%	0.1%
Construction	892.6	815.2	5.8	4.9
Manufacturing				
Nondurable Goods	536.4	480.8	3.5	2.9
Durable Goods	932.6	817.9	6.0	4.9
High Technology	380.5	349.1	2.5	2.1
Other Durable Goods	552.1	468.8	3.6	2.8
Trade, Transportation & Utilities	2,912.9	3,022.0	18.8	18.0
Information	471.4	530.8	3.0	3.2
Financial Activities	896.2	832.3	5.8	5.0
Professional & Business Services	2,265.1	2,555.1	14.6	15.2
Educational & Health Services	1,963.7	2,615.0	12.7	15.6
Leisure & Hospitality	1,560.1	1,944.4	10.1	11.6
Other Services	512.2	575.6	3.3	3.4
Government				
Federal Government	247.0	247.5	1.6	1.5
State & Local Government	2,247.6	2,313.6	14.5	13.8
TOTAL	**15,464.4**	**16,772.9**	**100.0%**	**100.0%**

[(a)] Preliminary.

Final 2017 data and revisions to prior years will be released in March 2018.

Note: Figures may not add due to rounding.

Source: State of California, Employment Development Department.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

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.
2007	$1,583,852	3.9%	13.2%
2008	1,616,530	2.1	12.9
2009	1,560,649	(3.5)	12.9
2010	1,617,134	3.6	13.0
2011	1,727,434	6.8	13.1
2012	1,838,567	6.4	13.2
2013	1,861,957	1.3	13.2
2014	1,986,026	6.7	13.4
2015	2,133,664	7.4	13.7
2016	2,212,691	3.7	13.9

Preliminary 2017 data will be released on March 22, 2018.

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.
2007	$43,692	3.2%	$39,821	4.4%	109.7%
2008	44,162	1.1	41,082	3.2	107.5
2009	42,224	(4.4)	39,376	(4.2)	107.2
2010	43,317	2.6	40,277	2.3	107.5
2011	45,849	5.8	42,461	5.4	108.0
2012	48,369	5.5	44,282	4.3	109.2
2013	48,570	0.4	44,493	0.5	109.2
2014	51,344	5.7	46,494	4.5	110.4
2015	54,718	6.6	48,451	4.2	112.9
2016	56,374	3.0	49,246	1.6	114.5

Preliminary 2017 data will be released on March 22, 2018.

Note: Omits income for government employees overseas.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

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)

Year	Units: 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[a]	113,439	56,111	57,328	34,831

(a) Preliminary.

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[a]	9,589	1,778	4,517	12,255	28,139

(a) Preliminary.

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	165,379.58	(4.9)
2016	163,512.85	(1.1)
2017[(b)]	171,929.46	5.1

(a) Origin of Movement (OM) series.

(b) Preliminary.

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."

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

BANK ARRANGEMENTS TABLE

(See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—Bank Arrangements.")

As of February 1, 2018

BANK ARRANGEMENTS (See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—Bank Arrangements.")

Program	Series	Outstanding Par Amount	Credit Provider	Expiration	Type of Credit	Reset Mode
GO VRDOs	2003A 1	$46,400,000	JP Morgan Chase Bank National Association	9/13/2018	LOC	Daily
GO VRDOs	2003A 2-3	$186,000,000	Bank of Montreal	9/7/2018	LOC	Daily
GO VRDOs	2003B 1-4	$250,000,000	Bank of America, N.A.	4/26/2019	LOC	Weekly
GO VRDOs	2003C 1	$93,000,000	Bank of America, N.A.	11/2/2018	LOC	Weekly
GO VRDOs	2003C 3-4	$92,900,000	US Bank National Association	11/16/2018	LOC	Weekly
GO VRDOs	2004A 1, 4 & 5	$200,000,000	Citibank, N.A.	9/7/2018	LOC	Daily
GO VRDOs	2004A 2 &3	$141,500,000	State Street Bank & Trust Company	8/11/2020	LOC	Daily
GO VRDOs	2004A 6, 7, 8 & 10	$200,000,000	Citibank, N.A.	9/7/2018	LOC	Weekly
GO VRDOs	2004 A 9	$47,100,000	State Street Bank & Trust Company	8/11/2020	LOC	Weekly
GO VRDOs	2004B 1-3	$165,000,000	Citibank, N.A.	9/7/2018	LOC	Daily
GO VRDOs	2004B 4	$33,000,000	Citibank, N.A.	9/7/2018	LOC	Weekly
GO VRDOs	2004B 5-6	$97,200,000	US Bank National Association	4/5/2018	LOC	Weekly
GO VRDOs	2005A-1-1	$60,930,000	Royal Bank of Canada	11/4/2019	LOC	Weekly
GO VRDOs	2005A-1-2	$60,830,000	Royal Bank of Canada	11/4/2019	LOC	Weekly
GO VRDOs	2005A-2-1	$143,200,000	Sumitomo Mitsui Banking Corporation	11/16/2018	LOC	Weekly
GO VRDOs	2005A-2-2	$20,145,000	Royal Bank of Canada	11/4/2019	LOC	Weekly
GO VRDOs	2005A-3	$34,860,000	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	$69,620,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	11/4/2019	LOC	Weekly
GO VRDOs	2005B-3	$49,100,000	Sumitomo Mitsui Banking Corporation	11/16/2018	LOC	Weekly
GO VRDOs	2005B-4	$34,860,000	JP Morgan Chase Bank National Association	9/13/2018	LOC	Weekly
GO VRDOs	2005B-5	$88,890,000	MUFG Union Bank, N.A.	3/26/2021	LOC	Daily
GO VRDOs	2005B-7	$34,860,000	JP Morgan Chase Bank National Association	9/13/2018	LOC	Daily
Total GO VRDOs		**$2,296,495,000**				

BANK ARRANGEMENTS (See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—Bank Arrangements.")

GO CP [a]	A1/B1	$500,000,000	Wells Fargo Bank, N.A.	11/2/2018	LOC	Up to 90 days
	A2/B2	$500,000,000	Royal Bank of Canada	11/4/2019	LOC	Up to 90 days
	A3/B3	$200,000,000	MUFG Union Bank, N.A.	11/30/2020	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	8/9/2019	LOC	Up to 90 days
	A6/B6	$350,000,000	Bank of America, N.A.	11/19/2019	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		**$4,521,495,000**				

(a) For commercial paper (CP), the total outstanding par represents the maximum principal commitment under related bank agreements.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

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. The tables that reflect the schedule of debt service requirements by fiscal year do not include actual debt service paid by the state for July 1, 2017 through February 1, 2018 for fiscal year 2017-18. Also, 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.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

OUTSTANDING STATE DEBT
FISCAL YEARS 2012-13 THROUGH 2016-17
(Dollars in Thousands Except for Per Capita Information)

	2012-13	2013-14	2014-15	2015-16	2016-17
Outstanding Debt (a)					
General Obligation Bonds					
General Fund (Non-Self Liquidating)..................	$ 74,456,230	$ 75,714,125	$ 76,005,055	$ 74,941,755	$ 73,837,840
Enterprise Fund (Self Liquidating).......................	$ 884,180	$ 671,180	$ 646,750	$ 787,760	$ 701,740
Special Revenue Fund (Self Liquidating).............	$ 4,731,745	$ 3,417,115	$ 929,735	$ 0	$ 0
Total General Obligation Bonds.............................	**$ 80,072,155**	**$ 79,802,420**	**$ 77,581,540**	**$ 75,729,515**	**$ 74,539,580**
Revenue Bonds					
Lease-Purchase Debt...	$ 11,822,140	$ 11,266,240	$ 10,989,480	$ 9,808,190	$ 9,400,075
Total Revenue Bonds…………..............................	**$ 11,822,140**	**$ 11,266,240**	**$ 10,989,480**	**$ 9,808,190**	**$ 9,400,075**
Total Outstanding General Obligation and Revenue Bonds...	**$ 91,894,295**	**$ 91,068,660**	**$ 88,571,020**	**$ 85,537,705**	**$ 83,939,655**
Bond Sales During Fiscal Year					
Non-Self Liquidating General Obligation Bonds...	$ 7,417,170	$ 5,905,370	$ 6,613,070	$ 7,316,280	$ 9,046,715
Self Liquidating General Obligation Bonds...........	$ 0	$ 0	$ 110,000	$ 545,440	$ 0
Lease-Purchase Debt...	$ 1,678,130	$ 4,849,680	$ 728,085	$ 1,004,305	$ 1,304,420
Debt Service (b)					
Non-Self Liquidating General Obligation Bonds...	$ 5,424,867	$ 6,308,990	$ 6,580,411	$ 6,641,942	$ 6,775,916
Lease-Purchase Debt...	$ 1,197,124	$ 980,477	$ 1,030,213	$ 1,013,838	$ 1,012,291
General Fund Receipts (c)......................................	$ 103,424,674	$ 103,966,197	$ 116,385,580	$ 120,417,389	$ 122,608,066
Non-Self Liquidating General Obligation Bonds Debt Service as a Percentage of General Fund Receipts...	**5.25%**	**6.07%**	**5.65%**	**5.52%**	**5.53%**
Lease-Purchase Debt Service as a Percentage of General Fund Receipts................	**1.16%**	**0.94%**	**0.89%**	**0.84%**	**0.83%**
Population (d)..	38,041,489	38,373,434	38,739,410	39,059,809	39,354,432
Non-Self Liquidating General Obligation Bonds Outstanding per Capita..	**$ 1,957.24**	**$ 1,973.09**	**$ 1,961.96**	**$ 1,918.64**	**$ 1,876.23**
Lease-Purchase Debt Outstanding per Capita........	**$ 310.77**	**$ 293.59**	**$ 283.68**	**$ 251.11**	**$ 238.86**
Personal Income (e)..	$ 1,720,052,000	$ 1,827,919,750	$ 1,943,915,250	$ 2,061,149,250	$ 2,194,421,000
Non-Self Liquidating General Obligation Bonds Outstanding as Percentage of Personal Income....	**4.33%**	**4.14%**	**3.91%**	**3.64%**	**3.36%**
Lease-Purchase Debt Outstanding as Percentage of Personal Income............................	**0.69%**	**0.62%**	**0.57%**	**0.48%**	**0.43%**

(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.
(e) Revised estimates as of June 27, 2017.

SOURCES: Population: State of California, Department of Finance.
Personal Income: United States, Department of Commerce, Bureau of Economic Analysis
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.

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 2/1/2018
(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	79	11/08/88	797,745	31,130	0	0
+ 1990 School Facilities Bond Act	123	06/05/90	797,875	63,150	0	0
+ 1992 School Facilities Bond Act	155	11/03/92	898,211	169,915	0	0
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	40	03/05/02	2,600,000	1,954,460	19,995	197,805
+ California Library Construction and Renovation Bond Act of 1988	85	11/08/88	72,405	8,990	0	0
*+ California Park and Recreational Facilities Act of 1984	18	06/05/84	368,900	8,925	0	0
* California Parklands Act of 1980	1	11/04/80	285,000	1,720	0	0
California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	14	03/07/00	350,000	220,570	0	5,040
*+ California Safe Drinking Water Bond Law of 1976	3	06/08/76	172,500	2,330	0	0
* California Safe Drinking Water Bond Law of 1984	28	11/06/84	75,000	1,380	0	0
* California Safe Drinking Water Bond Law of 1986	55	11/04/86	100,000	16,940	0	0
California Safe Drinking Water Bond Law of 1988	81	11/08/88	75,000	21,850	0	0
*+ California Wildlife, Coastal, and Park Land Conservation Act	70	06/07/88	768,670	86,130	0	0
Children's Hospital Bond Act of 2004	61	11/02/04	750,000	547,540	45	46,705
Children's Hospital Bond Act of 2008	3	11/04/08	980,000	662,680	40,615	258,545
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (Hi-Ed)	1A	11/03/98	2,500,000	1,478,815	0	0
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (K-12)	1A	11/03/98	6,700,000	3,242,250	0	11,400
* Clean Air and Transportation Improvement Bond Act of 1990	116	06/05/90	1,990,000	576,930	0	4,985
* Clean Water Bond Law of 1984	25	11/06/84	325,000	7,450	0	0
* Clean Water and Water Conservation Bond Law of 1978	2	06/06/78	375,000	3,320	0	0
Clean Water and Water Reclamation Bond Law of 1988	83	11/08/88	65,000	14,610	0	0
* Community Parklands Act of 1986	43	06/03/86	100,000	1,775	0	0
* County Correctional Facility Capital Expenditure Bond Act of 1986	52	06/03/86	495,000	9,655	0	0
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	86	11/08/88	500,000	47,635	0	0
++++ Disaster Preparedness and Flood Prevention Bond Act of 2006	1E	11/07/06	3,990,000	2,294,430	156,880	1,460,437

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 2/1/2018
(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	43,785	635	7,490
* Fish and Wildlife Habitat Enhancement Act of 1984	19	06/05/84	85,000	4,175	0	0
Higher Education Facilities Bond Act of 1988	78	11/08/88	600,000	16,940	0	0
Higher Education Facilities Bond Act of June 1990	121	06/05/90	450,000	35,480	0	540
Higher Education Facilities Bond Act of June 1992	153	06/02/92	900,000	221,620	0	0
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	1B	11/07/06	19,925,000	16,189,700	173,910	1,569,765
Housing and Emergency Shelter Trust Fund Act of 2002	46	11/05/02	2,100,000	374,250	9,750	71,395
Housing and Emergency Shelter Trust Fund Act of 2006	1C	11/07/06	2,850,000	1,171,330	201,515	500,135
Housing and Homeless Bond Act of 1990	107	06/05/90	150,000	1,025	0	0
Kindergarten Through Community College Public Education Facilities Bond Act of 2016 (CCC)	51	11/08/16	2,000,000	16,880	0	1,983,120
Kindergarten Through Community College Public Education Facilities Bond Act of 2016 (K-12)	51	11/08/16	7,000,000	432,965	0	6,567,035
Kindergarten-University Public Education Facilities Bond Act of 2002 (Hi-Ed)	47	11/05/02	1,650,000	1,162,095	0	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (K-12)	47	11/05/02	11,400,000	8,390,160	17,890	18,020
Kindergarten-University Public Education Facilities Bond Act of 2004 (Hi-Ed)	55	03/02/04	2,300,000	1,847,065	0	58,019
Kindergarten-University Public Education Facilities Bond Act of 2004 (K-12)	55	03/02/04	10,000,000	7,664,925	12,465	43,100
Kindergarten-University Public Education Facilities Bond Act of 2006 (Hi-Ed)	1D	11/07/06	3,087,000	2,843,885	840	38,775
Kindergarten-University Public Education Facilities Bond Act of 2006 (K-12)	1D	11/07/06	7,329,000	6,587,845	17,110	211,620
* Lake Tahoe Acquisitions Bond Act	4	08/02/82	85,000	0	0	0
* New Prison Construction Bond Act of 1986	54	11/04/86	500,000	945	0	0
New Prison Construction Bond Act of 1988	80	11/08/88	817,000	6,775	435	1,245
New Prison Construction Bond Act of 1990	120	06/05/90	450,000	7,975	0	605
Passenger Rail and Clean Air Bond Act of 1990	108	06/05/90	1,000,000	14,035	0	0
Public Education Facilities Bond Act of 1996 (Higher Education)	203	03/26/96	975,000	412,740	530	4,650
++ Public Education Facilities Bond Act of 1996 (K-12)	203	03/26/96	2,012,035	687,525	0	0
++++ Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	13	03/07/00	1,884,000	1,243,400	0	43,346
++++ Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006	84	11/07/06	5,283,000	3,017,945	215,130	1,620,780
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000	12	03/07/00	2,100,000	1,271,180	6,200	66,985
++++ Safe, Clean, Reliable Water Supply Act	204	11/05/96	969,500	465,545	0	62,915
Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century	1A	11/04/08	9,950,000	2,272,815	42,565	7,193,190
* School Building and Earthquake Bond Act of 1974	1	11/05/74	150,000	11,970	0	0

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 2/1/2018
(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	97,615	0	0
School Facilities Bond Act of 1992	152	06/02/92	1,900,000	355,485	0	10,280
Seismic Retrofit Bond Act of 1996	192	03/26/96	2,000,000	957,245	0	0
* State, Urban, and Coastal Park Bond Act of 1976	2	11/02/76	280,000	2,850	0	0
Stem Cell Research and Cures Bond Act of 2004	71	11/02/04	3,000,000	1,069,605	151,110	688,150
Veterans Homes Bond Act of 2000	16	03/07/00	50,000	32,725	0	975
Veterans Housing and Homeless Prevention Bond Act of 2014	41	06/03/14	600,000	3,380	3,990	591,770
Voting Modernization Bond Act of 2002	41	03/05/02	200,000	60	0	64,495
Water Conservation Bond Law of 1988	82	11/08/88	60,000	16,185	0	5,235
*++++ Water Conservation and Water Quality Bond Law of 1986	44	06/03/86	136,500	20,925	0	230
Water Quality, Supply, and Infrastructure Improvement Act of 2014	1	11/04/14	7,545,000	168,080	173,930	7,172,085
++++ Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	50	11/05/02	3,345,000	2,455,375	9,135	301,864
Total General Fund Bonds			**144,349,341**	**73,071,085**	**1,254,675**	**30,882,731**

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 2/1/2018
(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	70,415	0	167,600
Veterans Bond Act of 1986	42	06/03/86	850,000	8,160	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	28,700	0	0
Veterans Bond Act of 1996	206	11/05/96	400,000	74,465	0	0
Veterans Bond Act of 2000	32	11/07/00	500,000	328,620	0	0
+++ Veterans Bond Act of 2008	12	11/04/08	300,000	202,450	0	93,455
Total Enterprise Fund Bonds			**4,710,000**	**738,905**	**0**	**261,055**
TOTAL GENERAL OBLIGATION BONDS			**149,059,341**	**73,809,990**	**1,254,675**	**31,143,786**

(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.

+ SB 1018 (06/27/2012) reduced the voter authorized amount

++ SB 71 (06/27/2013) reduced the voter authorized amount

+++ AB 639 (10/10/2013) reduced the voter authorized amount

++++ AB 1471 (11/04/2014) reallocated the voter authorized amount

SOURCE: State of California, Office of the Treasurer.

GENERAL OBLIGATION AND REVENUE BONDS
SUMMARY OF DEBT SERVICE REQUIREMENTS
As of February 1, 2018

	Total Debt		
	Interest	**Principal**	**Total (a)**
GENERAL OBLIGATION BONDS			
GENERAL FUND NON-SELF LIQUIDATING (b)			
Fixed Rate	$ 51,010,483,760.68	$ 68,929,970,000.00	$ 119,940,453,760.68
Variable Rate (c)	620,045,879.37	4,141,115,000.00	4,761,160,879.37
ENTERPRISE FUND SELF LIQUIDATING			
Fixed Rate	369,221,313.72	738,905,000.00	1,108,126,313.72
REVENUE BONDS			
GENERAL FUND LEASE-REVENUE			
Lease-Revenue	4,531,255,626.43	9,233,440,000.00	13,764,695,626.43
General Fund and Lease-Revenue Total (d)	**$ 56,531,006,580.20**	**$ 83,043,430,000.00**	**$ 139,574,436,580.20**

(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 February 1, 2018. The interest rates for the daily, weekly and monthly rate bonds range from 0.60 - 2.3597%.
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 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 (the "Prop 1A Put Bonds") currently bears interest at a fixed rate of 2.193%; until each series respective reset dates, both the Prop 1B Put Bonds and the Prop 1A Put Bonds, and are assumed to bear the respective rates for each such series from reset until maturity.
(d) Estimated interest included.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Fixed Rate
As of February 1, 2018

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2018 (c)	1,533,223,411.16	1,042,135,000.00	2,575,358,411.16
2019	3,634,008,265.10	3,095,645,000.00	6,729,653,265.10
2020	3,479,532,105.06	2,971,615,000.00	6,451,147,105.06
2021	3,347,455,419.09	2,824,590,000.00	6,172,045,419.09
2022	3,208,569,155.31	3,090,285,000.00	6,298,854,155.31
2023	3,062,364,384.28	2,637,680,000.00	5,700,044,384.28
2024	2,941,624,827.93	2,367,755,000.00	5,309,379,827.93
2025	2,828,011,893.15	2,392,390,000.00	5,220,401,893.15
2026	2,707,340,419.10	2,462,910,000.00	5,170,250,419.10
2027	2,578,360,483.31	2,473,420,000.00	5,051,780,483.31
2028	2,460,054,258.36	2,244,015,000.00	4,704,069,258.36
2029	2,346,607,488.85	2,490,850,000.00	4,837,457,488.85
2030	2,224,273,247.60	2,596,495,000.00	4,820,768,247.60
2031	2,082,493,507.80	2,616,690,000.00	4,699,183,507.80
2032	1,953,170,870.65	2,642,290,000.00	4,595,460,870.65
2033	1,812,477,781.26	2,732,055,000.00	4,544,532,781.26
2034	1,686,130,480.21	3,283,155,000.00	4,969,285,480.21
2035	1,460,885,905.34	3,075,075,000.00	4,535,960,905.34
2036	1,276,809,007.50	2,796,495,000.00	4,073,304,007.50
2037	1,108,872,291.87	3,060,465,000.00	4,169,337,291.87
2038	929,746,998.80	3,217,375,000.00	4,147,121,998.80
2039	786,546,066.45	3,413,375,000.00	4,199,921,066.45
2040	506,219,662.50	1,767,885,000.00	2,274,104,662.50
2041	344,407,793.75	2,190,000,000.00	2,534,407,793.75
2042	242,127,793.75	1,319,000,000.00	1,561,127,793.75
2043	186,670,418.75	1,326,325,000.00	1,512,995,418.75
2044	113,101,398.75	875,000,000.00	988,101,398.75
2045	82,223,425.00	550,000,000.00	632,223,425.00
2046	51,450,000.00	500,000,000.00	551,450,000.00
2047	27,725,000.00	525,000,000.00	552,725,000.00
2048	8,000,000.00	350,000,000.00	358,000,000.00
Total	**$ 51,010,483,760.68**	**$ 68,929,970,000.00**	**$ 119,940,453,760.68**

(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 March 1, 2018 through June 30, 2018.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Variable Rate
As of February 1, 2018

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2018 (c)	23,951,933.25	243,305,000.00	267,256,933.25
2019	59,226,990.58	113,420,000.00	172,646,990.58
2020	57,698,540.60	105,500,000.00	163,198,540.60
2021	56,604,456.10	154,400,000.00	211,004,456.10
2022	55,034,195.15	39,200,000.00	94,234,195.15
2023	54,708,423.67	121,100,000.00	175,808,423.67
2024	53,055,879.06	233,600,000.00	286,655,879.06
2025	50,128,320.05	176,400,000.00	226,528,320.05
2026	47,926,832.20	263,300,000.00	311,226,832.20
2027	44,177,096.66	274,600,000.00	318,777,096.66
2028	37,081,119.58	559,000,000.00	596,081,119.58
2029	29,044,543.58	467,700,000.00	496,744,543.58
2030	22,096,384.06	364,390,000.00	386,486,384.06
2031	16,003,208.85	323,600,000.00	339,603,208.85
2032	9,607,443.05	425,600,000.00	435,207,443.05
2033	2,993,272.06	271,400,000.00	274,393,272.06
2034	65,903.85	1,600,000.00	1,665,903.85
2035	54,557.00	-	54,557.00
2036	54,698.41	-	54,698.41
2037	54,415.59	-	54,415.59
2038	54,557.00	-	54,557.00
2039	54,557.00	-	54,557.00
2040	53,844.43	1,000,000.00	1,053,844.43
2041	45,618.50	-	45,618.50
2042	45,462.35	-	45,462.35
2043	45,462.35	-	45,462.35
2044	45,564.80	-	45,564.80
2045	45,489.20	-	45,489.20
2046	45,527.00	-	45,527.00
2047	41,583.39	2,000,000.00	2,041,583.39
Total	**$ 620,045,879.37**	**$ 4,141,115,000.00**	**$ 4,761,160,879.37**

(a) The estimate of future interest payments is based on rates in effect as of February 1, 2018. The interest rates for the daily, weekly and monthly rate bonds range from 0.60 - 2.3597%.
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 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 (the "Prop 1A Put Bonds") currently bears interest at a fixed rate of 2.193%; until each series respective reset dates, both the Prop 1B Put Bonds and the Prop 1A Put Bonds, and are assumed to bear the respective 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 March 1, 2018 through June 30, 2018.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR ENTERPRISE FUND SELF LIQUIDATING BONDS
Fixed Rate
As of February 1, 2018

Fiscal Year Ending June 30	Current Debt		
	Interest	Principal	Total (a)
2018 (b)	12,364,196.44	16,350,000.00	28,714,196.44
2019	23,611,517.50	49,000,000.00	72,611,517.50
2020	22,314,332.60	41,365,000.00	63,679,332.60
2021	21,109,838.75	31,445,000.00	52,554,838.75
2022	20,356,806.25	15,785,000.00	36,141,806.25
2023	19,978,756.25	12,015,000.00	31,993,756.25
2024	19,780,291.25	4,365,000.00	24,145,291.25
2025	19,631,498.75	7,070,000.00	26,701,498.75
2026	19,543,761.25	-	19,543,761.25
2027	19,256,943.75	19,300,000.00	38,556,943.75
2028	18,728,712.26	16,275,000.00	35,003,712.26
2029	18,049,654.40	30,450,000.00	48,499,654.40
2030	16,867,307.50	45,615,000.00	62,482,307.50
2031	15,398,170.00	45,185,000.00	60,583,170.00
2032	13,954,397.10	40,605,000.00	54,559,397.10
2033	12,788,317.50	25,065,000.00	37,853,317.50
2034	11,524,351.43	44,355,000.00	55,879,351.43
2035	10,063,011.25	35,770,000.00	45,833,011.25
2036	8,878,640.00	30,195,000.00	39,073,640.00
2037	7,928,538.75	22,280,000.00	30,208,538.75
2038	7,088,654.49	23,285,000.00	30,373,654.49
2039	6,295,375.00	18,735,000.00	25,030,375.00
2040	5,552,056.25	19,605,000.00	25,157,056.25
2041	4,658,095.00	27,310,000.00	31,968,095.00
2042	3,840,595.00	17,360,000.00	21,200,595.00
2043	3,219,151.25	18,045,000.00	21,264,151.25
2044	2,571,670.00	18,725,000.00	21,296,670.00
2045	1,899,451.25	19,450,000.00	21,349,451.25
2046	1,201,332.50	20,195,000.00	21,396,332.50
2047	594,375.00	14,025,000.00	14,619,375.00
2048	171,515.00	9,680,000.00	9,851,515.00
Total	**$ 369,221,313.72**	**$ 738,905,000.00**	**$ 1,108,126,313.72**

(a) Includes scheduled mandatory sinking fund payments.
(b) Represents the remaining debt service requirements from March 1, 2018 through June 30, 2018.

SOURCE: State of California, Office of the Treasurer.

STATE PUBLIC WORKS BOARD AND
OTHER LEASE-REVENUE FINANCING
OUTSTANDING ISSUES
As of February 1, 2018

Name of Issue		Outstanding
GENERAL FUND SUPPORTED ISSUES:		
State Public Works Board		
California Community Colleges	$	161,545,000
California Department of Corrections and Rehabilitation		4,152,180,000
Trustees of the California State University		159,925,000
Various State Facilities (a)		4,555,950,000
Total State Public Works Board Issues	**$**	**9,029,600,000**
Total Other State Facilities Lease-Revenue Issues (b)	$	203,840,000
Total General Fund Supported Issues	**$**	**9,233,440,000**
SPECIAL FUND SUPPORTED ISSUES:		
San Bernardino Joint Powers Financing Authority		10,055,000
Total Special Fund Supported Issues	**$**	**10,055,000**
TOTAL	**$**	**9,243,495,000**

(a) Includes projects that are supported by multiple funding sources in addition to the General Fund.
(b) Includes $62,435,000 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.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR LEASE-REVENUE DEBT
Fixed Rate
As of February 1, 2018

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2018 (c)	226,845,382.55	216,350,000.00	443,195,382.55
2019	444,053,562.35	552,855,000.00	996,908,562.35
2020	417,047,756.62	541,320,000.00	958,367,756.62
2021	391,284,562.13	513,795,000.00	905,079,562.13
2022	366,079,610.23	500,075,000.00	866,154,610.23
2023	343,007,632.79	456,915,000.00	799,922,632.79
2024	320,733,362.22	453,590,000.00	774,323,362.22
2025	298,087,556.18	471,750,000.00	769,837,556.18
2026	274,310,538.76	485,420,000.00	759,730,538.76
2027	249,627,141.07	510,025,000.00	759,652,141.07
2028	224,106,353.31	522,285,000.00	746,391,353.31
2029	198,002,016.82	487,955,000.00	685,957,016.82
2030	173,452,379.63	479,405,000.00	652,857,379.63
2031	149,651,710.00	471,900,000.00	621,551,710.00
2032	124,877,723.74	483,190,000.00	608,067,723.74
2033	101,089,575.74	413,890,000.00	514,979,575.74
2034	79,280,186.24	404,830,000.00	484,110,186.24
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	**$ 4,531,255,626.43**	**$ 9,233,440,000.00**	**$ 13,764,695,626.43**

(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 March 1, 2018 through June 30, 2018.

SOURCE: State of California, Office of the Treasurer.

STATE AGENCY REVENUE BONDS
AND CONDUIT FINANCING
As of December 31, 2017

Issuing Agency	Outstanding[(a)(b)(c)]
State Revenue Bond Financing Programs:	
California Alternative Energy and Advanced Transportation Financing Authority	2,556,800
California Department of Transportation - GARVEE	30,985,000
California Earthquake Authority	$210,000,000
California Health Facilities Financing Authority	53,695,000
California Housing Finance Agency	1,624,661,788
California Infrastructure and Economic Development Bank	1,204,875,000
California State University	5,692,563,000
Department of Water Resources - Central Valley Project	2,507,860,000
Department of Water Resources - Power Supply Program	3,931,050,000
The Regents of the University of California	18,259,640,000
Veterans Revenue Debenture	329,180,000
TOTAL	**33,847,066,588**
Conduit Financing:	
California Alternative Energy and Advanced Transportation Financing Authority	3,916,708
California Educational Facilities Authority	$4,210,391,532
California Health Facilities Financing Authority	17,128,433,820
California Housing Finance Agency	786,268,853
California Infrastructure and Economic Development Bank	4,299,995,791
California Pollution Control Financing Authority	3,769,422,624
California School Financing Authority	1,069,516,029
TOTAL	**31,267,945,357**

(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

TABLE OF CONTENTS

TABLE OF CONTENTS

(continued)

Page

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."

The University of California ("UC") maintains a separate retirement system. The 2017 Budget Act did not specifically allocate any of UC's appropriation to fund its employer retirement costs, but directed $169 million in one-time Proposition 2 funds to help pay down the UC's retirement system's unfunded liability.

The 2018-19 Governor's Budget reflects changes in actuarial assumptions made by CalPERS and CalSTRS that significantly increase 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. 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, experience, retirement 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 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, 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, an elected local official appointed by the Governor, and two members elected by all members.

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, 2016 and June 30, 2017.

TABLE 31
CalPERS State Employee Membership as of June 30

Category	2016	2017
Retirees	196,789	202,438
Survivors and Beneficiaries	35,966	36,356
Active Members	257,960	272,222
Inactive Members	87,755	93,540
Total	578,470	604,556

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2016 and June 30, 2017.

Benefits for state employees are paid according to the category of employment and the type of benefit coverage provided by the state. Generally, all employees in a covered class of employment who work on a half-time basis or more are eligible to participate in CalPERS. The five categories of membership applicable to state employees are set forth below. Certain categories also have "tiers" of membership. It is up to the employee to select his or her preferred membership tier. Different tiers may have different benefits, as well as different employee contribution requirements. The member categories are as follows:

- Miscellaneous Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.

- Safety Members – employees whose principal duties are in active law enforcement or fire prevention and suppression work but are not defined as a State Peace Officer/Firefighter Member, or who occupy positions designated by law as Safety Member positions.

- State Industrial Members – employees of the California Department of Corrections and Rehabilitation who have the same service retirement and other benefits as Miscellaneous Members, but who also have industrial death and disability benefits under certain limited circumstances.

- State Peace Officer/Firefighter Members – employees who are involved in law enforcement, firefighting and fire suppression, public safety, protective services, or the management and supervision thereof, whose positions are defined as State Peace Officer/Firefighter Members in the Government Code or by the Department of Human Resources.

- Patrol Members – California Highway Patrol officers and their related supervisors and managers.

3. Retirement Benefits

Generally, annual pension benefits depend on employment category, years of service credit, final compensation, and age of retirement. Annual pension benefits generally range from 2 percent of final compensation at age 55 for each year of service credit (applicable to Miscellaneous and State Industrial category members) to 3 percent of final compensation for each year of service for retirement at age 50 (for State Peace Officer/Firefighter category members). Pension benefits are subject to annual cost of living adjustments (generally ranging from 2-3 percent) and an additional adjustment intended to preserve the "purchasing power" of the pension benefit. Additional pension benefits also generally include disability and death benefit provisions. A detailed description of the pension benefits payable by PERF to state employees is set forth in CalPERS' actuarial valuations.

The Public Employees' Pension Reform Act of 2013 ("PEPRA") (AB 340, Chapter 296, Statutes of 2012) increased the retirement age for new CalPERS members hired on or after January 1, 2013 ("PEPRA members"). State Miscellaneous and State Industrial PEPRA members who retire at age 62 will be eligible for a benefit equal to 2 percent of final compensation for each year of credited service (up to 2.5 percent of final compensation for members retiring after age 67). Approximately 26 percent of the state active member population consists of PEPRA members as of June 30, 2017.

The following table shows the amount of pension benefits paid from CalPERS for fiscal years 2011-12 through 2015-16.

TABLE 32
CalPERS (State Only)
Schedule of Pension Benefits Paid
(Dollars in Millions)

Fiscal Year	Benefits Paid
2011-12	$6,711
2012-13	6,935
2013-14	7,410
2014-15	7,859
2015-16	8,307

Source: CalPERS State and Schools Actuarial Valuation for Fiscal Year ended June 30, 2012; CalPERS State Actuarial Valuation for Fiscal Years Ended June 30, 2013 through June 30, 2016.

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 2018-19 Governor's Budget includes the following state contribution rates:

	Contribution Rates
State Miscellaneous Tier 1	29.498%
California State University, Miscellaneous Tier 1	29.498
State Miscellaneous Tier 2	29.498
State Industrial	21.481
State Safety	21.082
State Peace Officers & Firefighters	45.547
California State University, Peace Officers and Firefighters	45.547
California Highway Patrol	55.419

Table 33 shows the state's actual and estimated contributions to CalPERS.

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
2014-15	$4,042	$2,120	$543	$543	$4,584	$2,662
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) (b)]	5,188	2,727	661	661	5,849	3,388
2018-19[(a)]	5,522	2,901	686	686	6,208	3,586

[(a)] Estimated contributions.

[(b)] Does not reflect the one-time $6 billion supplemental pension payment to CalPERS in fiscal year 2017-18 described below.

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 2017-18 Budget includes 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 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. It is being apportioned accordingly to the five state retirement plans administered by

CalPERS based on the unfunded liability of each plan. The Department of Finance projects that the $6 billion supplemental pension payment will save an estimated $11 billion (net of interest cost on the loan used to make this supplemental pension payment) in state contributions to CalPERS from all state funded sources over the next two decades. As of the 2018-19 Governor's Budget, total savings over the next two decades for the General Fund and the special funds that contribute to CalPERS, net of principal of and interest payments on the loan, is estimated to be $4.8 billion. 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.

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 7.0 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 2017-18 Budget includes a one-time $6 billion additional payment to CalPERS in fiscal year 2017-18 that affects the state's projected contributions beginning in fiscal year 2018-19.

Projected state contribution rates for fiscal years 2019-20 through 2023-24 are published in the actuarial valuation for the fiscal year ended June 30, 2016. This 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 $6 billion supplemental pension payment, the fiscal year 2016-17 investment return of 11.2 percent and projected additional contributions required to offset increased member contributions under PEPRA.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

Projected Contribution Rates

Plan:	Fiscal Year 2019-20	2020-21	2021-22	2022-23	2023-24
State Miscellaneous	31.598%	32.698%	33.298%	33.498%	33.898%
State Industrial	23.481	24.381	24.981	25.181	25.481
State Safety	22.582	22.982	23.182	23.182	22.582
State Peace Officers & Firefighters	48.747	50.147	50.947	51.147	51.747
California Highway Patrol	58.919	60.519	61.419	61.819	62.719

Source: CalPERS State Actuarial Valuation for Fiscal Year Ended June 30, 2016.

In accordance with state law, the actuarial valuation for the fiscal year ended June 30, 2016 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, 2016 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 2019-20 through 2021-22 for the employee categories under five different investment return scenarios, based on an 11.2 percent investment return for fiscal year 2016-17. 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 (figures in parentheses are negative numbers):

- The first scenario assumes a negative (3.00) percent return for each of the fiscal years 2017-18, 2018-19 and 2019-20.
- The second scenario assumes a 3.00 percent return for each of the fiscal years 2017-18, 2018-19 and 2019-20.
- The third scenario assumes the return would be CalPERS' assumed investment return for each of the fiscal years 2017-18 (7.25 percent), 2018-19 (7.00 percent) and 2019-20 (7.00 percent).
- The fourth scenario assumes an 11.00 percent return for each of the fiscal years 2017-18, 2018-19 and 2019-20.
- The fifth scenario assumes a 17.00 percent return for each of the fiscal years 2017-18, 2018-19 and 2019-20.

In all the scenarios, rates are expressed as a percentage of payroll.

Estimated: Fiscal Year 2019-20

Assumed return	(3.00)%	3.00%	7.00%	11.00%	17.00%
Projected Contribution Rates					
State Miscellaneous	32.4%	31.9%	31.5%	31.2%	30.7%
State Industrial	23.3	22.9	22.6	22.3	21.9
State Safety	22.0	21.6	21.4	21.1	20.8
State Peace Officers & Firefighters	48.3	47.6	47.1	46.6	45.9
California Highway Patrol	58.9	58.1	57.6	57.1	56.3

Source: CalPERS State Actuarial Valuation for Fiscal Year Ended June 30, 2016.

Estimated: Fiscal Year 2020-21

Assumed return	(3.00)%	3.00%	7.00%	11.00%	17.00%
Projected Contribution Rates					
State Miscellaneous	35.1%	33.6%	32.6%	31.6%	30.0%
State Industrial	25.5	24.3	23.5	22.7	21.5
State Safety	23.6	22.5	21.8	21.1	20.0
State Peace Officers & Firefighters	52.1	50.0	48.5	47.1	44.8
California Highway Patrol	62.9	60.8	59.2	57.8	55.4

Source: CalPERS State Actuarial Valuation for Fiscal Year Ended June 30, 2016.

Estimated: Fiscal Year 2021-22

Assumed return	(3.00)%	3.00%	7.00%	11.00%	17.00%
Projected Contribution Rates					
State Miscellaneous	38.0%	35.3%	33.2%	31.2%	27.9%
State Industrial	28.0	25.8	24.1	22.5	11.3
State Safety	25.4	23.5	22.0	20.6	11.8
State Peace Officers & Firefighters	56.3	52.3	49.3	46.4	41.6
California Highway Patrol	67.3	63.2	60.1	57.1	52.1

Source: CalPERS State Actuarial Valuation, for Fiscal Year Ended June 30, 2016.

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 2007-08 through 2016-17, as well as time-weighted average returns.

TABLE 34
CalPERS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Return
2007-08	(5.1)%
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

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2008 through June 30, 2017.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

TABLE 35
PERF Time-Weighted Average Returns as of June 30, 2017

Period	Time Weighted Average Rate of Return
3 years	4.6%
5 years	8.8
10 years	4.4
20 years	6.6

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2017; CalPERS Newsletter, July 14, 2017 for the 20-year time period.

With the exception of the 5-year rate, every rate is below 7.5 percent, CalPERS' former actuarially assumed rate of return. 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 to a 7 percent assumed rate of return 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 will 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	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Investment Returns	7.375%	7.25%	7.00%	7.00%
Inflation	2.75	2.63	2.50	2.50
Salary Increase (Total Payroll)	3.00	2.88	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, 2016. The investment returns assumption for fiscal year 2018-19 and subsequent fiscal years was approved by the CalPERS Board at its December 2017 meeting, as a result of the Asset Liability Management Process completed at that time. The assumptions for inflation and salary increase for fiscal years 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 period was reduced from 30 years to 20 years, and the 5-year direct smoothing process was removed from the end of the 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 19, 2017, the CalPERS Board adopted the contribution rates for the state plans as of June 30, 2016. The unfunded liability allocable to state employees (excluding judges and elected officials) is estimated to be $59.5 billion as of June 30, 2016, which is an increase of $9.9 billion from the June 30, 2015 valuation. The funded ratio decreased to 65.1 percent as of June 30, 2016 from 69.4 percent as of June 30, 2015.

CalPERS earned an 11.2 percent net return on investments for fiscal year 2016-17. 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				
	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**
Market Value of Assets (MVA)	$88,810	$97,453	$111,982	$112,532	$111,121
Actuarial Accrued Liabilities	134,314	147,393	155,247	162,091	170,657
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis	(45,504)	(49,940)	(43,265)	(49,559)	(59,536)
Covered Payroll	15,680	15,347	16,476	17,453	18,092
Funded Ratio (MVA)	66.1%	66.1%	72.1%	69.4%	65.1%

Source: CalPERS State and Schools Actuarial Valuation for Fiscal Year Ended June 30, 2012; CalPERS State Actuarial Valuation, for Fiscal Years Ended June 30, 2013 through June 30, 2016.

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, 2017, CalPERS reported that JRF and JRF II had an unfunded actuarial liability of approximately $3.3 billion and $9.8 million, respectively. For the same year, the LRF reported a funding surplus of $16.0 million. In the 1959 Survivor Benefit Program actuarial report for the year ended June 30, 2016, CalPERS reported that the program had an unfunded actuarial liability of approximately $42 million; an updated estimate will be published with the actuarial valuation as of June 30, 2017, which is expected to be released in spring 2018. Changes to the assumed rate of return for the JRS, JRS II, and LRS were approved by the CalPERS Board at its April 2017 meeting. The assumed rates of return for JRS, JRS II, and LRS were reduced from 4.25 to 3.25 percent, 7 to 6.5 percent, and 5.75 to 5 percent, respectively. As a result of the experience study CalPERS completed in 2017, the CalPERS Board further reduced the assumed rate of return for JRS from 3.25 to 3 percent at its February 2018 meeting.

The state's fiscal year 2018-19 retirement contributions from the General Fund are estimated in the 2018-19 Governor's Budget to be $195 million for JRF, $80 million for JRF II, and $1.0 million for LRF. The state's fiscal year 2018-19 retirement contribution from the General Fund 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, 2017. The state's fiscal year 2017-18 General Fund retirement contribution to this program is $4.9 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 24 (and the Schedule of Funding Status included in the Required Supplementary Information) to the Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2016 attached as APPENDIX F 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 2015-16 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, 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, 2017, the DB Program included 1,745 employers. The following table reflects the total number of members in the DB Program as of June 30, 2016 and 2017.

TABLE 38
DB Program Membership

Membership	June 30, 2016	June 30, 2017
Active Members	438,388	445,778
Inactive Members	187,804	192,688
Retirees and Beneficiaries	288,079	294,835
Total	914,271	933,301

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2016 and June 30, 2017 – Notes to Basic Financial Statements, Note 1.

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, 2016, there were 60,492 active PEPRA members. CalSTRS estimates that as of July 1, 2017, there were about 79,200 active PEPRA members, representing about 18 percent of the total active population. CalSTRS expects this percentage to increase to about 30 percent of the total active population by 2020.

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 the last five fiscal years:

TABLE 39
DB Program
Schedule of Benefits Paid and Administrative Expenses
(Dollars in Millions)

Fiscal Year	Amount of Benefits Paid	Administrative Expenses
2011-12	$10,208	$131
2012-13	10,844	133
2013-14	11,414	154
2014-15	11,972	146
2015-16	12,546	183

Source: CalSTRS Actuarial Valuations for Fiscal Years ended June 30, 2011 June 30, through 2016.

4. Funding for the DB Program

The DB Program is funded with a combination of investment income 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 returns, 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.

Member Contributions. Members are required to make contributions to the DB Program in an amount equal to 8 percent of creditable compensation of the member. However, for services performed between January 1, 2000 and December 31, 2010, the member contribution to the DB Program was 6 percent because 2 percent was directed to the Defined Benefit Supplement Program (to which the state does not contribute).

Under AB 1469, member contributions increased over time on July 1, 2014, 2015 and 2016 to the current rate of 10.25 percent for members not subject to PEPRA and to 9.205 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 should be adjusted if the normal cost increases by more than 1 percent since the last time the member contribution rate was set. The CalSTRS Board adopted changes to its actuarial assumptions at its February 2017 meeting, which are referenced in the 2016 CalSTRS Valuation. The valuation determines that the actuarial assumption changes do not result in an increase in the contribution rate for PEPRA members.

Employer Contributions. Employers are required to make contributions to the DB Program in an amount equal to 8 percent of creditable compensation plus 0.25 percent to pay costs of the unused sick leave credit; provided that a portion of the employers' contributions has in the past and may in the future be transferred to the Medicare Premium Program which has the effect of further reducing aggregate annual contributions to the DB Program.

Under AB 1469, employer contributions have increased, and will continue to increase over time on each July 1 of 2014 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. Therefore, employers will not be subject to any additional rate increases as a result of the newly adopted actuarial assumptions until fiscal year 2021-22.

State Contributions. The state's General Fund 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 an additional 0.524 percent 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. Under the prior structure, the percentage was adjusted up to 0.25 percent per year to reflect the contributions required to fund the unfunded obligation or the normal cost deficit. However, the supplemental contribution could not 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 on a phased basis over a three year period. Starting in fiscal year 2014-15, the supplemental contribution increased to 1.437 percent, in fiscal year 2015-16 it increased to 2.874 percent, and in fiscal year 2016-17 it increased to 4.311 percent. Beginning fiscal year 2017-18 through fiscal year 2045-46, the CalSTRS Board is authorized to adjust the supplemental state contribution 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.

The 2018-19 Governor's Budget assumes the CalSTRS Board will increase the fiscal year 2018-19 state contribution to the DB Program by the maximum amount allowed in statute of 0.5 percent, to 7.3 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.

5. Change in Accounting Standards

The 2017 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 2017 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 2017 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, 2017 (which is available on the CalSTRS website at www.calstrs.com), 37.17 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 34.59 percent or $23.3 billion as of the June 30, 2015 measurement date pursuant to the state's financial statements for the fiscal year ended June 30, 2016.

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 $70 million for the fiscal year ended June 30, 2010, $71 million for the fiscal year ended June 30, 2011 and $72 million thereafter.

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
2014-15[(a)]	$528	$582	$376	$1,486
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[(b)]	646	729	1,702	3,077

(a) Beginning in 2014-15, the state increased payments to the Pre-1990 Defined Benefit pursuant to AB 1469.
Source: State of California, Department of Finance.
(b) Estimated contributions as of the 2018-19 Governor's Budget.

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 March 21, 2017 (the "2016 CalSTRS Valuation"), was prepared as of June 30, 2016 and was adopted by the CalSTRS Board at its April 2017 meeting. The newly adopted assumptions are used in the 2016 CalSTRS Valuation.

In preparing the 2016 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 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, 2017.

TABLE 41
Actuarial Methods and Assumptions—DB Program

	Fiscal Year			
Methods	**2013-14**	**2014-15**	**2015-16**	**2016-17**
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	Open	Closed	Closed	Closed
Remaining Amortization Period	30 years	32 years	31 years	30 years
Asset Valuation Method	Expected value with 33% 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%	7.50%
Interest on Accounts	4.50	4.50	4.50	4.50
Wage Growth	3.75	3.75	3.75	3.75
Consumer Price Inflation	3.00	3.00	3.00	3.00
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, 2014 through June 30, 2017.

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 June 30, 2016 valuation uses the investment rate of return assumed for fiscal year 2017-18 (7.25 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.

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 2016 CalSTRS Valuation, due to the asset smoothing method, approximately one-third of the approximately $4.9 billion investment loss 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.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

TABLE 42
DB Program Schedule of Funding Status
(Dollars in Millions)

	Fiscal Year				
	2011-12	**2012-13**	**2013-14[a]**	**2014-15[a]**	**2015-16[a]**
Market Value of Assets (MVA)	$134,835	$147,907	$169,406	$169,127	$165,118
Actuarial Value of Assets (AVA)	144,232	148,614	158,495	165,553	169,976
Actuarial Accrued Liabilities (AAL)-entry age	215,189	222,281	231,213	241,753	266,704
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis[a]	(80,354)	(74,374)	(61,807)	(72,626)	(101,586)
Excess of Actuarial Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) AVA Basis	(70,957)	(73,667)	(72,718)	(76,200)	(96,728)
Covered Payroll	25,388	25,479	26,470	28,013	29,826
Funded Ratio (MVA)	63%	67%	73%	70%	62%
Funded Ratio (AVA)	67%	67%	69%	69%	64%

(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, and 2016 CalSTRS Valuation.

Source: CalSTRS Actuarial Valuations for Fiscal Years ended June 30, 2012 through June 30, 2016.

The 2016 CalSTRS Valuation includes the new actuarial assumptions adopted at the CalSTRS Board February 2017 meeting, and estimates the impact associated with the reduction in the assumed rate of return. The estimates associated with both the July 1, 2017 and July 1, 2018 phase-in levels are applicable to a point in time: June 30, 2016. The first reduction to a 7.25 percent rate of return is estimated to result in a 63.7 percent funded ratio, and an actuarial accrued liability of $266.7 billion. The second reduction to a 7 percent rate of return is estimated to result in a 61.8% funded ratio; however, CalSTRS has not provided an associated impact to the actuarial accrued liability.

The market value of the entire DB Program investment portfolio (including the SBMA assets) was $177.9 billion as of June 30, 2016, a decrease from $180.6 billion (or 1.5 percent) on June 30, 2015.

10. Prospective Funding Status; Future Contributions

Primarily due to the changes made to actuarial assumptions by the CalSTRS Board in February 2017, the 2018-19 Governor's Budget reflects the assumption that the CalSTRS Board will increase the state contribution rate by 0.5 percent of payroll, to 7.3 percent, effective July 1, 2018. In the 2016 CalSTRS Valuation, the state contribution rate is projected to continue to increase by 0.5 percent of payroll for at least the next decade. The 2018-19 Governor's Budget includes $3.1 billion General Fund for fiscal year 2018-19 state contributions to CalSTRS. The 2018-19 Governor's Budget assumes the CalSTRS Board will authorize a 0.5 percent increase in the state contribution rate that will result in an approximately $160 million increase in General Fund contributions for fiscal year 2018-19.

According to the 2016 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 and Post-2014 service that is not actuarially funded. This amount is estimated to be $639 million as of June 30, 2016.

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, 2008 through June 30, 2017, as well as time-weighted average returns.

[BALANCE OF THIS PAGE INTENTIONALLY BLANK]

TABLE 43
CalSTRS Investment Results Based On Market Value

Fiscal Year	Time-Weighted Annual Return
2007-08	(4.00)%
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

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2017.

TABLE 44
CalSTRS Time-Weighted Gross Returns as of June 30, 2017

Period	Time-Weighted Rate of Return
3 years	6.32%
5 years	10.05
10 years	4.95
20 years	6.88

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2017.

With the exception of the 5-year rate, every rate is below 7.5 percent rate of return, CalSTRS' former actuarially assumed rate of return. The CalSTRS Board reduced the assumed rate of return to 7.0 percent at its February 2017 meeting.

June 2017

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

BETTY T. YEE

California State Controller

BETTY T. YEE
California State Controller

July 10, 2017

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2016, through June 30, 2017. This statement reflects the State of California's General Fund cash position, and compares actual receipts and disbursements for the 2016-17 fiscal year to cash flow estimates prepared by the Department of Finance (DOF) for the 2016-17 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 2016-17 fiscal year to cash flow estimates published in the 2017-18 May Revision Budget. These cash flow estimates are predicated on projections and assumptions made by DOF in preparation of the 2017-18 May Revision Budget.

Attachment B compares actual receipts and disbursements for the 2016-17 fiscal year to cash flow estimates prepared by DOF based upon the 2016-17 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 2017-18 May Revision Estimates
(Amounts in thousands)

	July 1 through June 30				
	2017				2016
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	$ -	$ -	$ -	-	$ **2,529,412**
Add Receipts:					
Revenues	121,907,487	122,203,236	(295,749)	(0.2)	118,759,207
Nonrevenues	700,579	674,297	26,282	3.9	1,658,182
Total Receipts	122,608,066	122,877,533	(269,467)	(0.2)	120,417,389
Less Disbursements:					
State Operations	31,356,131	31,547,723	(191,592)	(0.6)	30,468,330
Local Assistance	89,864,535	91,277,918	(1,413,383)	(1.5)	88,920,162
Capital Outlay	1,118,668	1,198,305	(79,637)	(6.6)	146,543
Nongovernmental	4,461,801	4,689,587	(227,786)	(4.9)	4,057,982
Total Disbursements	126,801,135	128,713,533	(1,912,398)	(1.5)	123,593,017
Receipts Over / (Under) Disbursements	(4,193,069)	(5,836,000)	1,642,931	(28.2)	(3,175,628)
Net Increase / (Decrease) in Temporary Loans	4,193,069	5,836,000	(1,642,931)	(28.2)	646,216
GENERAL FUND ENDING CASH BALANCE	-	-	-		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	$ -	$ -	$ -		$ -

BORROWABLE RESOURCES					
Available Borrowable Resources	$ 41,822,429	$ 39,477,209	$ 2,345,220	5.9	$ 35,865,487
Outstanding Loans (b)	4,839,285	6,482,216	(1,642,931)	(25.3)	646,216
Unused Borrowable Resources	$ 36,983,144	$ 32,994,993	$ 3,988,151	12.1	$ 35,219,271

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 2016-17 fiscal year was prepared by the Department of Finance for the 2017-18 May Revision. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $4.84 billion is comprised of $4.84 billion of internal borrowing. Current balance is comprised of $646.2 million carried forward from June 30, 2016, plus current year Net Increase/(Decrease) in Temporary Loans of $4.19 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) The 2016-17 Governor's Budget reclassified California State University Retiree Health Benefits expenses as a General Government disbursement to better align retiree health and dental care spending. From July 2016 to January 2017, these actual disbursements were inaccurately reflected as a State Universities and College expense. Effective February 2017, the reported actuals are correctly reported as General Government disbursements.
(f) A $1.0 billion repayment was made from the Medi-Cal Provider Interim Payment Fund to the General Fund in June 2017.
(g) A $1.5 billion transfer was made from the General Fund to the Budget Stabilization Account in June 2017.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				2016
			2017				
					Actual Over or (Under) Estimate		
	2017	2016	Actual	Estimate (a)	Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 32,019	$ 32,994	$ 370,714	$ 374,609	$ (3,895)	(1.0)	$ 366,046
Corporation Tax	2,416,515	2,462,822	10,112,520	10,395,662	(283,142)	(2.7)	9,690,219
Cigarette Tax	2,769	6,706	77,837	79,279	(1,442)	(1.8)	84,787
Estate, Inheritance, and Gift Tax	153	8	1,360	1,077	283	26.3	2,369
Insurance Companies Tax	282,483	329,677	2,428,192	2,482,915	(54,723)	(2.2)	2,567,453
Personal Income Tax	10,939,582	10,326,820	82,717,968	82,914,241	(196,273)	(0.2)	79,437,856
Retail Sales and Use Taxes	2,317,076	2,354,274	24,712,418	24,585,689	126,729	0.5	24,788,981
Vehicle License Fees	1	1	11	-	11	-	24
Pooled Money Investment Interest	10,732	5,914	68,896	67,283	1,613	2.4	34,370
Not Otherwise Classified	631,855	667,088	1,417,571	1,302,481	115,090	8.8	1,787,102
Total Revenues	**16,633,185**	**16,186,304**	**121,907,487**	**122,203,236**	**(295,749)**	**(0.2)**	**118,759,207**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	-	-	-	-	138,000
Transfers from Other Funds	8,371	18,014	368,222	374,879	(6,657)	(1.8)	438,053
Miscellaneous	39,271	56,057	332,357	299,418	32,939	11.0	1,082,129
Total Nonrevenues	**47,642**	**74,071**	**700,579**	**674,297**	**26,282**	**3.9**	**1,658,182**
Total Receipts	**$ 16,680,827**	**$ 16,260,375**	**$ 122,608,066**	**$ 122,877,533**	**$ (269,467)**	**(0.2)**	**$ 120,417,389**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2017				2016
	2017	2016	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 98,911	$ 75,671	$ 1,510,165	$ 1,662,155	$ (151,990)	(9.1)	$ 1,395,302
Business, Consumer Services and Housing	3,771	1,811	26,596	27,411	(815)	(3.0)	21,766
Transportation	-	-	3,892	3,891	1	0.0	7
Resources	74,101	93,522	1,610,092	1,936,381	(326,289)	(16.9)	1,799,620
Environmental Protection Agency	12,888	4,996	78,585	86,499	(7,914)	(9.1)	49,831
Health and Human Services:							
Health Care Services and Public Health	(6,882)	1,135	281,029	295,752	(14,723)	(5.0)	257,733
Department of State Hospitals	121,012	114,144	1,737,149	1,746,401	(9,252)	(0.5)	1,588,381
Other Health and Human Services	42,674	20,552	660,167	738,465	(78,298)	(10.6)	589,121
Education:							
University of California	29,291	24,339	3,496,496	3,541,309	(44,813)	(1.3)	3,258,870
State Universities and Colleges	8,156	27,478	3,270,842 (e)	3,315,811	(44,969)	(1.4)	3,011,334
Other Education	8,136	15,359	226,831	243,423	(16,592)	(6.8)	209,832
Dept. of Corrections and Rehabilitation	870,335	802,203	10,362,484	10,343,869	18,615	0.2	9,870,976
Governmental Operations	71,187	63,078	786,576	789,420	(2,844)	(0.4)	761,128
General Government	238,738	182,779	2,398,061 (e)	2,420,635	(22,574)	(0.9)	2,642,317
Public Employees Retirement System	(235,819)	(215,546)	(68,443)	(454,032)	385,589	(84.9)	(35,624)
Debt Service (d)	47,868	87,330	4,929,778	4,803,298	126,480	2.6	4,977,333
Interest on Loans	35,860	43,031	45,831	47,035	(1,204)	(2.6)	70,403
Total State Operations	**1,420,227**	**1,341,882**	**31,356,131**	**31,547,723**	**(191,592)**	**(0.6)**	**30,468,330**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	4,581,817	4,473,566	46,633,480	47,360,096	(726,616)	(1.5)	46,919,883
Community Colleges	498,648	480,139	5,497,258	5,644,475	(147,217)	(2.6)	5,798,568
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	2,472,993	2,472,993	-	-	1,935,287
Other Education	45,854	39,103	1,877,850	1,900,147	(22,297)	(1.2)	2,667,261
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	761	867	265,198	265,527	(329)	(0.1)	200,516
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	-
Health Care Services and Public Health:							
Medical Assistance Program	1,540,740	705,388	18,783,848	18,845,056	(61,208)	(0.3)	17,764,600
Other Health Care Services/Public Health	46,911	31,733	478,331	513,887	(35,556)	(6.9)	230,103
Developmental Services - Regional Centers	(65,893)	70,384	3,296,929	3,372,364	(75,435)	(2.2)	3,163,097
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	430,649	507,813	5,963,886	6,363,466	(399,580)	(6.3)	5,806,217
CalWORKs	17,217	(16,890)	1,022,924	1,033,868	(10,944)	(1.1)	916,979
Other Social Services	71,426	69,444	892,991	889,677	3,314	0.4	794,459
Tax Relief	-	-	411,030	420,001	(8,971)	(2.1)	413,953
Other Local Assistance	70,437	149,335	2,267,817	2,196,361	71,456	3.3	2,309,239
Total Local Assistance	**7,238,567**	**6,510,882**	**89,864,535**	**91,277,918**	**(1,413,383)**	**(1.5)**	**88,920,162**

See notes on page A1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2017				2016
					Actual Over or (Under) Estimate		
	2017	2016	Actual	Estimate (a)	Amount	%	Actual
CAPITAL OUTLAY	**1,263**	**2,806**	**1,118,668**	**1,198,305**	**(79,637)**	**(6.6)**	**146,543**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	634,500	634,500	-	-	804,000
Transfer to Budget Stabilization Account	1,483,000	-	2,777,000	2,777,000	-	-	1,854,000
Transfer to Other Funds	389,199	1,355,397	1,108,114	1,241,956	(133,842)	(10.8)	1,392,448
Transfer to Revolving Fund	(7,425)	(5,244)	3,330	10,757	(7,427)	(69.0)	11,045
Advance:							
MediCal Provider Interim Payment	(1,000,000)	-	-	- (f)	-	-	-
State-County Property Tax Administration Program	(12,890)	(19,124)	(11,209)	43,307	(54,516)	(125.9)	796
Social Welfare Federal Fund	(3,500)	11,123	(32,456)	(28,956)	(3,500)	12.1	(16,331)
Local Governmental Entities	-	-	(1,215)	(1,215)	-	-	(1,188)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	301,765	318,028	(16,263)	12,238	(28,501)	(232.9)	13,212
Total Nongovernmental	**1,150,149**	**1,660,180**	**4,461,801**	**4,689,587**	**(227,786)**	**(4.9)**	**4,057,982**
Total Disbursements	**$ 9,810,206**	**$ 9,515,750**	**$ 126,801,135**	**$ 128,713,533**	**$ (1,912,398)**	**(1.5)**	**$ 123,593,017**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (1,554)	$ (1,115,700)	$ 1,748,646	$ 1,750,200	$ (1,554)	(0.1)	$ -
Budget Stabilization Account	(1,623,783)	(2,814,322)	2,444,539	4,085,916 (g)	(1,641,377)	(40.2)	646,100
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	(5,245,284)	(2,814,603)	(116)	(116)	-	-	116
Revenue Anticipation Notes	-	-	-	-	-	-	-
Net Increase / (Decrease) Loans	**(6,870,621)**	**$ (6,744,625)**	**$ 4,193,069**	**$ 5,836,000**	**$ (1,642,931)**	**(28.2)**	**$ 646,216**

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**	
	2017	2016	2017	2016
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 370,714	$ 366,046	$ -	$ -
Corporation Tax	10,112,520	9,690,219	-	-
Cigarette Tax	77,837	84,787	775,057	742,614
Estate, Inheritance, and Gift Tax	1,360	2,369	-	-
Insurance Companies Tax	2,428,192	2,567,453	2,486,655	1,389,920
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	4,354,110	4,567,303
Diesel & Liquid Petroleum Gas	-	-	519,536	429,076
Jet Fuel Tax	-	-	3,276	2,944
Vehicle License Fees	11	24	2,681,462	2,506,862
Motor Vehicle Registration and Other Fees	-	-	4,547,150	4,427,225
Personal Income Tax	82,717,968	79,437,856	1,478,783	1,426,404
Retail Sales and Use Taxes	24,712,418	24,788,981	13,720,539	14,383,869
Pooled Money Investment Interest	68,896	34,370	291	194
Total Major Taxes, Licenses, and Investment Income	**120,489,916**	**116,972,105**	**30,566,859**	**29,876,411**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	2,188	2,416	56,268	(2,416)
Electrical Energy Tax	-	-	728,045	725,997
Private Rail Car Tax	9,015	9,868	-	-
Penalties on Traffic Violations	-	-	54,197	60,455
Health Care Receipts	10,354	11,429	-	-
Revenues from State Lands	90,120	76,358	-	-
Abandoned Property	405,141	394,234	-	-
Trial Court Revenues	37,302	41,655	1,497,829	1,546,331
Horse Racing Fees	1,052	1,090	13,691	13,116
Cap and Trade	-	-	891,915	1,829,135
Miscellaneous	862,399	1,250,052	13,273,265	12,388,326
Not Otherwise Classified	**1,417,571**	**1,787,102**	**16,515,210**	**16,560,944**
Total Revenues, All Governmental Cost Funds	**$ 121,907,487**	**$ 118,759,207**	**$ 47,082,069**	**$ 46,437,355**

See notes on page A1.

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2016-17 Budget Act
(Amounts in thousands)

	July 1 through June 30 2017 Actual	2017 Estimate (a)	2017 Actual Over or (Under) Estimate Amount	2017 Actual Over or (Under) Estimate %	2016 Actual
GENERAL FUND BEGINNING CASH BALANCE	$ -	$ -	$ -	-	$ **2,529,412**
Add Receipts:					
Revenues	121,907,487	124,590,031	(2,682,544)	(2.2)	118,759,207
Nonrevenues	700,579	1,123,581	(423,002)	(37.6)	1,658,182
Total Receipts	122,608,066	125,713,612	(3,105,546)	(2.5)	120,417,389
Less Disbursements:					
State Operations	31,356,131	32,589,356	(1,233,225)	(3.8)	30,468,330
Local Assistance	89,864,535	91,806,624	(1,942,089)	(2.1)	88,920,162
Capital Outlay	1,118,668	1,252,946	(134,278)	(10.7)	146,543
Nongovernmental	4,461,801	5,064,324	(602,523)	(11.9)	4,057,982
Total Disbursements	126,801,135	130,713,250	(3,912,115)	(3.0)	123,593,017
Receipts Over / (Under) Disbursements	(4,193,069)	(4,999,638)	806,569	(16.1)	(3,175,628)
Net Increase / (Decrease) in Temporary Loans	4,193,069	4,999,638	(806,569)	(16.1)	646,216
GENERAL FUND ENDING CASH BALANCE	-	-	-		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	$ -	$ -	$ -		$ -
BORROWABLE RESOURCES					
Available Borrowable Resources	$ 41,822,429	$ 39,863,856	$ 1,958,573	4.9	$ 35,865,487
Outstanding Loans (b)	4,839,285	5,645,854	(806,569)	(14.3)	646,216
Unused Borrowable Resources	$ 36,983,144	$ 34,218,002	$ 2,765,142	8.1	$ 35,219,271

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 2016-17 fiscal year was prepared by the Department of Finance for the 2016-17 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $4.84 billion is comprised of $4.84 billion of internal borrowing. Current balance is comprised of $646.2 million carried forward from June 30, 2016, plus current year Net Increase/(Decrease) in Temporary Loans of $4.19 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) The 2016-17 Governor's Budget reclassified California State University Retiree Health Benefits expenses as a General Government disbursement to better align retiree health and dental care spending. From July 2016 to January 2017, these actual disbursements were inaccurately reflected as a State Universities and College expense. Effective February 2017, the reported actuals are correctly reported as General Government disbursements.
(f) A $1.0 billion repayment was made from the Medi-Cal Provider Interim Payment Fund to the General Fund in June 2017.
(g) A $1.5 billion transfer was made from the General Fund to the Budget Stabilization Account in June 2017.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2017				2016
	2017	2016	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 32,019	$ 32,994	$ 370,714	$ 376,764	$ (6,050)	(1.6)	$ 366,046
Corporation Tax	2,416,515	2,462,822	10,112,520	10,998,146	(885,626)	(8.1)	9,690,219
Cigarette Tax	2,769	6,706	77,837	84,616	(6,779)	(8.0)	84,787
Estate, Inheritance, and Gift Tax	153	8	1,360	-	1,360	-	2,369
Insurance Companies Tax	282,483	329,677	2,428,192	2,344,700	83,492	3.6	2,567,453
Personal Income Tax	10,939,582	10,326,820	82,717,968	83,763,440	(1,045,472)	(1.2)	79,437,856
Retail Sales and Use Taxes	2,317,076	2,354,274	24,712,418	25,746,381	(1,033,963)	(4.0)	24,788,981
Vehicle License Fees	1	1	11	-	11	-	24
Pooled Money Investment Interest	10,732	5,914	68,896	62,713	6,183	9.9	34,370
Not Otherwise Classified	631,855	667,088	1,417,571	1,213,271	204,300	16.8	1,787,102
Total Revenues	**16,633,185**	**16,186,304**	**121,907,487**	**124,590,031**	**(2,682,544)**	**(2.2)**	**118,759,207**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	-	-	-	-	138,000
Transfers from Other Funds	8,371	18,014	368,222	222,245	145,977	65.7	438,053
Miscellaneous	39,271	56,057	332,357	901,336	(568,979)	(63.1)	1,082,129
Total Nonrevenues	**47,642**	**74,071**	**700,579**	**1,123,581**	**(423,002)**	**(37.6)**	**1,658,182**
Total Receipts	**$ 16,680,827**	**$ 16,260,375**	**$ 122,608,066**	**$ 125,713,612**	**$ (3,105,546)**	**(2.5)**	**$ 120,417,389**

See notes on page B1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2017				2016
					Actual Over or (Under) Estimate		
	2017	2016	Actual	Estimate (a)	Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 98,911	$ 75,671	$ 1,510,165	$ 1,577,499	$ (67,334)	(4.3)	$ 1,395,302
Business, Consumer Services and Housing	3,771	1,811	26,596	26,248	348	1.3	21,766
Transportation	-	-	3,892	3,888	4	0.1	7
Resources	74,101	93,522	1,610,092	1,700,982	(90,890)	(5.3)	1,799,620
Environmental Protection Agency	12,888	4,996	78,585	84,182	(5,597)	(6.6)	49,831
Health and Human Services:							
Health Care Services and Public Health	(6,882)	1,135	281,029	288,594	(7,565)	(2.6)	257,733
Department of State Hospitals	121,012	114,144	1,737,149	1,611,389	125,760	7.8	1,588,381
Other Health and Human Services	42,674	20,552	660,167	626,828	33,339	5.3	589,121
Education:							
University of California	29,291	24,339	3,496,496	3,505,649	(9,153)	(0.3)	3,258,870
State Universities and Colleges	8,156	27,478	3,270,842 (e)	3,223,428	47,414	1.5	3,011,334
Other Education	8,136	15,359	226,831	232,567	(5,736)	(2.5)	209,832
Dept. of Corrections and Rehabilitation	870,335	802,203	10,362,484	10,189,289	173,195	1.7	9,870,976
Governmental Operations	71,187	63,078	786,576	751,722	34,854	4.6	761,128
General Government	238,738	182,779	2,398,061 (e)	4,042,255	(1,644,194)	(40.7)	2,642,317
Public Employees Retirement System	(235,819)	(215,546)	(68,443)	(211,585)	143,142	(67.7)	(35,624)
Debt Service (d)	47,868	87,330	4,929,778	4,882,147	47,631	1.0	4,977,333
Interest on Loans	35,860	43,031	45,831	54,274	(8,443)	(15.6)	70,403
Total State Operations	**1,420,227**	**1,341,882**	**31,356,131**	**32,589,356**	**(1,233,225)**	**(3.8)**	**30,468,330**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	4,581,817	4,473,566	46,633,480	48,524,709	(1,891,229)	(3.9)	46,919,883
Community Colleges	498,648	480,139	5,497,258	5,676,053	(178,795)	(3.1)	5,798,568
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	2,472,993	2,472,993	-	-	1,935,287
Other Education	45,854	39,103	1,877,850	2,238,356	(360,506)	(16.1)	2,667,261
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	761	867	265,198	283,222	(18,024)	(6.4)	200,516
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	-
Health Care Services and Public Health:							
Medical Assistance Program	1,540,740	705,388	18,783,848	17,701,624	1,082,224	6.1	17,764,600
Other Health Care Services/Public Health	46,911	31,733	478,331	385,241	93,090	24.2	230,103
Developmental Services - Regional Centers	(65,893)	70,384	3,296,929	3,199,692	97,237	3.0	3,163,097
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	430,649	507,813	5,963,886	6,527,330	(563,444)	(8.6)	5,806,217
CalWORKs	17,217	(16,890)	1,022,924	967,802	55,122	5.7	916,979
Other Social Services	71,426	69,444	892,991	930,383	(37,392)	(4.0)	794,459
Tax Relief	-	-	411,030	435,001	(23,971)	(5.5)	413,953
Other Local Assistance	70,437	149,335	2,267,817	2,464,218	(196,401)	(8.0)	2,309,239
Total Local Assistance	**7,238,567**	**6,510,882**	**89,864,535**	**91,806,624**	**(1,942,089)**	**(2.1)**	**88,920,162**

See notes on page B1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2017				2016
					Actual Over or (Under) Estimate		
	2017	2016	Actual	Estimate (a)	Amount	%	Actual
CAPITAL OUTLAY	**1,263**	**2,806**	**1,118,668**	**1,252,946**	**(134,278)**	**(10.7)**	**146,543**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	634,500	634,700	(200)	(0.0)	804,000
Transfer to Budget Stabilization Account	1,483,000	-	2,777,000	3,254,000	(477,000)	(14.7)	1,854,000
Transfer to Other Funds	389,199	1,355,397	1,108,114	1,119,424	(11,310)	(1.0)	1,392,448
Transfer to Revolving Fund	(7,425)	(5,244)	3,330	-	3,330	-	11,045
Advance:							
MediCal Provider Interim Payment	(1,000,000)	-	-	- (f)	-	-	-
State-County Property Tax Administration Program	(12,890)	(19,124)	(11,209)	-	(11,209)	-	796
Social Welfare Federal Fund	(3,500)	11,123	(32,456)	-	(32,456)	-	(16,331)
Local Governmental Entities	-	-	(1,215)	-	(1,215)	-	(1,188)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	301,765	318,028	(16,263)	56,200	(72,463)	(128.9)	13,212
Total Nongovernmental	**1,150,149**	**1,660,180**	**4,461,801**	**5,064,324**	**(602,523)**	(11.9)	**4,057,982**
Total Disbursements	**$ 9,810,206**	**$ 9,515,750**	**$ 126,801,135**	**$ 130,713,250**	**$ (3,912,115)**	**(3.0)**	**$ 123,593,017**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (1,554)	$ (1,115,700)	$ 1,748,646	$ 1,750,400	$ (1,754)	(0.1)	$ -
Budget Stabilization Account	(1,623,783)	(2,814,322)	2,444,539	3,249,354 (g)	(804,815)	(24.8)	646,100
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	(5,245,284)	(2,814,603)	(116)	(116)	-	-	116
Revenue Anticipation Notes	-	-	-	-	-	-	-
Net Increase / (Decrease) Loans	**(6,870,621)**	**$ (6,744,625)**	**$ 4,193,069**	**$ 4,999,638**	**$ (806,569)**	**(16.1)**	**$ 646,216**

See notes on page B1.

(Concluded)

EX 2-11

January 2018

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

BETTY T. YEE

California State Controller

BETTY T. YEE
California State Controller

February 12, 2018

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2017, through January 31, 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 Governor's Budget. These cash flow estimates are predicated on projections and assumptions made by the DOF in preparation of the 2018-19 Governor's 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 Governor's Budget Estimates
(Amounts in thousands)

	July 1 through January 31				
	2018				2017
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	$ -	$ -	$ -	-	-
Add Receipts:					
Revenues	74,560,986	71,669,594	2,891,392	4.0	66,758,648
Nonrevenues	945,469	916,471	28,998	3.2	432,107
Total Receipts	75,506,455	72,586,065	2,920,390	4.0	67,190,755
Less Disbursements (c):					
State Operations	19,403,250	19,747,335	(344,085)	(1.7)	18,935,523
Local Assistance	54,752,130	56,660,306	(1,908,176)	(3.4)	55,907,076
Capital Outlay	(767,704)	(748,308)	(19,396)	-	1,084,715
Nongovernmental	2,920,736	2,922,307	(1,571)	(0.1)	2,319,554
Total Disbursements	76,308,412	78,581,640	(2,273,228)	(2.9)	78,246,868
Receipts Over / (Under) Disbursements	(801,957)	(5,995,575)	5,193,618	(86.6)	(11,056,113)
Net Increase / (Decrease) in Temporary Loans	801,957	5,995,575	(5,193,618)	(86.6)	11,056,113
GENERAL FUND ENDING CASH BALANCE	-	-	-		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	$ -	$ -	$ -		-

BORROWABLE RESOURCES					
Special Fund for Economic Uncertainties	$ 1,426,100	$ 1,426,100	$ -	-	$ 1,750,200
Budget Stabilization Account	8,486,422	8,486,422	-	-	4,068,322
Other Internal Sources	33,642,819	31,015,000	2,627,819	8.5	34,262,543
Cash Balance from Borrowable Resources	43,555,341	40,927,522	2,627,819	6.4	40,081,065
Less:					
PMIA Loans (AB 55, GC 16312 and 16313)	689,289	700,000	(10,711)	(1.5)	
SMIF Loans (SB 84, GC 20825)	4,000,000	4,000,000	-	-	
Total Available Borrowable Resources (e)	38,866,052	36,227,522	2,638,530	7.3	40,081,065
Outstanding Loans to General Fund (b)	5,641,242	10,834,860	(5,193,618)	(47.9)	11,702,329
Unused Borrowable Resources	$ 33,224,810	$ 25,392,662	$ 7,832,148	30.8	$ 28,378,736

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 Governor's Budget. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $5.64 billion is comprised of $5.64 billion of internal borrowing. Current balance is comprised of $4.84 billion carried forward from June 30, 2017, plus current year Net Increase/(Decrease) in Temporary Loans of $802.0 million.
(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).

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of January		July 1 through January 31				2017
			2018				
	2018	2017	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	
REVENUES							
Alcoholic Beverage Excise Tax	$ 38,978	$ 44,318	$ 244,374	$ 239,431	$ 4,943	2.1	235,151
Corporation Tax	551,562	420,455	4,807,343	4,431,513	375,830	8.5	3,651,526
Cigarette Tax	6,927	14,136	44,084	41,919	2,165	5.2	51,227
Estate, Inheritance, and Gift Tax	89	-	540	445	95	21.3	586
Insurance Companies Tax	22,581	10,163	1,242,636	1,204,060	38,576	3.2	1,216,039
Personal Income Tax	15,602,489	13,271,362	54,702,526	52,144,912	2,557,614	4.9	47,853,324
Retail Sales and Use Taxes	1,008,891	1,171,697	13,033,909	13,185,151	(151,242)	(1.1)	13,231,026
Vehicle License Fees	1	1	5	-	5	-	7
Pooled Money Investment Interest	15,571	4,863	84,613	83,237	1,376	1.7	31,448
Not Otherwise Classified	102,790	101,165	400,956	338,926	62,030	18.3	488,314
Total Revenues	**17,349,879**	**15,038,160**	**74,560,986**	**71,669,594**	**2,891,392**	**4.0**	**66,758,648**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	283,046	-	283,046	283,046	-	-	-
Transfers from Other Funds	14,069	36,060	421,270	428,452	(7,182)	(1.7)	262,389
Miscellaneous	53,792	15,280	241,153	204,973	36,180	17.7	169,718
Total Nonrevenues	**350,907**	**51,340**	**945,469**	**916,471**	**28,998**	**3.2**	**432,107**
Total Receipts	**$ 17,700,786**	**$ 15,089,500**	**$ 75,506,455**	**$ 72,586,065**	**$ 2,920,390**	**4.0**	**67,190,755**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of January		July 1 through January 31				2017
			2018				
	2018	2017	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 71,123	$ 127,936	$ 1,037,093	$ 1,003,142	$ 33,951	3.4	1,017,563
Business, Consumer Services and Housing	2,608	2,050	18,344	16,892	1,452	8.6	16,848
Transportation	1,751	1	1,752	501	1,251	249.7	3
Resources	176,320	154,032	1,411,811	1,394,445	17,366	1.2	1,098,235
Environmental Protection Agency	6,172	7,564	35,361	52,826	(17,465)	(33.1)	54,025
Health and Human Services:							
Health Care Services and Public Health	(381)	7,482	211,830	217,335	(5,505)	(2.5)	204,249
Department of State Hospitals	111,048	137,753	868,600	873,376	(4,776)	(0.5)	1,017,772
Other Health and Human Services	54,731	35,303	386,158	389,790	(3,632)	(0.9)	368,708
Education:							
University of California	262,536	257,612	2,120,789	2,160,052	(39,263)	(1.8)	2,227,376
State Universities and Colleges	426,176	330,400	2,018,140	2,065,298	(47,158)	(2.3)	2,240,155
Other Education	12,640	22,547	141,556	141,505	51	0.0	140,895
Dept. of Corrections and Rehabilitation	983,486	757,982	6,745,316	6,658,419	86,897	1.3	6,025,364
Governmental Operations	60,386	53,327	432,959	538,531	(105,572)	(19.6)	401,822
General Government	255,060	142,951	1,302,811	1,364,575	(61,764)	(4.5)	1,463,182
Public Employees Retirement System	5,353	5,739	443,808	440,242	3,566	0.8	402,231
Debt Service (d)	(353,866)	(296,411)	2,212,488	2,415,972	(203,484)	(8.4)	2,248,706
Interest on Loans	-	-	14,434	14,434	-	-	8,389
Total State Operations	**2,075,143**	**1,746,268**	**19,403,250**	**19,747,335**	**(344,085)**	**(1.7)**	**18,935,523**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	3,491,439	3,795,908	25,849,953	25,896,408	(46,455)	(0.2)	26,976,988
Community Colleges	312,110	304,999	3,252,145	3,317,666	(65,521)	(2.0)	3,379,453
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	1,919,042	1,919,042	-	-	1,692,566
Other Education	185,683	531,721	1,527,940	1,462,846	65,094	4.4	1,594,714
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	1,638	41,132	207,405	210,131	(2,726)	(1.3)	253,801
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	-
Health Care Services and Public Health:							
Medical Assistance Program	632,245	735,800	12,950,106	13,964,702	(1,014,596)	(7.3)	12,059,498
Other Health Care Services/Public Health	9,426	50,048	127,994	213,508	(85,514)	(40.1)	316,202
Developmental Services - Regional Centers	247,448	297,079	2,654,153	2,576,621	77,532	3.0	2,432,627
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	166,504	632,784	3,296,634	4,268,437	(971,803)	(22.8)	3,884,297
CalWORKs	(43,336)	106,574	431,616	429,690	1,926	0.4	689,538
Other Social Services	55,009	78,715	574,615	563,761	10,854	1.9	570,652
Tax Relief	-	-	205,199	206,560	(1,361)	(0.7)	205,505
Other Local Assistance	85,978	76,375	1,755,328	1,630,934	124,394	7.6	1,851,235
Total Local Assistance	**5,144,144**	**6,651,135**	**54,752,130**	**56,660,306**	**(1,908,176)**	**(3.4)**	**55,907,076**

See notes on page A1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of January		July 1 through January 31				
			2018				2017
	2018	2017	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	
CAPITAL OUTLAY	**1,740**	**22,494**	**(767,704)**	**(748,308)**	**(19,396)**	**2.6**	**1,084,715**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	634,500	-	-	-	-	634,500
Transfer to Budget Stabilization Account	-	-	2,289,000	2,289,000	-	-	1,294,000
Transfer to Other Funds	6,505	341	856,711	876,037	(19,326)	(2.2)	688,607
Transfer to Revolving Fund	(633)	4,698	9,605	10,239	(634)	(6.2)	12,620
Advance:							
MediCal Provider Interim Payment	-	-	-	-	-	-	-
State-County Property Tax Administration Program	38,363	14,149	50,258	40,992	9,266	22.6	23,127
Social Welfare Federal Fund	(37,600)	(35,400)	18,170	9,047	9,123	100.8	(14,057)
Local Governmental Entities	-	-	(1,243)	(1,243)	-	-	(1,215)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	-	-	(301,765)	(301,765)	-	-	(318,028)
Total Nongovernmental	**6,635**	**618,288**	**2,920,736**	**2,922,307**	**(1,571)**	**(0.1)**	**2,319,554**
Total Disbursements	**$ 7,227,662**	**$ 9,038,185**	**$ 76,308,412**	**$ 78,581,640**	**$ (2,273,228)**	**(2.9)**	**78,246,868**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (283,046)	$ 634,500	$ (322,546)	$ (322,546)	$ -	-	1,750,200
Budget Stabilization Account	(4,271,300)	-	1,124,483	5,395,783	(4,271,300)	(79.2)	4,068,322
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	(5,918,778)	(6,685,815)	20	922,338	(922,318)	(100.0)	5,237,591
Revenue Anticipation Notes	-	-	-	-	-	-	-
Net Increase / (Decrease) Loans	**(10,473,124)**	**$ (6,051,315)**	**$ 801,957**	**$ 5,995,575**	**$ (5,193,618)**	**(86.6)**	**11,056,113**

See notes on page A1.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through January 31			
	General Fund		**Special Funds**	
	2018	2017	2018	2017
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 244,374	$ 235,151	$ -	$ -
Corporation Tax	4,807,343	3,651,526	-	-
Cigarette Tax	44,084	51,227	1,572,146	439,639
Cannabis Excise Taxes	-	-	-	-
Estate, Inheritance, and Gift Tax	540	586	-	-
Insurance Companies Tax	1,242,636	1,216,039	1,835,433	1,428,389
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	2,999,607	2,593,439
Diesel & Liquid Petroleum Gas	-	-	379,080	302,525
Jet Fuel Tax	-	-	2,063	1,979
Vehicle License Fees	5	7	1,662,381	1,570,364
Motor Vehicle Registration and Other Fees	-	-	3,074,038	2,608,631
Personal Income Tax	54,702,526	47,853,324	980,141	854,578
Retail Sales and Use Taxes	13,033,909	13,231,026	7,574,128	7,124,359
Pooled Money Investment Interest	84,613	31,448	4,467	171
Total Major Taxes, Licenses, and Investment Income	**74,160,030**	**66,270,334**	**20,083,484**	**16,924,074**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fees	847	1,109	33,066	32,558
Cannabis Licensing Fees	-	-	8	-
Electrical Energy Tax	-	-	287,050	287,029
Private Rail Car Tax	9,663	8,982	-	-
Penalties on Traffic Violations	-	-	515	27,094
Health Care Receipts	1,047	5,696	-	-
Revenues from State Lands	45,896	51,569	-	-
Abandoned Property	(44,563)	(69,990)	-	-
Trial Court Revenues	20,255	21,731	841,538	843,527
Horse Racing Fees	352	721	7,464	7,600
Cap and Trade	-	-	1,504,951	372,699
Miscellaneous	367,459	468,496	7,130,117	9,280,609
Not Otherwise Classified	**400,956**	**488,314**	**9,804,709**	**10,851,116**
Total Revenues, All Governmental Cost Funds	**$ 74,560,986**	**$ 66,758,648**	**$ 29,888,193**	**$ 27,775,190**

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 January 31				
	2018				2017
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	$ -	$ -	$ -	-	$ -
Add Receipts:					
Revenues	74,560,986	69,330,763	5,230,223	7.5	66,758,648
Nonrevenues	945,469	793,614	151,855	19.1	432,107
Total Receipts	75,506,455	70,124,377	5,382,078	7.7	67,190,755
Less Disbursements (c):					
State Operations	19,403,250	19,530,844	(127,594)	(0.7)	18,935,523
Local Assistance	54,752,130	54,320,119	432,011	0.8	55,907,076
Capital Outlay	(767,704)	(712,721)	(54,983)	-	1,084,715
Nongovernmental	2,920,736	2,810,508	110,228	3.9	2,319,554
Total Disbursements	76,308,412	75,948,750	359,662	0.5	78,246,868
Receipts Over / (Under) Disbursements	(801,957)	(5,824,373)	5,022,416	(86.2)	(11,056,113)
Net Increase / (Decrease) in Temporary Loans	801,957	5,824,373	(5,022,416)	(86.2)	11,056,113
GENERAL FUND ENDING CASH BALANCE	-	-	-		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	$ -	$ -	$ -		$ -

	Actual	Estimate (a)	Amount	%	2017 Actual
BORROWABLE RESOURCES					
Special Fund for Economic Uncertainties	$ 1,426,100	$ 1,426,100	$ -	-	$ 1,750,200
Budget Stabilization Account	8,486,422	8,486,422	-	-	4,068,322
Other Internal Sources	33,642,819	30,938,830	2,703,989	8.7	34,262,543
Cash Balance from Borrowable Resources	43,555,341	40,851,352	2,703,989	6.6	40,081,065
Less:					
PMIA Loans (AB 55, GC 16312 and 16313)	689,289	700,000	(10,711)	(1.5)	
SMIF Loans (SB 84, GC 20825)	4,000,000	4,000,000	-	-	
Total Available Borrowable Resources (e)	38,866,052	36,151,352	2,714,700	7.5	40,081,065
Outstanding Loans to General Fund (b)	5,641,242	10,663,658	(5,022,416)	(47.1)	11,702,329
Unused Borrowable Resources	$ 33,224,810	$ 25,487,694	$ 7,737,116	30.4	$ 28,378,736

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) Outstanding loan balance of $5.64 billion is comprised of $5.64 billion of internal borrowing. Current balance is comprised of $4.84 billion carried forward from June 30, 2017, plus current year Net Increase/(Decrease) in Temporary Loans of $802.0 million.
(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).

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of January		July 1 through January 31				
			2018				2017
	2018	2017	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 38,978	$ 44,318	$ 244,374	$ 236,780	$ 7,594	3.2	$ 235,151
Corporation Tax	551,562	420,455	4,807,343	3,731,822	1,075,521	28.8	3,651,526
Cigarette Tax	6,927	14,136	44,084	41,901	2,183	5.2	51,227
Estate, Inheritance, and Gift Tax	89	-	540	-	540	-	586
Insurance Companies Tax	22,581	10,163	1,242,636	1,242,873	(237)	(0.0)	1,216,039
Personal Income Tax	15,602,489	13,271,362	54,702,526	51,092,170	3,610,356	7.1	47,853,324
Retail Sales and Use Taxes	1,008,891	1,171,697	13,033,909	12,637,322	396,587	3.1	13,231,026
Vehicle License Fees	1	1	5	-	5	-	7
Pooled Money Investment Interest	15,571	4,863	84,613	54,345	30,268	55.7	31,448
Not Otherwise Classified	102,790	101,165	400,956	293,550	107,406	36.6	488,314
Total Revenues	**17,349,879**	**15,038,160**	**74,560,986**	**69,330,763**	**5,230,223**	**7.5**	**66,758,648**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	283,046	-	283,046	322,546	(39,500)	(12.2)	-
Transfers from Other Funds	14,069	36,060	421,270	369,848	51,422	13.9	262,389
Miscellaneous	53,792	15,280	241,153	101,220	139,933	138.2	169,718
Total Nonrevenues	**350,907**	**51,340**	**945,469**	**793,614**	**151,855**	**19.1**	**432,107**
Total Receipts	**$ 17,700,786**	**$ 15,089,500**	**$ 75,506,455**	**$ 70,124,377**	**$ 5,382,078**	**7.7**	**$ 67,190,755**

See notes on page A1.

EX 2-20

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of January		July 1 through January 31				
			2018				2017
	2018	2017	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 71,123	$ 127,936	$ 1,037,093	$ 1,092,580	$ (55,487)	(5.1)	$ 1,017,563
Business, Consumer Services and Housing	2,608	2,050	18,344	17,774	570	3.2	16,848
Transportation	1,751	1	1,752	1,022	730	71.4	3
Resources	176,320	154,032	1,411,811	1,166,531	245,280	21.0	1,098,235
Environmental Protection Agency	6,172	7,564	35,361	48,120	(12,759)	(26.5)	54,025
Health and Human Services:							
Health Care Services and Public Health	(381)	7,482	211,830	234,339	(22,509)	(9.6)	204,249
Department of State Hospitals	111,048	137,753	868,600	852,425	16,175	1.9	1,017,772
Other Health and Human Services	54,731	35,303	386,158	408,784	(22,626)	(5.5)	368,708
Education:							
University of California	262,536	257,612	2,120,789	2,227,646	(106,857)	(4.8)	2,227,376
State Universities and Colleges	426,176	330,400	2,018,140	2,078,697	(60,557)	(2.9)	2,240,155
Other Education	12,640	22,547	141,556	133,470	8,086	6.1	140,895
Dept. of Corrections and Rehabilitation	983,486	757,982	6,745,316	6,279,017	466,299	7.4	6,025,364
Governmental Operations	60,386	53,327	432,959	402,271	30,688	7.6	401,822
General Government	255,060	142,951	1,302,811	1,705,238	(402,427)	(23.6)	1,463,182
Public Employees Retirement System	5,353	5,739	443,808	412,945	30,863	7.5	402,231
Debt Service (d)	(353,866)	(296,411)	2,212,488	2,459,619	(247,131)	(10.0)	2,248,706
Interest on Loans	-	-	14,434	10,366	4,068	39.2	8,389
Total State Operations	**2,075,143**	**1,746,268**	**19,403,250**	**19,530,844**	**(127,594)**	**(0.7)**	**18,935,523**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	3,491,439	3,795,908	25,849,953	25,967,346	(117,393)	(0.5)	26,976,988
Community Colleges	312,110	304,999	3,252,145	3,438,010	(185,865)	(5.4)	3,379,453
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	1,919,042	1,919,042	-	-	1,692,566
Other Education	185,683	531,721	1,527,940	1,612,326	(84,386)	(5.2)	1,594,714
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	1,638	41,132	207,405	210,195	(2,790)	(1.3)	253,801
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	-
Health Care Services and Public Health:							
Medical Assistance Program	632,245	735,800	12,950,106	11,886,785	1,063,321	8.9	12,059,498
Other Health Care Services/Public Health	9,426	50,048	127,994	236,329	(108,335)	(45.8)	316,202
Developmental Services - Regional Centers	247,448	297,079	2,654,153	2,237,094	417,059	18.6	2,432,627
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	166,504	632,784	3,296,634	4,113,036	(816,402)	(19.8)	3,884,297
CalWORKs	(43,336)	106,574	431,616	306,535	125,081	40.8	689,538
Other Social Services	55,009	78,715	574,615	560,393	14,222	2.5	570,652
Tax Relief	-	-	205,199	208,000	(2,801)	(1.3)	205,505
Other Local Assistance	85,978	76,375	1,755,328	1,625,028	130,300	8.0	1,851,235
Total Local Assistance	**5,144,144**	**6,651,135**	**54,752,130**	**54,320,119**	**432,011**	**0.8**	**55,907,076**

See notes on page A1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of January		July 1 through January 31				
			2018				2017
	2018	2017	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**1,740**	**22,494**	**(767,704)**	**(712,721)**	**(54,983)**	**7.7**	**1,084,715**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	634,500	-	-	-	-	634,500
Transfer to Budget Stabilization Account	-	-	2,289,000	2,289,000	-	-	1,294,000
Transfer to Other Funds	6,505	341	856,711	823,273	33,438	4.1	688,607
Transfer to Revolving Fund	(633)	4,698	9,605	-	9,605	-	12,620
Advance:							
MediCal Provider Interim Payment	-	-	-	-	-	-	-
State-County Property Tax Administration Program	38,363	14,149	50,258	-	50,258	-	23,127
Social Welfare Federal Fund	(37,600)	(35,400)	18,170	-	18,170	-	(14,057)
Local Governmental Entities	-	-	(1,243)	-	(1,243)	-	(1,215)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	-	-	(301,765)	(301,765)	-	-	(318,028)
Total Nongovernmental	**6,635**	**618,288**	**2,920,736**	**2,810,508**	**110,228**	3.9	**2,319,554**
Total Disbursements	**$ 7,227,662**	**$ 9,038,185**	**$ 76,308,412**	**$ 75,948,750**	**$ 359,662**	**0.5**	**$ 78,246,868**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (283,046)	$ 634,500	$ (322,546)	$ (322,546)	$ -	-	$ 1,750,200
Budget Stabilization Account	(4,271,300)	-	1,124,483	5,395,783	(4,271,300)	(79.2)	4,068,322
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	(5,918,778)	(6,685,815)	20	751,136	(751,116)	(100.0)	5,237,591
Revenue Anticipation Notes	-	-	-	-	-	-	-
Net Increase / (Decrease) Loans	**(10,473,124)**	**$ (6,051,315)**	**$ 801,957**	**$ 5,824,373**	**$ (5,022,416)**	**(86.2)**	**$ 11,056,113**

See notes on page B1.

(Concluded)

EX 2-22

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

THE BOOK-ENTRY ONLY SYSTEM

The information in numbered paragraphs 1 through 10 of this Appendix B regarding DTC's Book Entry System has been provided by DTC for use in securities offering documents, and the State takes no responsibility for the accuracy or completeness thereof. The State cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC 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.

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Construction Bonds and the Refunding Bonds, respectively, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any such maturity exceeds $500 million, one Bond certificate will be issued with respect to each $500 million of principal amount, and an additional Bond certificate will be issued with respect to any remaining principal amount of such maturity.

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

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

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

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

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

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State Treasurer, on the 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, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State Treasurer, 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.

9. DTC may discontinue providing its services as depository with respect to the 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, Bond certificates are required to be printed and delivered.

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

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest and other payments with respect to the Bonds to Direct Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such 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. The State Treasurer will not have any responsibility or obligation to Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Bonds.

THE STATE TREASURER, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES FOR 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 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OF THE BONDS (OTHER THAN UNDER THE CAPTION "TAX MATTERS") SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

The State Treasurer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). If the State Treasurer determines not to continue the DTC book-entry only system, or DTC discontinues providing its services with respect to the Bonds and the State Treasurer does not select another qualified securities depository, the State will deliver physical Bond certificates to the Beneficial Owners. The 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 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 bonds may be exchanged for 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 Bonds will be made by the State Treasurer during the period between the record date and the next Interest Payment Date.

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered as of March ___, 2018 by the Treasurer of the State of California (the "State Treasurer") in connection with the issuance of $____________ aggregate principal amount of the State of California Various Purpose General Obligation Bonds and $____________ aggregate principal amount of the State of California Various Purpose General Obligation Refunding Bonds (collectively, the "Bonds") as authorized by the related general obligation bond acts approved by the voters of the State of California (the "State") and identified in the Official Statement (defined below) (the "Acts"). The Bonds are being issued pursuant to resolutions of finance committees (the "Resolutions") designated under the Acts. Pursuant to the Resolutions, the State Treasurer, on behalf of 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 Resolutions, 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.

"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 March __, 2018.

"Participating Underwriter" shall mean any of the original underwriters 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.

(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 2016-17 fiscal year (which is due not later than April 1, 2018), 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.

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:

<u>Tables Entitled</u>

General Fund Revenues, Expenditures, and Fund Balance (Budgetary Basis)

General Fund Revenue by Source 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.

<u>Tables Entitled</u>

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.

(a) 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; or

9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

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.

(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 Resolutions.

Section 6. Termination of Reporting Obligation. 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:

(a) If the amendment or waiver relates to the provisions of Section 3(a), 4, 5(a), 5(b), 5(d) or 5(f), 8(a), 8(b) (excluding the requirement that the related determination be set forth in an opinion of nationally recognized bond counsel) or 8(c) (excluding both the percentage of Holders required for approval and the requirement that the related determination be set forth in an opinion of nationally recognized bond counsel), 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;

(b) 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

(c) 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. The State also may 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(f), 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.

IN WITNESS WHEREOF, the State Treasurer has executed this Disclosure Certificate as of the date first above written.

By: ______________________________

Deputy Treasurer
For California State Treasurer John Chiang

CONTINUING DISCLOSURE 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 Various Purpose General Obligation Bonds Various Purpose General Obligation Refunding Bonds
Date of Issuance:	March ___, 2018

NOTICE IS HEREBY GIVEN that the Issuer 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 Issuer, dated the Date of Issuance. [The Issuer anticipates that the Annual Report will be filed by ___________________________.]

Dated:

STATE OF CALIFORNIA

By: __[to be signed only if filed]_________________

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

PROPOSED FORMS OF LEGAL OPINIONS

FORM OF FINAL OPINION OF BOND COUNSEL

[Closing Date]

$____________
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS

$____________	**$____________**
VARIOUS PURPOSE GENERAL OBLIGATION BONDS	**VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS**

(Final Opinion)

The Honorable John Chiang
State Treasurer
Sacramento, California

We have acted as bond counsel to the State of California (the "State") in connection with the issuance by the State of (i) $____________ aggregate principal amount of State of California Various Purpose General Obligation Bonds (the "Construction Bonds") and (ii) $____________ aggregate principal amount of State of California Various Purpose General Obligation Refunding Bonds (the "Refunding Bonds," and together with the Construction Bonds, the "Bonds"). All the bond acts under which the Bonds are issued are identified in Schedule A hereto, which is incorporated by reference. The Bonds are authorized pursuant to the respective bond acts identified in Schedule A (collectively, the "Laws") and are issued pursuant to Part 3 of Division 4 of Title 2 of the California Government Code and pursuant to resolutions (the "Resolutions") adopted by the respective finance committees designated under the Laws. The Bonds comprise the separate series of bonds identified on Schedule A.

In such connection, we have examined the Resolutions, the tax certificate of the State relating to the Bonds, dated the date hereof (the "Tax Certificate"), other certifications of officials of the State, and such other documents, opinions and matters to the extent deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on 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. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We have no obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies). We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolutions and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Bonds, the Resolutions and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, 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 on legal remedies against the State. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated March ___, 2018, 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 following opinions:

1. The State has lawful authority for the issuance of the Bonds, and the Bonds constitute valid and binding general obligations of the State payable in accordance with the Laws from the General Fund 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.

2. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Interest on the Bonds is exempt from State personal income taxes. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

Per

Schedule A

$____________
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

FINANCE COMMITTEE	BOND ACT	NAME OF BONDS (STATE OF CALIFORNIA)	SERIES	PRINCIPAL AMOUNT

$____________

STATE OF CALIFORNIA

VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS

FINANCE COMMITTEE	BOND ACT	NAME OF BONDS (STATE OF CALIFORNIA)	SERIES	PRINCIPAL AMOUNT

FORM OF OPINION OF THE ATTORNEY GENERAL

[Closing Date]

$____________
STATE OF CALIFORNIA
Various Purpose General Obligation Bonds

$____________
STATE OF CALIFORNIA
Various Purpose General Obligation Refunding Bonds

The Honorable John Chiang
State Treasurer
Sacramento, California

We have acted as counsel to the State of California (the "State") in connection with the issuance by the State of (i) $____________ aggregate principal amount of State of California Various Purpose General Obligation Bonds (the "Construction Bonds") and (ii) $____________ aggregate principal amount of State of California Various Purpose General Obligation Refunding Bonds (the "Refunding Bonds," and together with the Construction Bonds, the "Bonds"), all dated [Closing Date], and issued as ________ (__) separate series under ________ (__) bond acts, all identified in Schedule A hereto, which is incorporated by reference. The Bonds are authorized pursuant to the respective bond acts identified in Schedule A (collectively, the "Laws") and are issued pursuant to Chapter 4 of Part 3 of Division 4 of Title 2 of the California Government Code and to resolutions (the "Resolutions") adopted by the respective finance committees designated under the Laws.

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 March __, 2018, 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 payable in accordance with the Laws from the General Fund 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.

Sincerely,

Deputy Attorney General

For XAVIER BECERRA
Attorney General

Schedule A

$[_____________]
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

FINANCE COMMITTEE	BOND ACT	NAME OF BONDS (STATE OF CALIFORNIA)	SERIES	PRINCIPAL AMOUNT

$____________

STATE OF CALIFORNIA

VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS

FINANCE COMMITTEE	BOND ACT	NAME OF BONDS (STATE OF CALIFORNIA)	SERIES	PRINCIPAL AMOUNT

APPENDIX E

LETTERS FROM CERTAIN UNDERWRITERS

[THIS PAGE INTENTIONALLY LEFT BLANK]

Morgan Stanley

February 16, 2018

Mr. Blake Fowler
Director, Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, CA 95814

RE: State of California Various Purpose General Obligation Bonds, March 2018 Sale (the "Bonds")

Dear Mr. Fowler:

Morgan Stanley & Co. LLC is providing the following language for inclusion in the Official Statement.

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

Morgan Stanley & Co. LLC

J.P.Morgan

February 17, 2018

Mr. Blake Fowler
Director, Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, CA 95814

RE: State of California Various Purpose General Obligation Bonds, March 2018 (the "Bonds")

Dear Mr. Fowler:

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into a negotiated dealer agreement (the "Dealer Agreement") with Charles Schwab & Co. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Dealer Agreement, CS&Co. may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

J.P. MORGAN SECURITIES LLC

TD Securities (USA) LLC
Public Finance Investment Banking
31 West 52nd Street, 2nd Floor
New York, NY 10019
www.tdsecurities.com

February 20, 2018

Mr. Blake Fowler
Director, Public Finance Division
Office of the Treasurer of the State of California
Public Finance Division, Room 261
915 Capitol Mall
Sacramento, CA 95814

Re: Distribution Agreement and Other Disclosures
The State of California
General Obligation Bonds, Series 2018 (Collectively, the "Bonds")

Dear Mr. Fowler:

TD Securities (USA) LLC is providing the following language for inclusion in the Official Statement.

TD Securities (USA) LLC ("TD Securities"), one of the Underwriters of the Bonds, has entered into a negotiated dealer agreement (the TD Dealer Agreement) with TD Ameritrade for the retail distribution of certain securities offerings, including the Bonds at the original issue price. Pursuant to the TD Dealer Agreement, TD Ameritrade may purchase Bonds from the Underwriter at the original issue prices less a negotiated portion of the selling concession applicable to any of the Bonds TD Ameritrade sells.

TD Securities and its affiliates comprise a full service securities firm and may engage in various activities, including securities trading, investment banking and financial advisory services, investment management, principal investment, hedging, financing and brokerage activities and financial planning. TD Securities and its affiliates, in the ordinary course of business, may engage in such activities with the Issuer or any other party that may be involved in this transaction, and receive its customary fees and expenses. Furthermore, in the ordinary course of business, TD Securities or an affiliate may, for its own account or the account of third-parties, have investment, trading, commercial banking and other relationships that may relate to the securities and/or other instruments of the Obligor or any other party that may be involved in this transaction.

Sincerely,

TD Securities (USA) LLC

APPENDIX F

STATE OF CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

[THIS PAGE INTENTIONALLY LEFT BLANK]

State of California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2016

BETTY T. YEE

California State Controller's Office

STATE OF CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2016

Prepared by
The Office of the State Controller

BETTY T. YEE
California State Controller

Contents

INTRODUCTORY SECTION

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

COMBINING FINANCIAL STATEMENTS AND SCHEDULES – NONMAJOR AND OTHER FUNDS

STATISTICAL SECTION

This page intentionally left blank

Introductory Section

BETTY T. YEE
California State Controller

BETTY T. YEE
California State Controller

March 22, 2017

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, 2016. 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 ended the fiscal year with total General Fund revenues of $117.6 billion, a $796 million net increase compared to the prior year. Personal income tax and sales and use tax increased by $1.6 billion and $1.2 billion, respectively, while corporation taxes declined by $1.6 billion. At June 30, 2016, the General Fund's cash balance of $5.2 billion represents approximately 17 days of General Fund operating expenditures for the State, compared to a cash balance of $5.8 billion at June 30, 2015, which represented 20 days of expenditures.

California's economy has recovered from the Great Recession and budgeted spending has increased over the last four years. The 2016-17 State Budget, enacted on June 27, 2016, continues to build the Budget Stabilization Account (the State's Rainy Day Fund) and limits ongoing spending obligations. Looking ahead, the State has begun to prepare for the next economic slowdown.

I extend my appreciation to all government agencies for their support and cooperation in submitting the required information for the CAFR. Thank you, as well, 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

This page intentionally left blank

Report Overview

The State's management assumes responsibility for the accuracy, completeness, and fairness of information presented in the CAFR, including all disclosures, based upon 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 Governor.

The California State Auditor has issued an unmodified opinion on the financial statements for the year ended June 30, 2016, 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. This 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 year ended June 30, 2016, and its economic performance as of December 31, 2016, for the 2016-17 fiscal year. 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 2016, is estimated to be more than 39 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 the State Superintendent of Public Instruction. All officers of the Executive branch are elected to a four-year term. The Legislative branch of government is the State's law-making authority and is made up 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 advisor. 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; and business and transportation, consumer services, general government, and correctional programs. The State also is financially accountable for legally separate entities (component units) that provide post-secondary education programs, promote agricultural activities and financial assistance to small business, and finance coastal and inland urban waterfront restoration projects. 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 facilities, and for acquiring, constructing, and equipping 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, 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 is the sixth largest in the world, with a 2015 Gross Domestic Product of $2.5 trillion. In 2015, California exported $165.3 billion in products; its two largest export markets are Mexico ($26.7 billion) and Canada ($17.2 billion). California's five largest exports are computer and electronic products, transportation equipment, machinery except electrical, chemicals, 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 $122.5 billion in 2015, including more than $21.2 billion from international visitors.

Budget Outlook

2016-17 Fiscal Year

The 2016 Budget Act focuses new spending on one-time activities, such as repairing and replacing aging infrastructure, building affordable housing, addressing the effects of California's drought, and preparing the State for the next recession by increasing the Budget Stabilization Account (BSA), the State's Rainy Day Fund. Based on January 2017 estimates, total General Fund revenues and transfers are estimated to be $118.8 billion, $1.5 billion less than budgeted. In addition, total General Fund expenditures are estimated to be $122.8 billion, $300 million more than budgeted. The General Fund is projected to end the 2016-17 fiscal year with $6.7 billion in its BSA and $47 million in its Special Fund for Economic Uncertainties.

2017-18 Fiscal Year

The Governor released his proposed 2017-18 Budget on January 10, 2017. In it, he notes that the economy is finishing its eighth year of expansion (three years longer than average) and that revenues fell below projections in the last year. Consequently, the 2017-18 Budget estimates only a

conservative increase of $2.7 billion in personal income tax revenue (3.3%) and proposes $3.2 billion in actions to reduce General Fund spending growth in order to avoid a budget deficit while continuing to increase the State's reserves. The proposed actions include a $1.7 billion adjustment to the Proposition 98 minimum funding guarantee for K-14 education, the recapture of $900 million of uncommitted 2016 allocations, and $600 million in delays or eliminations of proposed spending increases. The Governor's Budget proposes total reserves of $9.4 billion by the end of the 2017-18 fiscal year—$7.9 billion in the BSA and $1.5 billion in the General Fund's Special Fund for Economic Uncertainties.

Other significant proposals from the Governor's Budget include $59.8 billion for health and human services, $52.3 billion for K-12 education, $15.1 billion for higher education, $11.4 billion for transportation, $13.8 billion for corrections and rehabilitation, and $27.1 billion for general government and other. The Budget also proposes $1.2 billion in accelerated payments to reduce the State's long-term debts and obligations.

Long-term Financial Planning

Long-term financial planning initiatives that will impact the State's long-term financial goals include:

- The Governor's 2017 Infrastructure Plan proposes $43 billion over the next ten years to address the most urgent state and local transportation needs, focusing on "fix-it-first" investments to repair and improve neighborhood roads and state highways and bridges. Specifically, the plan proposes $16.2 billion for highway repair and maintenance, $2.3 billion for trade corridors, $13.5 billion for local roads, and $4.0 billion for transit and intercity rail. The plan also proposes using $14.6 billion from general obligation bonds and Cap and Trade funds in fiscal year 2018-19 to help meet the High Speed Rail Authority's goals.

- The Governor's Budget includes $5.3 billion ($3.5 billion from the General Fund) for the State's contributions to the California Public Employees' Retirement System (CalPERS) for state pension costs. This proposal reflects the recent decision of the CalPERS board to reduce the current discount rate from 7.5% to 7% over the next three budget years. This reduction of the discount rate results in approximately $172 million in additional state contributions in 2017-18, increasing to $2.0 billion once the discount rate changes are fully implemented. The Budget also includes $2.8 billion from the General Fund in 2017-18 to the California State Teachers' Retirement System (CalSTRS) for state contributions. The Budget assumes CalSTRS will adopt new mortality assumptions, implement a discount rate reduction, and exercise its authority to increase state contributions by 0.5%, resulting in a $153 million increase in General Fund contributions.

- The State provides health care and dental benefits to retired state employees and their spouses and dependents (when applicable). Collectively, these benefits are known as other postemployment benefits (OPEB). Historically, the State has almost exclusively used a "pay-as-you-go" funding policy for OPEB, resulting in an actuarial accrued liability (AAL). As of June 30, 2016, California's OPEB AAL is estimated to be $76.7 billion. The State has initiated a prefunding strategy, as well as changes to retiree health benefits for new employees through the collective bargaining process, to support the elimination of the unfunded AAL. As part of the process, the State made a one-time allocation of $240 million to certain bargaining units' OPEB trust fund accounts for bargaining units that reached an agreement with the Administration by November 1, 2016, to contribute towards their retiree healthcare. Currently, the State has set aside approximately $400 million to pay for future retiree health benefits. The Governor expects the trust fund balance to more than double and approach $1.0 billion by the end of 2017-18.

- As part of its strategy to address climate change, the State conducts cap-and-trade auctions of emissions allowances to fund various programs to reduce greenhouse gas emissions. The Governor's budget proposes to spend $2.2 billion in cap-and-trade revenue in 2017-18. This amount would come from $1.5 billion in auction revenue assumed to be collected in 2017-18 and approximately $700 million in unallocated prior-year collections. Consistent with current law, 60% ($900 million) of the 2017-18 auction revenue would be continuously appropriated to programs such as high-speed rail and affordable housing and sustainable communities. The remaining $1.3 billion in proposed discretionary spending would occur only if the Legislature extends the Cap-and-Trade program beyond 2020 with a two-third vote.

- A new president was inaugurated on January 20, 2017. The new administration and leaders in Congress have suggested major changes to the Affordable Care Act, Medicaid, trade and immigration policy, and the federal tax structure, as well as other actions. Many of these proposed changes could have detrimental effects on the State's economy and budget. At this point, it is not clear what those changes will be or when they will take effect.

- Following five years of drought, California has experienced significantly higher-than-average rainfall through this point in the current water year, which started October 2016. The high volume of rain and snowmelt has caused some localized flooding and damage to roads and other infrastructure, including spillways at the Oroville Dam. In 2017, the President issued Presidential Disaster Declarations for both the winter storms affecting 30 counties across California and the evacuation of the areas in danger of flooding from the possible breach of the Oroville Dam. At this time, the effects of the high volume of rainfall and snowfall are not expected to affect materially the State's economy or budget, and repairs to the Oroville Dam are expected to be paid from resources other than the General Fund. Nevertheless, the State continues to address the potential for future droughts by encouraging water conservation, facilitating water management where possible, and providing funding for critical water infrastructure projects.

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, 2015. 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, 2015

Jeffrey R. Emer

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

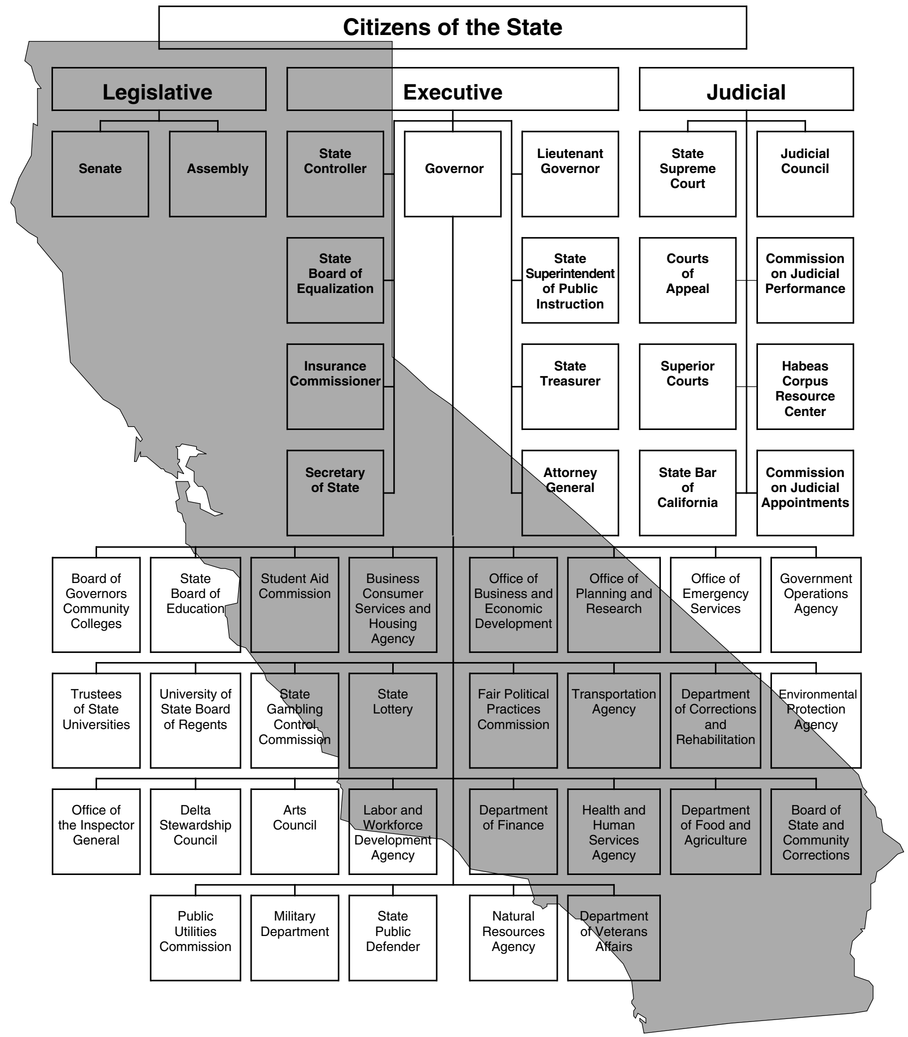
Kevin de León
President pro Tempore, Senate

Anthony Rendon
Speaker of the Assembly

Judicial Branch

Tani Cantil-Sakauye
Chief Justice, State Supreme Court

Organization Chart of the State of California



This page intentionally left blank

Financial Section

California State Auditor

Elaine M. Howle State Auditor
Doug Cordiner Chief Deputy

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, 2016, and the related notes to the financial statements, which collectively comprise the State'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 enterprise funds that, in the aggregate, represent 80 percent of the assets and deferred outflows, and 40 percent of the revenues of the business-type activities.
- The University of California and the California Housing Finance Agency that represent 93 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 15 percent of the assets and deferred outflows, and 3 percent of the additions, revenues, and other financing sources 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 27 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 Public Employees' Retirement, 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, 2016, 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 a discussion and analysis by management, schedule of changes in net pension liability and related ratios, schedule of state pension contributions, schedules related to the State's support of the California State Teachers' Retirement System, schedule of funding progress for other postemployment benefits, infrastructure information, budgetary comparison information, reconciliation of budgetary and GAAP-basis fund balances, and related notes 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's basic financial statements. The introductory section, combining 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 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 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 22, 2017 on our consideration of the State'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's internal control over financial reporting and compliance.

CALIFORNIA STATE AUDITOR

John F. Collins II

JOHN F. COLLINS II, CPA
Deputy State Auditor

March 22, 2017

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 year ended June 30, 2016. We encourage readers to consider the information 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

After seven years of economic expansion, California is approaching an economic plateau as its rate of growth has started to slow. For the fiscal year ended June 30, 2016, the State's general revenues increased by only $1.4 billion (1.0%) over the prior year—significantly less than the 10.0% growth experienced in the 2014-15 fiscal year. Expenses and transfers for the State's governmental activities increased by $12.0 billion (5.1%) but were less than total revenues received, resulting in a $7.5 billion increase in the governmental activities' net position. Total revenues and transfers for the State's business-type activities also surpassed expenses by $3.1 billion in the 2015-16 fiscal year.

Net Position – The primary government ended the 2015-16 fiscal year with a net deficit position of $30.3 billion, an improvement of $10.6 billion (26.0%). The total net deficit position is reduced by $107.1 billion for net investment in capital assets and by $34.8 billion for restricted net position, yielding a negative unrestricted net position of $172.2 billion. Restricted net position is dedicated for specified uses and is not available to fund current activities. More than 59.0%, or $101.6 billion, of the negative $172.2 billion consists of unfunded, employee-related, long-term liabilities that are recognized as soon as an obligation has been incurred, even though payment will occur over many future periods (net pension liability, net other postemployment benefit obligations, and compensated absences). Another 38.6%, or $66.5 billion, consists of outstanding bonded debt issued 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, 2016, the primary government's governmental funds reported a combined ending fund balance of $30.9 billion, an increase of $4.8 billion over the prior fiscal year. This year is the first in more than 15 years without any governmental fund deficits. The unrestricted fund balance, comprised of committed, assigned, and unassigned balances, was $1.9 billion, an increase of $2.4 billion over the prior fiscal year's deficit balance of $448 million. The nonspendable and restricted fund balances were $87 million and $28.9 billion, respectively.

Proprietary Funds – As of June 30, 2016, the primary government's proprietary funds reported a combined ending net position of $4.1 billion, an increase of $3.0 billion over the prior fiscal year. The total net position is reduced by $2.9 billion for net investment in capital assets, expendable restrictions of $5.9 billion, and nonexpendable restrictions of $9 million, yielding a negative unrestricted net position of $4.7 billion, an improvement of $1.3 billion over the prior fiscal year.

Noncurrent Assets and Liabilities

As of June 30, 2016, the primary government's noncurrent assets totaled $156.2 billion, of which $136.7 billion is related to capital assets. State highway infrastructure assets of $73.5 billion represent the largest portion of the State's capital assets.

The primary government's noncurrent liabilities totaled $221.4 billion, which consists of $101.6 billion in unfunded employee-related future obligations, $76.6 billion in general obligation bonds, $29.4 billion in revenue bonds, and $13.9 billion in other noncurrent liabilities. During the 2015-16 fiscal year, the primary government's noncurrent liabilities increased by $7.0 billion (3.2%) over the previous fiscal year. The most significant changes were increases of $8.1 billion in net pension liability and $3.5 billion in net other postemployment benefits obligation, and decreases of $2.6 billion in loans payable and $1.5 billion in general obligation bonds 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 to support 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 kindergarten through 12th grade [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 are at the same time related to the State financially (i.e., the State is financially accountable for them) or the nature of their 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 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 as 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, are located immediately following 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 other postemployment benefit 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 $10.6 billion (26.0%) from a negative $40.9 billion to a negative $30.3 billion at June 30, 2016.

The primary government's $107.1 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 $34.8 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, 2016, the primary government's combined unrestricted net deficit position was $172.2 billion—$168.5 billion for governmental activities and $3.7 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 has been incurred, while financing and budgeting functions focus on when a liability will be paid. As of June 30, 2016, the primary government recognized $101.6 billion (59.0% of the $172.2 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 $66.5 billion (38.6% of the $172.2 billion unrestricted net deficit) 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, 2016 and 2015
(amounts in millions)

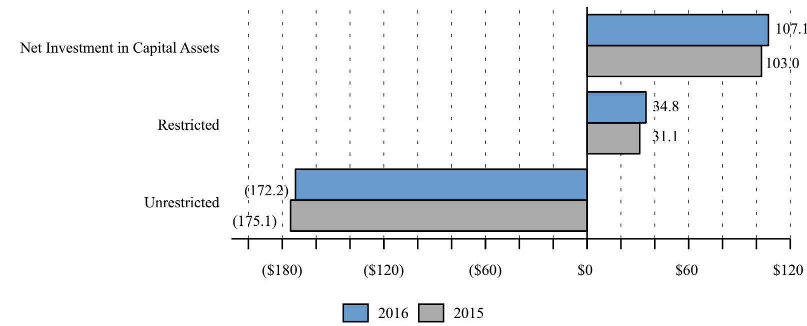
	Governmental Activities		Business-type Activities		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
ASSETS						
Current and other assets	$ 78,452	$ 74,530	$ 25,226	$ 24,539	$ 103,678	$ 99,069
Capital assets	126,859	123,201	9,849	9,220	136,708	132,421
Total assets	**205,311**	**197,731**	**35,075**	**33,759**	**240,386**	**231,490**
DEFERRED OUTFLOWS OF RESOURCES	7,726	6,128	1,328	1,050	9,054	7,178
Total assets and deferred outflows of resources	**$ 213,037**	**$ 203,859**	**$ 36,403**	**$ 34,809**	**$ 249,440**	**$ 238,668**
LIABILITIES						
Noncurrent liabilities	$ 194,826	$ 186,897	$ 26,618	$ 27,511	$ 221,444	$ 214,408
Other liabilities	47,847	47,391	4,127	3,841	51,974	51,232
Total liabilities	**242,673**	**234,288**	**30,745**	**31,352**	**273,418**	**265,640**
DEFERRED INFLOWS OF RESOURCES	5,249	11,989	1,085	2,003	6,334	13,992
Total liabilities and deferred inflows of resources	**247,922**	**246,277**	**31,830**	**33,355**	**279,752**	**279,632**
NET POSITION						
Net investment in capital assets	104,597	100,695	2,521	2,278	107,118	102,973
Restricted	29,061	26,632	5,759	4,537	34,820	31,169
Unrestricted	(168,543)	(169,745)	(3,707)	(5,361)	(172,250)	(175,106)
Total net position (deficit)	**(34,885)**	**(42,418)**	**4,573**	**1,454**	**(30,312)**	**(40,964)**
Total liabilities, deferred inflows of resources, and net position	**$ 213,037**	**$ 203,859**	**$ 36,403**	**$ 34,809**	**$ 249,440**	**$ 238,668**

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, 2016 and 2015
(amounts in billions)



Note: Prior-year adjustments recorded in the current year have not been reflected in the 2015 amounts.

Changes in Net Position

The expenses of the primary government totaled $272.7 billion for the year ended June 30, 2016. Of this amount, $142.8 billion (50.4%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving $129.9 billion to be funded with general revenues (mainly taxes). The primary government's general revenues of $140.5 billion exceeded net unfunded expenses by $10.6 billion, resulting in a 26.0% 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, 2016 and 2015
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program Revenues:						
Charges for services	$ 27,422	$ 24,390	$ 25,427	$ 24,091	$ 52,849	$ 48,481
Operating grants and contributions	86,629	84,896	1,765	1,666	88,394	86,562
Capital grants and contributions	1,480	1,320	67	108	1,547	1,428
General Revenues:						
Taxes	140,028	138,600	—	—	140,028	138,600
Investment and interest	132	58	—	—	132	58
Miscellaneous	305	401	—	—	305	401
Total revenues	**255,996**	**249,665**	**27,259**	**25,865**	**283,255**	**275,530**
EXPENSES						
Program Expenses:						
General government	16,686	15,804	—	—	16,686	15,804
Education	65,468	59,521	—	—	65,468	59,521
Health and human services	127,543	122,064	—	—	127,543	122,064
Natural resources and environmental protection	6,988	6,420	—	—	6,988	6,420
Business, consumer services, and housing	815	904	—	—	815	904
Transportation	12,121	12,898	—	—	12,121	12,898
Corrections and rehabilitation	11,875	11,483	—	—	11,875	11,483
Interest on long-term debt	4,232	4,881	—	—	4,232	4,881
Electric Power	—	—	728	799	728	799
Water Resources	—	—	1,087	1,020	1,087	1,020
State Lottery	—	—	6,316	5,560	6,316	5,560
Unemployment Programs	—	—	11,459	11,390	11,459	11,390
California State University	—	—	7,199	6,848	7,199	6,848
Other enterprise programs	—	—	151	145	151	145
Total expenses	**245,728**	**233,975**	**26,940**	**25,762**	**272,668**	**259,737**
Excess (deficiency) before transfers	**10,268**	**15,690**	**319**	**103**	**10,587**	**15,793**
Gain on early extinquishment of debt	41	—	—	—	41	—
Transfers	(2,800)	(2,555)	2,800	2,555	—	—
Change in net position	7,509	13,135	3,119	2,658	10,628	15,793
Net position, beginning (restated)	(42,394)	**(55,553)**	1,454 *	**(1,204)**	**(40,940)**	**(56,757)**
Net position (deficits), ending	**$ (34,885)**	**$ (42,418)**	**$ 4,573**	**$ 1,454**	**$ (30,312)**	**$ (40,964)**

* Not restated

Note: Prior-year adjustments recorded in the current year have not been reflected in the prior-year column.

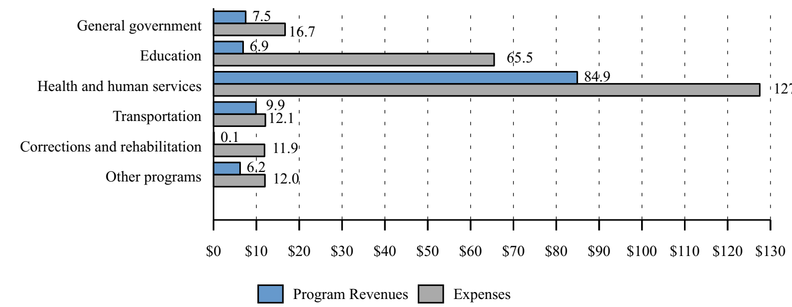
Governmental Activities

During the 2015-16 fiscal year, governmental activities' expenses and transfers totaled $248.5 billion. Program revenues totaling $115.5 billion, including $88.1 billion received in federal grants and contributions, funded 46.5% of expenses and transfers, leaving $133.0 billion to be funded with general revenues (mainly taxes). General revenues for governmental activities ($140.5 billion) exceeded net unfunded expenses and transfers, resulting in the governmental activities' net deficit position of $34.9 billion for the year ended June 30, 2016, an improvement of $7.5 billion (17.7%) over the prior-year's net deficit position of $42.4 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, 2016
(amounts in billions)



For the year ended June 30, 2016, total governmental activity revenue was $256.0 billion, an increase of 2.5% over the prior year. General revenues increased by $1.4 billion (1.0%) to $140.5 billion, and program revenues increased by $4.9 billion (4.5%) to $115.5 billion. These increases are significantly smaller than the 2014-15 fiscal year growth of 10.0% for general revenues and 18.1% for program revenues, reflecting the slowing of the recent economic recovery and expansion. Personal income taxes and corporation taxes had the greatest impact on the slowing growth rate during the 2015-16 fiscal year. Corporation taxes decreased by $1.5 billion (14.1%) from the prior year. Personal income taxes increased by $2.2 billion over the prior year, representing only a 2.8% increase compared to the 2014-15 fiscal year increase of 13.5%.

Overall expenses for governmental activities increased by $11.8 billion (5.0%) over the prior year. The largest increase in expenditures, $5.9 billion (10.0%), was for education due to the Proposition 98 minimum funding guarantee; the increased spending was triggered by higher General Fund revenue. Another significant increase, $5.5 billion (4.5%), 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. This growth in spending reflects the continuing expansion in Medi-Cal caseload under federal health care reform.

Charts 3 and 4 present the percentage of total expenses for each governmental activities program and the percentage of total revenues by source.

Chart 3

Expenses by Program
Year ended June 30, 2016
(as a percent)

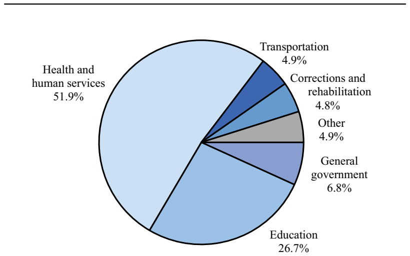
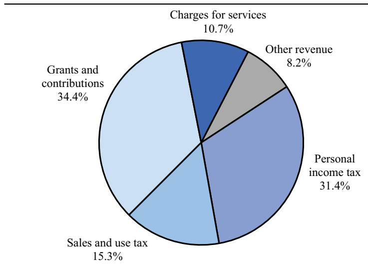


Chart 4

Revenues by Source
Year ended June 30, 2016
(as a percent)



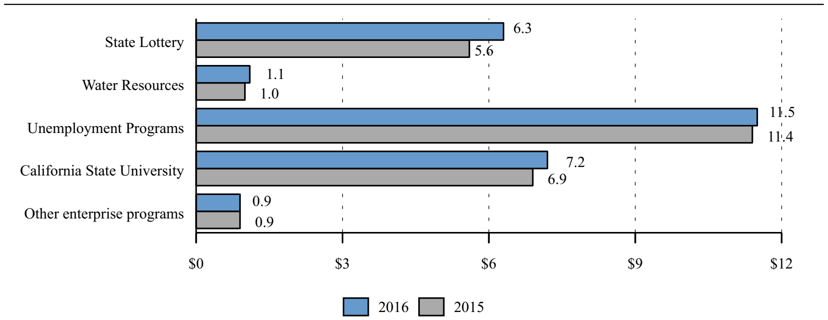
Business-type Activities

As of June 30, 2016, business-type activities' expenses totaled $26.9 billion. Program revenues of $27.2 billion, primarily generated from charges for services, and $2.8 billion in transfers, were sufficient to cover these expenses. As a result, the business-type activities' total net position of $4.6 billion increased by $3.1 billion (214.4%) over the prior-year's net position of $1.5 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, 2016 and 2015
(amounts in billions)



Fund Financial Analysis

The State's governmental funds' balance increased by $4.8 billion over the prior year's ending fund balance. The 2015-16 fiscal year marks the first time since before the 2001-02 fiscal year implementation of GASB Statement No. 34 that all of the State's governmental funds ended the year with positive fund balances. Proprietary funds' net position increased by $3.0 billion during the 2015-16 fiscal year, of which $2.4 billion was in the Unemployment Programs Fund, increasing its fund balance to $1.5 billion—its first postive balance in eight years.

Governmental Funds

As of June 30, 2016, the governmental funds' Balance Sheet reported $82.3 billion in assets, $51.4 billion in liabilities and deferred inflows of resources, and $30.9 billion in fund balance. Total assets of governmental funds increased by 5.4%, while total liabilities and deferred inflows of resources decreased by 1.2%, resulting in a total fund balance increase of $4.8 billion (18.5%) over the prior year's balance.

Within the governmental funds' total fund balance, $87 million is classified as nonspendable, as this amount consists of long-term interfund receivables, loans receivable, and legal or contractual requirements. Additionally, $28.9 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, $5.7 billion is classified as committed for specific purposes and $15 million is classified as assigned for specific purposes. The remaining unassigned balance of the governmental funds is a negative $3.8 billion, an improvement of $830 million over the prior fiscal year.

The Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds reported $255.7 billion in revenues, $255.3 billion in expenditures, and a net $4.4 billion in receipts from other financing sources. The ending fund balance of the governmental funds for the year ended June 30, 2016, was $30.9 billion, a $4.8 billion increase over the prior year's ending fund balance of $26.1 billion.

Governmental funds' revenue consists primarily of taxes (54.6%) and intergovernmental revenue (35.6%). Personal income taxes accounted for 57.2% of tax revenues and increased by $1.7 billion over the prior fiscal year. Sales and use taxes accounted for 28.0% of tax revenues and increased by $746 million over the prior fiscal year. Corporation taxes accounted for 6.6% of tax revenues and decreased by $1.6 billion from the prior fiscal year. The decline in corporation tax revenue is largely due to significantly increased refunding activity as corporate taxpayers continue to adjust to changes in the calculation of their California taxable revenue under Proposition 39 that was enacted in 2012. Intergovermental revenue, primarily from the federal government, increased by $3.3 billion (3.8%) over the prior fiscal year.

Governmental funds' expenditures increased by $6.9 billion (2.8%) over the prior fiscal year, primarily for health and human services and education. The increase in health and human services expenditures, of $4.9 billion (4.0%), is due primarily to the continued expansion of the Medi-Cal caseload under the Patient Protection and Affordable Care Act (federal health care reform). The $2.3 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 the 2015-16 fiscal year. Offsetting these two governmental funds' expenditure increases is a decrease of $2.0 billion (15.2%) in debt service principal and interest payments for bonds and commercial paper.

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, 2016 and 2015
(amounts in billions)

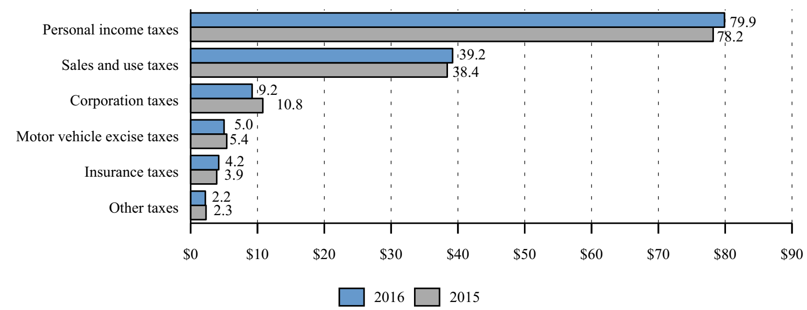
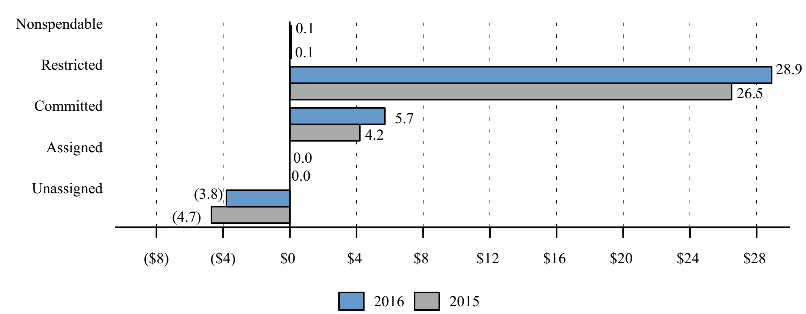


Chart 7 presents a two-year comparison of the components of the governmental funds' balance.

Chart 7

Governmental Funds – Components of Fund Balance – Two-year Comparison
Years ended June 30, 2016 and 2015
(amounts 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 $362 million, an increase of $2.6 billion over the prior year's fund deficit. The Federal Fund, the Transportation Fund, and the Environmental and Natural Resources Fund ended the fiscal year with fund balances of $248 million, $8.5 billion, and $10.1 billion, respectively. The nonmajor governmental funds ended the fiscal year with a total fund balance of $11.6 billion.

General Fund: As shown on the Balance Sheet, the General Fund (the State's main operating fund) ended the 2015-16 fiscal year with assets of $20.9 billion; liabilities and deferred inflows of resources of $20.6 billion; and nonspendable, restricted, and committed fund balances of $76 million, $4.0 billion, and $68 million, respectively, leaving the General Fund with a negative unassigned fund balance of $3.8 billion. Total assets of the General Fund decreased by $1.3 billion (5.6%) from the prior fiscal year, while total liabilities and deferred inflows of resources decreased by $3.8 billion (15.7%). The General Fund's unassigned fund balance deficit decreased by $830 million (17.8%).

As shown on the Statement of Revenue, Expenditures, and Changes in Fund Balance, the General Fund had an excess of revenues over expenditures of $5.8 billion ($117.6 billion in revenues and $111.8 billion in expenditures). Approximately $112.5 billion (95.7%) of General Fund revenue is derived from the State's largest three taxes—personal income taxes ($78.5 billion), sales and use taxes ($24.8 billion), and corporation taxes ($9.2 billion). As a result of fund classifications made to comply with generally accepted governmental accounting principles, a total of $246 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 the 2015-16 fiscal year, total General Fund revenue increased by $796 million (0.7%). The increase is a result of increases in personal income taxes of $1.6 billion (2.1%) and sales and use taxes of $1.2 billion (5.1%), offset by a decrease in corporation taxes of $1.6 billion (14.5%).

General Fund expenditures increased by $4.6 billion (4.3%). The largest increases were in education and health and human services expenditures, which were up $2.3 billion and $2.1 billion, respectively. The General Fund's net fund balance of $362 million for the year ended June 30, 2016, was an improvement of $2.6 billion over the prior year's ending fund deficit of $2.2 billion.

Federal Fund: The Federal Fund reports federal grant revenues and the related expenditures to support the grant programs. The largest of these programs is for health and human services, which accounted for $73.8 billion (84.5%) of the total $87.4 billion in fund expenditures. The Medical Assistance program and the Temporary Assistance for Needy Families program are included in this program area. Education programs also constituted a large part of the fund's expenditures, amounting to $6.9 billion (7.9%) of the total. The Federal Fund's revenues increased by $1.9 billion, which was approximately the same amount of increase in the combined expenditures and transfers, resulting in only a $30 million fund balance increase over the prior year's ending fund balance of $218 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 $535 million (5.1%), while its expenditures decreased by $1.4 billion (11.6%). Other financing sources provided net receipts of $1.3 billion. The Transportation Fund ended the fiscal year with an $8.5 billion fund balance, an increase of $322 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 increased by $534 million (10.7%), while its expenditures decreased by $265 million (5.1%). Other financing sources provided net receipts of $1.2 billion. The Environmental and Natural Resources Fund ended the fiscal year with a $10.1 billion fund balance, an increase of $1.8 billion (20.9%) over the prior year.

Proprietary Funds

Enterprise Funds: The economic recovery continued to have a positive impact on the State's enterprise funds. The total net position of the enterprise funds at June 30, 2016, was $4.6 billion—$3.1 billion greater than the prior year's net position of $1.5 billion. The Unemployment Programs Fund had an increase in its net position of $2.4 billion to end the fiscal year with a balance of $1.5 billion. This balance represents the Unemployment Programs Fund's first positive net position since 2009—the end of the recession that dramatically increased the State's unemployment and resulted in the fund's insolvency. The State Lottery Fund, the California State University Fund, and the nonmajor enterprise funds increased their net positions by $52 million, $538 million, and $121 million, respectively.

As shown on the proprietary funds' Statement of Net Position, total assets and deferred outflows of resources for the enterprise funds were $37.0 billion as of June 30, 2016. Of this amount, current assets totaled $12.9 billion, noncurrent assets totaled $22.8 billion, and deferred outflows of resources totaled $1.3 billion. The total liabilities and deferred inflows of resources for the enterprise funds was $32.5 billion. The three largest liabilities of the enterprise funds are $13.9 billion in revenue bonds payable, $7.5 billion in net pension liability, and $3.1 billion in noncurrent loans payable. During the 2015-16 fiscal year, the State reduced by $2.6 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 balance of $3.1 billion as of June 30, 2016.

Total net position consisted of four segments: net investment in capital assets of $2.5 billion, a nonexpendable restricted net position of $9 million, a restricted expendable net position of $5.7 billion, and an unrestricted net deficit of $3.7 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 $24.2 billion, operating expenses of $24.0 billion, and net expenses from other transactions of $3 million. The largest sources of operating revenue were unemployment and disability insurance receipts of $13.8 billion in the Unemployment Programs Fund, and lottery ticket sales of $6.3 billion collected by the State Lottery Fund. The unemployment and disability insurance receipts in the Unemployment Programs Fund increased by $453 million to $13.8 billion over the prior fiscal year. These receipts came primarily from the federal government unemployment account to pay unemployment and disability benefits. The largest operating expenses were distributions of $11.1 billion to beneficiaries by the Unemployment Programs Fund, personal services of $4.6 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 $458 million as of June 30, 2016. The net position consists of three segments: net investment in capital assets of $383 million, a restricted expendable net position of $131 million, and an unrestricted net deficit of $972 million.

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 $6.8 billion. The pension and other employee benefit trust funds ended the fiscal year with a net position of $507.6 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with a net position of $22.7 billion. Agency funds act as clearing accounts and thus do not have a net position.

For the year ended June 30, 2016, the fiduciary funds' combined net position was $537.1 billion, a $4.3 billion decrease from the prior year net position. The net position decreased primarily because payments made to participants exceeded contributions received and investment income in pension and other employee benefit trust funds.

General Fund Budget Highlights

The original General Fund budget of $115.2 billion was increased by $1.7 billion during the 2015-16 fiscal year. This increase is mainly comprised of funding for education, natural resources and environmental protection, and health and human services programs. The funding for education programs increased due primarily to the Proposition 98 minimum funding guarantee per Education Code Section 41202; an increase in General Fund revenue causes an increase to the minimum funding guarantee. Additional funding for drought-related activities accounts for most of the increase in the natural resources and environmental protection budget. The increase in health and human services program funding is due primarily to the continuing implementation of the federal Patient Protection and Affordable Care Act. During the 2015-16 fiscal year, the General Fund's actual budgetary basis expenditures were $114.4 billion, $2.5 billion less than the final budgeted amount of $116.9 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, 2016
(amounts in millions)

	Original	Final	Increase
Budgeted amounts			
Business, consumer services, and housing	$ 36	$ 37	$ 1
Transportation	83	83	—
Natural resources and environmental protection	1,717	2,044	327
Health and human services	31,939	32,259	320
Corrections and rehabilitation	9,920	10,130	210
Education	60,008	60,765	757
General government:			
Tax relief	432	432	—
Debt service	5,496	5,496	—
Other general government	5,589	5,672	83
Total	**$ 115,220**	**$ 116,918**	**$ 1,698**

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2016, the State's investment in capital assets for its governmental and business-type activities amounted to $136.7 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, 2016, the State's capital assets increased $4.3 billion, or 3.2% 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, 2016 and 2015
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	$ 19,383	$ 19,131	$ 245	$ 237	$ 19,628	$ 19,368
State highway infrastructure	73,463	70,686	—	—	73,463	70,686
Collections – nondepreciable	23	23	16	11	39	34
Buildings and other depreciable property	29,616	28,310	12,743	12,274	42,359	40,584
Intangible assets – amortizable	2,032	1,215	336	338	2,368	1,553
Less: accumulated depreciation/amortization	(13,400)	(12,668)	(5,244)	(4,939)	(18,644)	(17,607)
Construction/development in progress	15,316	16,085	1,639	1,183	16,955	17,268
Intangible assets – nonamortizable	426	419	114	116	540	535
Total	**$ 126,859**	**$ 123,201**	**$ 9,849**	**$ 9,220**	**$ 136,708**	**$ 132,421**

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 the 2015-16 fiscal year, the actual amount spent on preservation was 48.0% of the estimated budgeted amount needed to maintain the infrastructure assets at the 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 84.1% of lane miles judged to be of excellent, good, or fair quality in the last completed pavement-condition survey. The State is responsible for maintaining 49,645 lane miles and 12,972 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, 2016, the State had total bonded debt outstanding of $110.9 billion. Of this amount, $79.8 billion (71.9%) 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 $3.2 billion and the long-term portion is $76.6 billion. The remaining $31.1 billion (28.1%) of bonded debt outstanding represents revenue bonds, which are secured solely by specified revenue sources. The current portion of revenue bonds outstanding is $1.7 billion and the long-term portion is $29.4 billion.

During the fiscal year, the State issued $7.3 billion in new general obligation bonds for governmental activities, including: parks, clean water and clean air; reading and literacy improvement and public libraries; safe drinking water; children's hospitals; earthquake safety and public building rehabilitation; public primary, secondary, community college and university education facilities; highway safety, traffic reduction, air quality and port security; transportation; clean water, watershed protection and flood protection; water security, water quality, water supply and river, coastal and beach protection; water conservation; seismic retrofit; wildlife, coastal and parkland conservation; medical research; housing and emergency shelters; veterans' homes; high speed passenger train projects; and to refund previously outstanding general obligation bonds and commercial paper. The State also issued $545 million in new general obligation bonds for veterans farm and home buildings, a business-type activity.

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, 2016 and 2015
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Government-wide noncurrent liabilities						
General obligation bonds	$ 75,854	$ 77,527	$ 736	$ 579	$ 76,590	$ 78,106
Revenue bonds payable	16,530	17,739	12,905	11,670	29,435	29,409
Total bonded debt	92,384	95,266	13,641	12,249	106,025	107,515
Net pension liability/obligation	64,294	57,456	7,462	6,249	71,756	63,705
Net other postemployment benefits obligation	24,967	21,594	851	735	25,818	22,329
Mandated cost claims payable	2,764	2,377	—	—	2,764	2,377
Loans payable	—	—	3,112	5,671	3,112	5,671
Compensated absences payable	3,777	3,681	201	188	3,978	3,869
Workers' compensation benefits payable	3,528	3,448	3	3	3,531	3,451
Capital lease obligations	345	215	346	1,136	691	1,351
Certificates of participation and commercial paper[1]	771	482	47	89	818	571
Other noncurrent liabilities	1,996	2,378	955	1,191	2,951	3,569
Total noncurrent liabilities	**194,826**	**186,897**	**26,618**	**27,511**	**221,444**	**214,408**
Current portion of long-term obligations	4,777	5,071	2,278	2,078	7,055	7,149
Total long-term obligations	**$ 199,603**	**$ 191,968**	**$ 28,896**	**$ 29,589**	**$ 228,499**	**$ 221,557**

Note: Prior-year adjustments recorded in the current year have not been reflected in the prior-year column.

[1] All certificates of participation were retired in fiscal year 2016.

During the year ended June 30, 2016, the primary government's total long-term obligations increased by $6.9 billion over the prior year's balance. The largest increases were $8.1 billion in net pension liability and $3.5 billion in other postemployment benefit obligations because the State does not fully fund these benefits. The largest decrease was $2.6 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 July 2015, Standard and Poor's Rating Services raised the State's general obligation rating to "AA-" from "A+", citing the enactment of the State's 2015-16 budget which marked an improved fiscal sustainability. During the 2015-16 fiscal year, the ratings from Fitch Ratings and Moody's Investors Service remained unchanged at "A+" and "Aa3", respectively.

Economic Condition and Future Budgets

The Economy for the Year Ending June 30, 2016

California, along with the United States as a whole, completed its seventh year of economic recovery as the State ended its fiscal year on June 30, 2016. California's economy demonstrated continued economic growth throughout the 2015-16 fiscal year. California's personal income growth outperformed that of the nation as a whole during the 2015-16 fiscal year, increasing by 5.2% compared with a 3.8% increase nationally. Consequently, consumer spending increased, as demonstrated by a 2.8% increase in California's new vehicle registrations in the 2015-16 fiscal year and a $1.2 billion (5.1%) increase in sales and use tax revenue.

The State's real estate market showed mixed signs of continued strength during the 2015-16 fiscal year. As of June 2016, median prices for existing single family homes were 6.1% higher than June 2015, though sales were essentially flat (down by 0.1%) and the pace of homebuilding had largely leveled off. As of June 2016, the rate of new residential building permits issued increased by 1.7% to nearly 97,000 units compared to the same period a year earlier. Nonresidential construction activity showed more strength relative to the residential sector, with new permit activity increasing 15.9% during the 2015-16 fiscal year to $28.1 billion.

California's labor market continued to add jobs during the 2015-16 fiscal year. Total employment for June 2016 stood at 18.1 million jobs, a gain of more than 300,000 jobs from the same period a year earlier. Mirroring the increase in jobs, the State's unemployment rate fell from 6.2% in June 2015 to 5.4% in June 2016.

Economic Outlook for the 2016-17 Fiscal Year as of December 31, 2016

During the first several months of the 2016-17 fiscal year, California continued to experience job growth. By December 2016, total employment was nearly 18.4 million jobs, reflecting a year-to-year increase of 500,000 jobs compared to December 2015. The unemployment rate largely held steady since June 2016, with only a slight decrease to 5.2% by December 2016.

California's personal income growth continued to outpace the nation during the beginning of the 2016-17 fiscal year, with total personal income for the third quarter of 2016 4.8% above the level observed in the same period in 2015, compared with an increase of 3.6% nationally.

The State's real estate market continued to show mixed results during the beginning of the 2016-17 fiscal year. As of December 2016, median home prices were up by 4.0% over the same period one year earlier, but the number of sales decreased 0.6% from the level observed in December 2015. New residential construction activity also leveled off in the first half of the 2016-17 fiscal year with the number of permits for new residential units coming in just under 100,000 units as of December 2016, an increase of 1.9% from the same period one year earlier. The pace of nonresidential construction showed signs of slowing during the first half of the 2016-17 fiscal year. The annual value of nonresidential permits for the period ending December 2016 had a year-to-year increase of 1.6%.

The State's Department of Finance expects only moderate economic growth during the next two years, although this economic recovery has already lasted longer than many previous recoveries, including the expansion from 2001 to 2007. As the economic recovery matures and unemployment decreases, the pace of job growth is expected to slow and inflation is expected to gradually rise.

California's 2016-17 Budget

California's 2016-17 Budget Act was enacted on June 27, 2016. The Budget Act appropriated $170.9 billion—$122.5 billion from the General Fund, $44.6 billion from special funds, and $3.8 billion from bond funds. The General Fund's budgeted expenditures increased by $6.9 billion, or 6.0% over last year's General Fund budget. When the budget was enacted, the General Fund's revenues were projected to be $120.3 billion after a $3.3 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 67.5% of total revenue. California's major taxes (personal income, sales and use, and corporation taxes) are projected to supply approximately 98.1% of the General Fund's resources in the 2016-17 fiscal year. When the budget was enacted, the General Fund was projected to end the 2016-17 fiscal year with $8.5 billion in total reserves—$6.7 billion in the BSA and $1.8 billion in the Special Fund for Economic Uncertainties (SFEU), resulting in the fifth consecutive year of projected budget surplus in the General Fund.

In January 2017, the proposed 2017-18 Governor's Budget provided revised General Fund revenue, expenditure, and reserve estimates for the 2016-17 fiscal year. The revised estimate projects General Fund revenue of $118.8 billion, expenditures of $122.8 billion, and total year-end reserves of $6.8 billion —$6.7 billion in the BSA and only $47 million in the SFEU, which is $1.7 billion less than projected in June 2016 for the enacted budget. Actual General Fund cash receipts for the first half of the 2016-17 fiscal year have fallen short of the estimates used in preparing the enacted budget, which supports the need for revised estimates. As of January 1, 2017, revenues were $1.7 billion less than forecasted for the first six months of the fiscal year, while disbursements were $2.2 billion more than estimated. As a result, the General Fund's temporary borrowing was $4.0 billion more than projected, leaving a balance as of December 31, 2016, of $17.8 billion in outstanding loans—comprised entirely of internal borrowing from special funds.

The majority of the spending plan for the 2016-17 fiscal year included funding that maintains existing state policies or is based on spending allocations driven by constitutional funding requirements, such as the Proposition 98 guaranteed minimum funding levels for K-12 schools and community colleges and the Proposition 2 required minimum transfers to the BSA and minimum annual debt reduction payments. The discretionary portion of the 2016-17 spending plan allocated $2.6 billion toward additional General Fund reserves—an additional $2.0 billion transfer to the BSA and $600 million to the SFEU; funding for one-time activities, such as $1.5 billion for repairing and replacing aged infrastructure, $500 million for building affordable housing, and $200 million for drought-related activities; and ongoing funding augmentations for specific programs, including $300 million to the University of California and California State Universities. To offset the impact of reduced General Fund revenues in the 2016-17 fiscal year, the administration is proposing to reduce or eliminate some of these discretionary items in the 2016-17 spending plan.

California's 2017-18 Budget

The Governor released his proposed 2017-18 budget on January 10, 2017. The large revenue growth that the State experienced in the past few years is beginning to slow and, if no action is taken, the Governor's Budget projects a budget shortfall (a gap between estimated revenue and expenditures) of $1.6 billion for the 2017-18 fiscal year. The proposed budget includes a variety of solutions to bring the State's budget back into balance for the 2017-18 fiscal year and future years, including a $1.7 billion reduction in the Proposition 98 minimum funding guarantee for K-12 schools and community colleges based on the lower revenue estimates, a $900 million elimination of uncommitted one-time spending included in the prior year budget (2016-17), and a $600 million delay or elimination of proposed spending increases. After addressing the budget shortfall, the 2017-18 Governor's Budget prioritizes the achievements made in recent years—more money for education, an earned income tax credit for working families, raising the minimum wage, extending health care to millions of Californians, paying down long-term liabilities, and continuing to plan and save for the next recession.

The 2017-18 Governor's Budget projects (with all budget solutions enacted) that General Fund revenues and transfers will be $124.0 billion and expenditures will be $122.5 billion, leaving an estimated year-end reserve of $1.5 billion in the General Fund's SFEU. Estimated 2017-18 General Fund revenues and transfers are 4.4% higher than the revised 2016-17 fiscal year projection of $118.8 billion, but are 2.2% less than estimated for the 2017-18 fiscal year in June 2016. The proposed 2017-18 General Fund expenditures are slightly less than the revised 2016-17 fiscal year projected expenditures of $122.8 billion, but are 3.0% less than projected for the 2017-18 fiscal year in June 2016.

In addition to the $1.5 billion reserve in the General Fund's SFEU, the Governor's budget projects that the 2017-18 fiscal year will end with $7.9 billion in the BSA for a total reserve of $9.4 billion. This would be an increase of $1.2 billion in the BSA, the minimum transfer required by Proposition 2, and $1.5 billion in the SFEU over their estimated 2016-17 fiscal year ending balances. In accordance with the requirements of Proposition 2, the budget proposes an equivalent $1.2 billion General Fund allocation for debt reduction that includes partial repayment of special fund loans and pre-Proposition 42 transportation loans; partial settle-up of prior-years' Proposition 98 underfunding; contributions toward unfunded state retiree postemployment health care benefits; and contributions toward unfunded University of California retirement benefits.

The Legislative Analyst's Office (LAO), California's nonpartisan fiscal and policy advisor, believes the Governor's 2017-18 fiscal year revenue estimates are too low, but supports the Governor's decision to build reserves and limit any new commitments to one-time purposes in order to prepare for the next economic downturn. Both the Governor and the LAO acknowledge that the State is facing uncertainties about the future economy and potential changes to federal fiscal policy that could have significant financial impact on the State's budget and financial condition.

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 through 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.

This page intentionally left blank

Basic Financial Statements

This page intentionally left blank

Government-wide Financial Statements

Statement of Net Position

June 30, 2016
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and pooled investments	$ 32,761,989	$ 6,915,588	$ 39,677,577	$ 2,754,318
Amount on deposit with U.S. Treasury	—	11,711	11,711	—
Investments	439,028	2,637,905	3,076,933	6,759,866
Restricted assets:				
Cash and pooled investments	1,358,022	818,524	2,176,546	406,741
Investments	—	—	—	3,190
Due from other governments	—	156,108	156,108	—
Net investment in direct financing leases	53,923	12,356	66,279	—
Receivables (net)	17,166,891	1,984,477	19,151,368	3,986,304
Internal balances	224,839	(224,839)	—	—
Due from primary government	—	—	—	170,203
Due from other governments	19,165,674	216,951	19,382,625	94,307
Prepaid items	189,466	58,072	247,538	1,520
Inventories	77,108	14,668	91,776	214,680
Recoverable power costs (net)	—	72,000	72,000	—
Other current assets	55,644	5,312	60,956	393,270
Total current assets	71,492,584	12,678,833	84,171,417	14,784,399
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	204,388	724,741	929,129	25,588
Investments	—	363,669	363,669	16,058
Loans receivable	—	1,411,250	1,411,250	—
Investments	—	1,757,874	1,757,874	26,905,181
Net investment in direct financing leases	326,402	329,823	656,225	—
Receivables (net)	1,968,037	365,159	2,333,196	2,492,391
Loans receivable	4,458,159	3,045,643	7,503,802	3,240,601
Recoverable power costs (net)	—	3,245,000	3,245,000	—
Long-term prepaid charges	2,383	1,279,465	1,281,848	—
Capital assets:				
Land	19,383,236	244,725	19,627,961	1,316,721
State highway infrastructure	73,462,607	—	73,462,607	—
Collections – nondepreciable	22,627	16,206	38,833	445,038
Buildings and other depreciable property	29,616,279	12,743,444	42,359,723	48,485,473
Intangible assets – amortizable	2,032,279	336,460	2,368,739	921,156
Less: accumulated depreciation/amortization	(13,399,721)	(5,244,397)	(18,644,118)	(23,368,971)
Construction/development in progress	15,316,059	1,639,244	16,955,303	3,091,841
Intangible assets – nonamortizable	426,186	113,531	539,717	5,098
Other noncurrent assets	—	24,194	24,194	230,752
Total noncurrent assets	133,818,921	22,396,031	156,214,952	63,806,927
Total assets	**205,311,505**	**35,074,864**	**240,386,369**	**78,591,326**
DEFERRED OUTFLOWS OF RESOURCES	7,725,585	1,328,282	9,053,867	5,657,571
Total assets and deferred outflows of resources	**$ 213,037,090**	**$ 36,403,146**	**$ 249,440,236**	**$ 84,248,897**

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

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	$ 24,535,430	$ 388,266	$ 24,923,696	$ 2,326,701
Due to component units	170,203	—	170,203	—
Due to other governments	8,433,603	131,762	8,565,365	—
Revenues received in advance	1,531,190	337,229	1,868,419	1,241,723
Tax overpayments	5,294,406	—	5,294,406	—
Deposits	467,642	—	467,642	824,745
Contracts and notes payable	1,595	—	1,595	8,592
Unclaimed property liability	863,807	—	863,807	—
Interest payable	1,172,201	67,011	1,239,212	42,573
Securities lending obligations	—	—	—	866,650
Benefits payable	—	437,574	437,574	—
Current portion of long-term obligations	4,776,639	2,277,631	7,054,270	3,996,704
Other current liabilities	600,365	487,786	1,088,151	1,734,324
Total current liabilities	47,847,081	4,127,259	51,974,340	11,042,012
Noncurrent liabilities:				
Loans payable	—	3,112,178	3,112,178	—
Lottery prizes and annuities	—	708,900	708,900	—
Compensated absences payable	3,777,407	200,898	3,978,305	310,665
Workers' compensation benefits payable	3,527,832	3,282	3,531,114	436,043
Commercial paper and other borrowings	771,215	47,016	818,231	700
Capital lease obligations	344,493	345,567	690,060	496,087
General obligation bonds payable	75,853,643	736,359	76,590,002	—
Revenue bonds payable	16,530,008	12,904,897	29,434,905	20,108,214
Mandated cost claims payable	2,764,469	—	2,764,469	—
Net other postemployment benefits obligation	24,967,059	850,827	25,817,886	10,597,002
Net pension liability	64,294,029	7,462,215	71,756,244	15,352,733
Revenues received in advance	—	14,271	14,271	—
Other noncurrent liabilities	1,995,504	232,124	2,227,628	2,154,140
Total noncurrent liabilities	194,825,659	26,618,534	221,444,193	49,455,584
Total liabilities	**242,672,740**	**30,745,793**	**273,418,533**	**60,497,596**
DEFERRED INFLOWS OF RESOURCES	5,249,323	1,084,851	6,334,174	1,781,557
Total liabilities and deferred inflows of resources	**$ 247,922,063**	**$ 31,830,644**	**$ 279,752,707**	**$ 62,279,153**

(continued)

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

Statement of Net Position (continued)

June 30, 2016
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
NET POSITION				
Net investment in capital assets	$ 104,596,917	$ 2,520,621	$ 107,117,538	$ 13,358,197
Restricted:				
Nonexpendable – endowments	—	8,653	8,653	5,927,327
Expendable:				
Endowments and gifts	—	—	—	9,845,250
General government	3,729,072	279,304	4,008,376	—
Education	808,286	112,239	920,525	1,363,748
Health and human services	4,330,820	159,808	4,490,628	—
Natural resources and environmental protection	4,569,098	1,688,061	6,257,159	—
Business, consumer services, and housing	3,930,803	22,476	3,953,279	—
Transportation	8,271,822	6,728	8,278,550	—
Corrections and rehabilitation	648	—	648	—
Unemployment programs	—	3,482,018	3,482,018	—
Indenture	—	—	—	531,130
Statute	—	—	—	1,339,909
Other purposes	3,420,422	—	3,420,422	28,431
Total expendable	29,060,971	5,750,634	34,811,605	13,108,468
Unrestricted	(168,542,861)	(3,707,406)	(172,250,267)	(10,424,248)
Total net position (deficit)	**(34,884,973)**	**4,572,502**	**(30,312,471)**	**21,969,744**
Total liabilities, deferred inflows of resources, and net position	**$ 213,037,090**	**$ 36,403,146**	**$ 249,440,236**	**$ 84,248,897**

(concluded)

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

This page intentionally left blank

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

Statement of Activities

Year Ended June 30, 2016
(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	$ 16,686,037	$ 6,525,736	$ 1,007,189	$ —	$ (9,153,112)		$ (9,153,112)	
Education	65,467,497	66,298	6,888,076	—	(58,513,123)		(58,513,123)	
Health and human services	127,543,288	10,630,859	74,290,799	—	(42,621,630)		(42,621,630)	
Natural resources and environmental protection	6,988,442	4,823,861	472,533	—	(1,692,048)		(1,692,048)	
Business, consumer services, and housing	814,676	823,189	68,197	—	76,710		76,710	
Transportation	12,120,820	4,532,300	3,866,244	1,480,351	(2,241,925)		(2,241,925)	
Corrections and rehabilitation	11,875,294	19,411	35,789	—	(11,820,094)		(11,820,094)	
Interest on long-term debt	4,231,581	—	—	—	(4,231,581)		(4,231,581)	
Total governmental activities	245,727,635	27,421,654	86,628,827	1,480,351	(130,196,803)		(130,196,803)	
Business-type activities:								
Electric Power	728,000	728,000	—	—		$ —	—	
Water Resources	1,086,650	1,086,650	—	—		—	—	
State Lottery	6,315,957	6,367,902	—	—		51,945	51,945	
Unemployment Programs	11,458,966	13,866,028	—	—		2,407,062	2,407,062	
California State University	7,199,277	3,172,154	1,764,962	—		(2,262,161)	(2,262,161)	
State Water Pollution Control Revolving	11,814	70,245	—	66,914		125,345	125,345	
Housing Loan	55,627	53,617	—	—		(2,010)	(2,010)	
Other enterprise programs	84,188	82,029	—	—		(2,159)	(2,159)	
Total business-type activities	26,940,479	25,426,625	1,764,962	66,914		318,022	318,022	
Total primary government	**$ 272,668,114**	**$ 52,848,279**	**$ 88,393,789**	**$ 1,547,265**	**$ (130,196,803)**	**$ 318,022**	**$ (129,878,781)**	
Component Units								
University of California	34,098,910	20,030,835	9,020,465	248,705				$ (4,798,905)
California Housing Finance Agency	204,542	37,896	—	—				(166,646)
Nonmajor component units	2,033,126	1,039,572	640,574	29,230				(323,750)
Total component units	**$ 36,336,578**	**$ 21,108,303**	**$ 9,661,039**	**$ 277,935**				**$ (5,289,301)**
General revenues:								
Personal income taxes					$ 80,303,076	$ —	$ 80,303,076	$ —
Sales and use taxes					39,121,061	—	39,121,061	—
Corporation taxes					9,213,173	—	9,213,173	—
Motor vehicle excise tax					5,028,589	—	5,028,589	—
Insurance taxes					4,203,885	—	4,203,885	—
Other taxes					2,158,874	—	2,158,874	—
Investment and interest income (loss)					131,615	—	131,615	(63,506)
Escheat					304,960	—	304,960	—
Other					—	—	—	3,277,793
Gain on early extinguishment of debt					40,516	—	40,516	—
Transfers					(2,800,101)	2,800,101	—	—
Total general revenues and transfers					**137,705,648**	**2,800,101**	**140,505,749**	**3,214,287**
Change in net position					7,508,845	3,118,123	10,626,968	(2,075,014)
Net position (deficit) – beginning					(42,393,818) *	1,454,379	**(40,939,439)**	**24,044,758** *
Net position (deficit) – ending					**$ (34,884,973)**	**$ 4,572,502**	**$ (30,312,471)**	**$ 21,969,744**

* Restated

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.

This page intentionally left blank

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

Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2016
(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
ASSETS						
Cash and pooled investments	$ 5,232,634	$ 332,432	$ 5,502,453	$ 8,110,249	$ 12,328,681	$ 31,506,449
Investments	—	—	—	—	439,028	439,028
Receivables (net)	13,814,675	14,950	948,967	509,734	3,691,001	18,979,327
Due from other funds	1,470,536	—	961,034	362,169	1,140,413	3,934,152
Due from other governments	286,667	17,897,348	5,598	53,425	909,805	19,152,843
Interfund receivables	69,034	—	2,424,616	454,800	801,246	3,749,696
Loans receivable	43,283	240,613	—	1,424,076	2,750,187	4,458,159
Other assets	13,762	—	30,722	—	11,160	55,644
Total assets	**$ 20,930,591**	**$ 18,485,343**	**$ 9,873,390**	**$ 10,914,453**	**$ 22,071,521**	**$ 82,275,298**
LIABILITIES						
Accounts payable	$ 1,821,395	$ 1,193,869	$ 362,920	$ 476,704	$ 847,986	$ 4,702,874
Due to other funds	3,823,174	14,696,218	136,424	42,173	4,419,317	23,117,306
Due to component units	137,882	—	—	—	32,321	170,203
Due to other governments	2,005,713	2,270,505	241,914	54,264	4,196,870	8,769,266
Interfund payables	3,983,168	—	10,864	14,790	23,975	4,032,797
Revenues received in advance	726,648	47,207	20,023	149,491	113,179	1,056,548
Tax overpayments	5,294,406	—	—	—	—	5,294,406
Deposits	1,848	—	2,640	915	461,092	466,495
Interest payable	—	846	—	—	—	846
Unclaimed property liability	863,807	—	—	—	—	863,807
Other liabilities	340,648	15,879	457,772	12,865	145,725	972,889
Total liabilities	**18,998,689**	**18,224,524**	**1,232,557**	**751,202**	**10,240,465**	**49,447,437**
DEFERRED INFLOWS OF RESOURCES	1,570,174	12,985	101,916	36,157	182,484	1,903,716
Total liabilities and deferred inflows of resources	**20,568,863**	**18,237,509**	**1,334,473**	**787,359**	**10,422,949**	**51,351,153**
FUND BALANCES						
Nonspendable	75,939	—	—	—	11,188	87,127
Restricted	4,044,911	247,834	8,487,110	6,140,880	10,009,342	28,930,077
Committed	68,102	—	51,807	3,987,251	1,613,420	5,720,580
Assigned	—	—	—	—	14,622	14,622
Unassigned	(3,827,224)	—	—	(1,037)	—	(3,828,261)
Total fund balances	**361,728**	**247,834**	**8,538,917**	**10,127,094**	**11,648,572**	**30,924,145**
Total liabilites, deferred inflows of resources, and fund balances	**$ 20,930,591**	**$ 18,485,343**	**$ 9,873,390**	**$ 10,914,453**	**$ 22,071,521**	**$ 82,275,298**

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

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

(amounts in thousands)

Total fund balances – governmental funds		**$ 30,924,145**
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	19,381,154	
State highway infrastructure	73,462,607	
Collections – nondepreciable	22,627	
Buildings and other depreciable property	29,012,566	
Intangible assets – amortizable	1,966,630	
Less: accumulated depreciation/amortization	(12,915,431)	
Construction/development in progress	14,199,912	
Intangible assets – nonamortizable	426,186	
		125,556,251
• State revenues that are earned and measurable, but not available within 12 months of the end of the reporting period, are reported as deferred inflows of resources in the funds.		1,903,716
• Internal service funds are used by management to charge the costs of certain activities, such as building construction and architectural, 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.		(7,798,090)
• 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.		(4,381,983)
• Deferred inflows and outflows of resources related to pension transactions are not reported in the funds.		1,810,250
• 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.		563,989
• General obligation bonds and related accrued interest totaling $75,977,987, revenue bonds totaling $6,936,807, and commercial paper totaling $771,215 are not due and payable in the current period and are not reported in the funds.		(83,686,009)
• The following liabilities are not due and payable in the current period and are not reported in the funds:		
Compensated absences	(3,622,022)	
Capital leases	(370,182)	
Net pension liability	(63,131,928)	
Net other postemployment benefits obligation	(24,370,278)	
Mandated cost claims	(2,764,469)	
Workers' compensation	(3,485,636)	
Proposition 98 funding guarantee	(996,740)	
Pollution remediation obligations	(1,021,854)	
Other noncurrent liabilities	(14,133)	
		(99,777,242)
Net position of governmental activities		**$ (34,884,973)**

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

This page intentionally left blank

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2016
(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
REVENUES						
Personal income taxes	$ 78,510,777	$ —	$ —	$ —	$ 1,423,508	$ 79,934,285
Sales and use taxes	24,837,111	—	464,607	—	13,834,322	39,136,040
Corporation taxes	9,214,173	—	—	—	—	9,214,173
Motor vehicle excise taxes	113,000	—	4,788,282	26,649	100,658	5,028,589
Insurance taxes	2,569,104	—	—	—	1,634,781	4,203,885
Other taxes	599,375	—	—	152,988	1,433,327	2,185,690
Intergovernmental	—	88,096,152	—	—	2,973,601	91,069,753
Licenses and permits	6,929	—	4,329,468	405,514	2,870,640	7,612,551
Charges for services	329,038	—	140,302	131,846	268,956	870,142
Fees	288,858	—	20,458	2,487,994	7,985,780	10,783,090
Penalties	273,936	40	42,611	63,004	720,018	1,099,609
Investment and interest	42,819	—	58,722	56,683	74,061	232,285
Escheat	304,945	—	2	—	447	305,394
Other	483,357	—	123,745	2,185,530	1,257,157	4,049,789
Total revenues	**117,573,422**	**88,096,192**	**9,968,197**	**5,510,208**	**34,577,256**	**255,725,275**
EXPENDITURES						
Current:						
General government	4,577,584	979,580	262,408	55,202	10,841,118	16,715,892
Education	57,456,958	6,875,091	1,935	2,567	876,991	65,213,542
Health and human services	31,685,307	73,788,372	2,806	50,595	21,674,234	127,201,314
Natural resources and environmental protection	1,696,631	287,972	164,628	3,908,418	220,714	6,278,363
Business, consumer services, and housing	27,544	65,254	97,265	72,604	867,546	1,130,213
Transportation	—	5,335,202	9,399,244	70,979	9,404	14,814,829
Corrections and rehabilitation	9,935,849	35,789	—	—	1,479,342	11,450,980
Capital outlay	1,148,774	—	—	237,238	106,430	1,492,442
Debt service:						
Bond and commercial paper retirement	2,434,028	8,970	997,241	516,397	2,973,230	6,929,866
Interest and fiscal charges	2,841,773	2,423	6,704	20,772	1,186,235	4,057,907
Total expenditures	**111,804,448**	**87,378,653**	**10,932,231**	**4,934,772**	**40,235,244**	**255,285,348**
Excess (deficiency) of revenues over (under) expenditures	5,768,974	717,539	(964,034)	575,436	(5,657,988)	439,927
OTHER FINANCING SOURCES (USES)						
General obligation bonds and commercial paper issued	—	—	2,051,115	846,870	1,176,995	4,074,980
Refunding debt issued	—	—	331,870	766,015	4,122,435	5,220,320
Payment to refund long-term debt	—	—	(2,790)	(823,890)	(3,551,648)	(4,378,328)
Premium on bonds issued	113,106	—	157,554	166,973	600,287	1,037,920
Capital leases	1,148,774	—	—	—	—	1,148,774
Transfers in	626,175	—	10,021	235,941	3,512,986	4,385,123
Transfers out	(5,066,669)	(687,585)	(1,261,882)	(14,098)	(99,908)	(7,130,142)
Total other financing sources (uses)	**(3,178,614)**	**(687,585)**	**1,285,888**	**1,177,811**	**5,761,147**	**4,358,647**
Net change in fund balances	2,590,360	29,954	321,854	1,753,247	103,159	4,798,574
Fund balances (deficit) – beginning	**(2,228,632)**	**217,880**	**8,217,063**	**8,373,847**	**11,545,413 ***	**26,125,571**
Fund balances – ending	**$ 361,728**	**$ 247,834**	**$ 8,538,917**	**$ 10,127,094**	**$ 11,648,572**	**$ 30,924,145**

* Restated

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.

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		**$ 4,798,574**

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	7,550,591	
Disposal of assets	(3,899,467)	
Depreciation expense, net of asset disposal	(760,016)	
		2,891,108

- Some revenues in the Statement of Activities do not provide current financial resources and, therefore, are unavailable in governmental funds. — 234,735

- Internal service funds are used by management to charge the costs of certain activities, such as building construction and architectural services, procurement, and technology, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. — (65,414)

- 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	Certificates of Participation and Commercial Paper	Total	
Debt issued	(7,316,280)	(162,500)	(1,816,520)	(9,295,300)	
Premium on debt issued	(1,017,928)	(19,992)	—	(1,037,920)	
Accreted interest	—	(45,346)	—	(45,346)	
Principal repayments	5,302,930	87,831	1,539,105	6,929,866	
Payments to refund long-term debt	4,172,348	205,980	—	4,378,328	
Related expenses not reported in governmental funds:					
Premium/discount amortization	362,554	20,507	(30)	383,031	
Deferred gain/loss on refunding	(33,143)	(16,028)	(46)	(49,217)	
Prepaid insurance	—	(619)	—	(619)	
Accrued interest	(6,251)	1,132	—	(5,119)	
	1,464,230	70,965	(277,491)		1,257,704

(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	(94,077)	
Capital leases	(95,422)	
Net pension liability	1,598,122	
Net other postemployment benefits obligation	(3,294,378)	
Mandated cost claims	23,170	
Workers' compensation	(84,046)	
Proposition 98 funding guarantee	259,729	
Pollution remediation obligations	75,782	
Other noncurrent liabilities	3,258	
		(1,607,862)
Change in net position of governmental activities		**$ 7,508,845**

(concluded)

Statement of Net Position

Proprietary Funds

June 30, 2016
(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	$ —	$ 550,968	$ 741,273	$ 3,979,688	$ 634,165	$ 1,009,494	$ 6,915,588	$ 1,255,540
Amount on deposit with U.S. Treasury	—	—	—	11,711	—	—	11,711	—
Investments	—	—	88,393	—	2,549,512	—	2,637,905	—
Restricted assets:								
Cash and pooled investments	581,000	—	—	—	—	237,524	818,524	1,358,022
Due from other governments	—	—	—	—	—	156,108	156,108	—
Net investment in direct financing leases	—	—	—	—	12,356	—	12,356	453,875
Receivables (net)	—	119,701	461,786	1,211,282	158,103	33,605	1,984,477	91,280
Due from other funds	4,000	1,265	1,394	7,667	823	1,578	16,727	515,148
Due from other governments	—	38,596	—	36,730	—	141,625	216,951	12,831
Prepaid items	—	—	—	5,223	52,849	—	58,072	189,466
Inventories	—	5,171	7,066	—	—	2,431	14,668	77,108
Recoverable power costs (net)	72,000	—	—	—	—	—	72,000	—
Other current assets	—	—	5,312	—	—	—	5,312	—
Total current assets	657,000	715,701	1,305,224	5,252,301	3,407,808	1,582,365	12,920,399	3,953,270
Noncurrent assets:								
Restricted assets:								
Cash and pooled investments	609,000	115,661	—	—	80	—	724,741	204,388
Investments	302,000	61,669	—	—	—	—	363,669	—
Loans receivable	—	—	—	—	—	1,411,250	1,411,250	—
Investments	—	—	840,662	—	900,055	17,157	1,757,874	—
Net investment in direct financing leases	—	—	—	—	329,823	—	329,823	7,267,038
Receivables (net)	—	—	—	76,086	289,073	—	365,159	—
Interfund receivables	—	92,011	—	308,233	—	1,600	401,844	25,363
Loans receivable	—	12,968	—	—	81,246	2,951,429	3,045,643	—
Recoverable power costs (net)	3,245,000	—	—	—	—	—	3,245,000	—
Long-term prepaid charges	—	1,270,731	8,734	—	—	—	1,279,465	1,373
Capital assets:								
Land	—	147,681	11,577	—	84,195	1,272	244,725	2,082
Collections – nondepreciable	—	—	—	—	16,206	—	16,206	—
Buildings and other depreciable property	—	4,717,570	235,507	23,307	7,748,225	18,835	12,743,444	603,713
Intangible assets – amortizable	—	36,994	—	166,966	130,913	1,587	336,460	65,649
Less: accumulated depreciation/amortization	—	(2,084,676)	(83,168)	(31,541)	(3,027,327)	(17,685)	(5,244,397)	(484,290)
Construction/development in progress	—	769,871	—	86,302	782,857	214	1,639,244	1,116,147
Intangible assets – nonamortizable	—	111,883	—	—	1,648	—	113,531	—
Other noncurrent assets	—	—	—	—	17,798	6,396	24,194	—
Total noncurrent assets	4,156,000	5,252,363	1,013,312	629,353	7,354,792	4,392,055	22,797,875	8,801,463
Total assets	**4,813,000**	**5,968,064**	**2,318,536**	**5,881,654**	**10,762,600**	**5,974,420**	**35,718,274**	**12,754,733**
DEFERRED OUTFLOWS OF RESOURCES	118,000	230,231	20,125	29,029	922,449	8,448	1,328,282	191,843
Total assets and deferred outflows of resources	**$ 4,931,000**	**$ 6,198,295**	**$ 2,338,661**	**$ 5,910,683**	**$ 11,685,049**	**$ 5,982,868**	**$ 37,046,556**	**$ 12,946,576**

(continued)

Statement of Net Position (continued)

Proprietary Funds

June 30, 2016
(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	$ 115,898	$ 42,190	$ 2,769	$ 223,033	$ 2,368	$ 388,258	$ 431,786
Due to other funds	—	39,370	384,733	217,160	—	2,155	643,418	106,081
Due to other governments	—	94,551	—	37,207	—	4	131,762	60,018
Revenues received in advance	—	—	2,859	44,569	289,763	38	337,229	474,642
Deposits	—	—	—	—	—	—	—	1,147
Contracts and notes payable	—	—	—	—	—	—	—	8,779
Interest payable	37,000	11,229	—	—	—	18,782	67,011	109,738
Benefits payable	—	—	—	437,574	—	—	437,574	—
Current portion of long-term obligations	756,000	199,665	976,209	—	301,653	44,104	2,277,631	547,641
Other current liabilities	—	—	214	38,288	449,270	14	487,786	38,691
Total current liabilities	795,000	460,713	1,406,205	777,567	1,263,719	67,465	4,770,669	1,778,523
Noncurrent liabilities:								
Interfund payables	—	—	—	—	—	—	—	144,106
Loans payable	—	—	—	3,112,178	—	—	3,112,178	—
Lottery prizes and annuities	—	—	708,900	—	—	—	708,900	—
Compensated absences payable	405	25,888	—	54,426	109,575	10,604	200,898	160,434
Workers' compensation benefits payable	—	—	2,260	—	—	1,022	3,282	42,196
Commercial paper and other borrowings	—	42,776	—	—	4,240	—	47,016	—
Capital lease obligations	—	—	—	—	345,567	—	345,567	—
General obligation bonds payable	—	88,300	—	—	—	648,059	736,359	—
Revenue bonds payable	4,124,000	2,636,703	—	—	5,340,583	803,611	12,904,897	9,473,620
Net other postemployment benefits obligation	6,595	230,198	58,564	173,273	368,803	13,394	850,827	596,781
Net pension liability	5,000	485,502	104,521	252,559	6,578,194	36,439	7,462,215	1,162,101
Revenues received in advance	—	—	—	—	14,271	—	14,271	—
Other noncurrent liabilities	—	89,684	—	—	93,619	48,821	232,124	20,818
Total noncurrent liabilities	4,136,000	3,599,051	874,245	3,592,436	12,854,852	1,561,950	26,618,534	11,600,056
Total liabilities	**4,931,000**	**4,059,764**	**2,280,450**	**4,370,003**	**14,118,571**	**1,629,415**	**31,389,203**	**13,378,579**
DEFERRED INFLOWS OF RESOURCES	—	933,103	2,248	5,505	143,167	828	1,084,851	25,499
Total liabilities and deferred inflows of resources	**4,931,000**	**4,992,867**	**2,282,698**	**4,375,508**	**14,261,738**	**1,630,243**	**32,474,054**	**13,404,078**
NET POSITION								
Net investment in capital assets	—	1,155,487	163,916	245,034	951,956	4,228	2,520,621	383,387
Restricted:								
Nonexpendable – endowments	—	—	—	—	8,653	—	8,653	—
Expendable:								
Construction	—	—	—	—	19,752	—	19,752	130,894
Debt service	—	49,941	—	—	46,769	66,876	163,586	—
Security for revenue bonds	—	—	—	—	—	1,567,358	1,567,358	—
Lottery	—	—	146,174	—	—	—	146,174	—
Unemployment programs	—	—	—	3,482,018	—	—	3,482,018	—
Other purposes	—	—	—	—	45,718	326,028	371,746	—
Total expendable	—	49,941	146,174	3,482,018	112,239	1,960,262	5,750,634	130,894
Unrestricted	—	—	(254,127)	(2,191,877)	(3,649,537)	2,388,135	(3,707,406)	(971,783)
Total net position (deficit)	**—**	**1,205,428**	**55,963**	**1,535,175**	**(2,576,689)**	**4,352,625**	**4,572,502**	**(457,502)**
Total liabilities, deferred inflows of resources, and net position	**$ 4,931,000**	**$ 6,198,295**	**$ 2,338,661**	**$ 5,910,683**	**$ 11,685,049**	**$ 5,982,868**	**$ 37,046,556**	**$ 12,946,576**

(concluded)

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, 2016
(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	$ —	$ —	$ —	$ 13,847,329	$ —	$ —	$ 13,847,329	$ —
Lottery ticket sales	—	—	6,275,597	—	—	—	6,275,597	—
Power sales	(182,000)	71,236	—	—	—	—	(110,764)	—
Student tuition and fees	—	—	—	—	2,204,941	—	2,204,941	—
Services and sales	—	1,015,414	—	—	533,959	93,817	1,643,190	2,896,039
Investment and interest	—	—	—	—	—	107,204	107,204	9,258
Rent	—	—	—	—	—	209	209	404,816
Grants and contracts	—	—	—	—	73,161	—	73,161	—
Other	—	—	—	—	200,497	2,306	202,803	—
Total operating revenues	**(182,000)**	**1,086,650**	**6,275,597**	**13,847,329**	**3,012,558**	**203,536**	**24,243,670**	**3,310,113**
OPERATING EXPENSES								
Lottery prizes	—	—	3,955,791	—	—	—	3,955,791	—
Power purchases (net of recoverable power costs)	(191,000)	219,661	—	—	—	—	28,661	—
Personal services	—	363,980	79,415	177,623	4,578,876	44,307	5,244,201	875,130
Supplies	—	—	19,807	—	1,212,500	35,672	1,267,979	10,222
Services and charges	9,000	147,946	647,386	125,129	—	33,516	962,977	1,964,227
Depreciation	—	77,170	13,529	7,144	302,916	284	401,043	50,858
Scholarships and fellowships	—	—	—	—	881,578	—	881,578	—
Distributions to beneficiaries	—	—	—	11,149,036	—	—	11,149,036	—
Interest expense	—	—	—	—	—	33,428	33,428	453,052
Amortization of long-term prepaid charges	—	—	—	—	—	—	—	3,608
Other	—	65,004	—	34	—	321	65,359	—
Total operating expenses	**(182,000)**	**873,761**	**4,715,928**	**11,458,966**	**6,975,870**	**147,528**	**23,990,053**	**3,357,097**
Operating income (loss)	—	212,889	1,559,669	2,388,363	(3,963,312)	56,008	253,617	(46,984)
NONOPERATING REVENUES (EXPENSES)								
Donations and grants	—	—	—	—	1,764,962	—	1,764,962	—
Private gifts	—	—	—	—	68,010	—	68,010	—
Investment and interest income	910,000	—	92,112	18,699	65,962	2,166	1,088,939	858
Interest expense and fiscal charges	(910,000)	(106,978)	(36,879)	—	(223,407)	(2,199)	(1,279,463)	(18)
Lottery payments for education	—	—	(1,563,150)	—	—	—	(1,563,150)	—
Other	—	(105,911)	193	—	25,624	(1,713)	(81,807)	(5,079)
Total nonoperating revenues (expenses)	**—**	**(212,889)**	**(1,507,724)**	**18,699**	**1,701,151**	**(1,746)**	**(2,509)**	**(4,239)**
Income (loss) before capital contributions and transfers	—	—	51,945	2,407,062	(2,262,161)	54,262	251,108	(51,223)
Capital contributions	—	—	—	—	—	66,914	66,914	375
Gain on early extinguishment of debt	—	—	—	—	—	—	—	40,516
Transfers in	—	—	—	—	2,800,101	—	2,800,101	1,459
Transfers out	—	—	—	—	—	—	—	(56,541)
Change in net position	—	—	51,945	2,407,062	537,940	121,176	3,118,123	(65,414)
Total net position (deficit) – beginning	**—**	**1,205,428**	**4,018**	**(871,887)**	**(3,114,629)**	**4,231,449**	**1,454,379**	**(392,088)** *
Total net position (deficit) – ending	**$ —**	**$ 1,205,428**	**$ 55,963**	**$ 1,535,175**	**$ (2,576,689)**	**$ 4,352,625**	**$ 4,572,502**	**$ (457,502)**

*Restated

 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 Cash Flows

Proprietary Funds

Year Ended June 30, 2016
(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	$ (174,000)	$ 1,129,333	$ 6,345,402	$ 13,984,128	$ 2,737,067	$ 334,284	$ 24,356,214	$ 31,610
Receipts from interfund services provided	—	—	—	—	—	2,507	2,507	3,745,711
Payments to suppliers	(7,000)	(319,699)	(248,079)	(125,129)	(1,395,267)	(66,664)	(2,161,838)	(1,513,796)
Payments to employees	(6,000)	(374,380)	(59,405)	(134,462)	(4,568,576)	(31,048)	(5,173,871)	(707,951)
Payments for interfund services used	—	—	(21,819)	(8,411)	—	(737)	(30,967)	—
Payments for Lottery prizes	—	—	(3,898,471)	—	—	—	(3,898,471)	—
Claims paid to other than employees	—	—	(432,981)	(11,185,872)	—	—	(11,618,853)	(440,607)
Other receipts (payments)	—	5,741	272,700	130,608	(694,304)	(371,811)	(657,066)	(520,901)
Net cash provided by (used in) operating activities	**(187,000)**	**440,995**	**1,957,347**	**2,660,862**	**(3,921,080)**	**(133,469)**	**817,655**	**594,066**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Changes in interfund receivables and loans receivable	—	1,094	—	—	12,800	—	13,894	(11,408)
Changes in interfund payables and loans payable	—	—	—	(2,255,018)	(4,001)	—	(2,259,019)	4,461
Receipt of bond charges	914,000	—	—	—	—	—	914,000	—
Proceeds from general obligation bonds	—	—	—	—	—	547,565	547,565	—
Retirement of general obligation bonds	—	—	—	—	—	(354,415)	(354,415)	—
Proceeds from revenue bonds	—	—	—	—	137,022	501,961	638,983	—
Retirement of revenue bonds	(669,000)	—	—	—	(184,431)	(77,085)	(930,516)	—
Interest received	—	—	—	—	28,671	—	28,671	—
Interest paid	(253,000)	—	—	—	(26,991)	(2,608)	(282,599)	(18)
Transfers in	—	—	—	—	2,800,101	—	2,800,101	1,459
Transfers out	—	—	—	—	—	—	—	(56,541)
Grants received	—	—	—	—	1,865,328	67,889	1,933,217	—
Lottery payments for education	—	—	(1,562,889)	—	—	—	(1,562,889)	
Net cash provided by (used in) noncapital financing activities	**(8,000)**	**1,094**	**(1,562,889)**	**(2,255,018)**	**4,628,499**	**683,307**	**1,486,993**	**(62,047)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Acquisition of capital assets	—	(243,811)	(47,873)	(1,206)	(597,600)	(516)	(891,006)	(1,327,912)
Proceeds from sale of capital assets	—	—	190	34	3,276	—	3,500	11,367
Proceeds from notes payable and commercial paper	—	180,375	—	—	—	—	180,375	—
Principal paid on notes payable and commercial paper	—	(225,500)	—	—	—	—	(225,500)	—
Proceeds from capital leases	—	—	—	—	1,065	—	1,065	—
Payment on capital leases	—	—	—	—	(423,225)	—	(423,225)	—
Retirement of general obligation bonds	—	(49,915)	—	—	—	—	(49,915)	—
Proceeds from revenue bonds	—	215,805	—	—	1,800,445	—	2,016,250	958,237
Retirement of revenue bonds	—	(171,455)	—	—	(1,040,256)	—	(1,211,711)	(1,243,020)
Interest paid	—	(91,841)	—	—	—	—	(91,841)	—
Grants received	—	—	—	—	35,869	—	35,869	—
Net cash provided by (used in) capital and related financing activities	**—**	**(386,342)**	**(47,683)**	**(1,172)**	**(220,426)**	**(516)**	**(656,139)**	**(1,601,328)**
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchase of investments	—	(110,585)	(11,200)	—	(9,522,788)	(1,100)	(9,645,673)	—
Proceeds from maturity and sale of investments	—	100,870	92,557	(68)	9,287,576	1,912	9,482,847	—
Earnings on investments	22,000	27,667	20,661	18,699	38,931	1,608	129,566	858
Net cash provided by (used in) investing activities	**22,000**	**17,952**	**102,018**	**18,631**	**(196,281)**	**2,420**	**(33,260)**	**858**
Net increase (decrease) in cash and pooled investments	(173,000)	73,699	448,793	423,303	290,712	551,742	1,615,249	(1,068,451)
Cash and pooled investments – beginning	**1,363,000**	**592,930**	**292,480**	**3,556,385**	**343,533**	**695,276**	**6,843,604**	**3,886,401**
Cash and pooled investments – ending	**$ 1,190,000**	**$ 666,629**	**$ 741,273**	**$ 3,979,688**	**$ 634,245**	**$ 1,247,018**	**$ 8,458,853**	**$ 2,817,950**

(continued)

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 Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2016
(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)	$ —	$ 212,889	$ 1,559,669	$ 2,388,363	$ (3,963,312)	$ 56,008	$ 253,617	$ (46,984)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation	—	77,170	13,529	7,144	302,916	284	401,043	50,858
Provisions and allowances	—	—	9,041	—	—	(2,161)	6,880	—
Amortization of premiums and discounts	—	—	—	—	—	1,136	1,136	(76,985)
Amortization of long-term prepaid charges and credits	—	116,809	—	—	—	—	116,809	553
Other	—	5,741	17	—	(99,155)	(13,708)	(107,105)	10,173
Change in account balances:								
Receivables	—	(39,766)	39,417	118,028	(948)	(1,589)	115,142	(69,933)
Due from other funds	—	—	—	(23,226)	823	(301)	(22,704)	57,264
Due from other governments	—	(1,189)	—	2,856	—	(3,962)	(2,295)	688
Prepaid items	—	—	3,646	—	(7,694)	(383)	(4,431)	(73,648)
Inventories	—	(12)	2,876	—	—	853	3,717	1,581
Net investment in direct financing leases	—	—	—	—	—	—	—	477,029
Recoverable power costs (net)	(184,000)	—	—	—	—	—	(184,000)	—
Other current assets	—	—	66	—	—	(1,285)	(1,219)	—
Loans receivable	—	—	—	—	—	(167,012)	(167,012)	—
Deferred outflow of resources	(3,000)	—	—	(4,652)	(208,337)	(6,547)	(222,536)	(51,451)
Accounts payable	—	77,797	(9,296)	—	18,764	(1,689)	85,576	83,721
Due to other funds	—	(5,695)	(10,608)	155,291	—	109	139,097	(111,348)
Due to component units	—	—	—	—	—	—	—	(132)
Due to other governments	—	7,651	—	(856)	—	(33)	6,762	163
Deposits	—	—	—	—	—	—	—	462
Contracts and notes payable	—	—	—	—	—	—	—	(5,207)
Interest payable	—	—	—	—	—	2,622	2,622	(12,981)
Revenues received in advance	—	—	(63)	18,771	6,729	1	25,438	125,266
Other current liabilities	—	—	(613)	(11,834)	2,165	337	(9,945)	8,545
Benefits payable	—	—	—	(36,836)	27,315	590	(8,931)	12,207
Lottery prizes and annuities	—	—	329,961	—	—	—	329,961	—
Compensated absences payable	—	—	—	8,368	12,181	1,993	22,542	(124)
Other noncurrent liabilities	—	(10,400)	19,705	73,815	(956,104)	3,287	(869,697)	361,347
Deferred inflow of resources	—	—	—	(34,370)	943,577	(2,019)	907,188	(146,998)
Total adjustments	(187,000)	228,106	397,678	272,499	42,232	(189,477)	564,038	641,050
Net cash provided by (used in) operating activities	**$ (187,000)**	**$ 440,995**	**$ 1,957,347**	**$ 2,660,862**	**$ (3,921,080)**	**$ (133,469)**	**$ 817,655**	**$ 594,066**
Noncash investing, capital, and financing activities:								
Issuance of long-term debt to terminate SPWB capitalized lease obligations	$ —	$ —	$ —	$ —	$ 831,538	$ —	$ 831,538	$ —
Termination of SPWB capitalized lease obligations	—	—	—	—	800,559	—	800,559	—
Reclassification of long-term debt to capitalized lease obligation	—	—	—	—	57,672	—	57,672	—
Amortization of bond premium and discount	82,000	19,637	—	—	22,766	—	124,403	—
Unrealized gain on investments	2,000	—	54,508	—	—	—	56,508	—
Contributed capital assets	—	—	—	—	37,240	—	37,240	—
Change in accrued capital asset purchases	—	—	—	—	9,191	—	9,191	—
Interest accreted on annuitized prizes	—	—	36,879	—	—	—	36,879	—
Unclaimed lottery prizes directly allocated to another entity	—	—	24,267	—	—	—	24,267	—
Amortization of deferred loss on refundings	28,000	10,902	—	—	4,746	—	43,648	—
Interest accreted on zero coupon bonds	—	—	16,226	—	—	—	16,226	—
Other miscellaneous noncash transactions	—	—	—	—	9,445	6,619	16,064	—

(concluded)

Statement of Fiduciary Net Position

Fiduciary Funds and Similar Component Units

June 30, 2016
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment	Agency
ASSETS				
Cash and pooled investments	$ 103,974	$ 3,231,528	$ 22,742,368	$ 5,815,718
Investments, at fair value:				
Short-term	—	28,785,152	—	—
Equity securities	3,323,022	252,240,485	—	—
Debt securities	2,227,087	119,382,887	—	—
Real estate	235,924	57,958,450	—	—
Securities lending collateral	—	30,343,896	—	—
Other	962,251	51,753,835	—	—
Total investments	6,748,284	540,464,705	—	—
Receivables (net)	11,956	19,873,271	—	3,830,029
Due from other funds	11,036	627,475	—	18,762,267
Due from other governments	—	7,007	—	34,906
Loans receivable	—	2,134,015	—	7,935
Other assets	176,181	932,631	—	70
Total assets	**7,051,431**	**567,270,632**	**22,742,368**	**$ 28,450,925**
DEFERRED OUTFLOWS OF RESOURCES	—	22,879	—	
Total assets and deferred outflows of resources	**7,051,431**	**567,293,511**	**22,742,368**	
LIABILITIES				
Accounts payable	46,165	1,497,840	—	$ 17,117,963
Due to other governments	—	615	30,210	8,182,636
Tax overpayments	—	—	—	646
Benefits payable	—	2,926,977	—	—
Revenues received in advance	—	—	—	680
Deposits	176,181	—	—	1,279,229
Securities lending obligations	—	30,299,546	—	—
Loans payable	—	2,129,694	—	—
Other liabilities	5,581	22,788,082	—	1,869,771
Total liabilities	**227,927**	**59,642,754**	**30,210**	**$ 28,450,925**
DEFERRED INFLOWS OF RESOURCES	—	15,723	—	
Total liabilities and deferred inflows of resources	**227,927**	**59,658,477**	**30,210**	
NET POSITION				
Held in trust for:				
Pension and other postemployment benefits	—	489,273,640	—	
Deferred compensation participants	—	13,227,692	—	
Pool participants	—	—	22,712,158	
Individuals, organizations, or other governments	6,823,504	5,133,702	—	
Total net position	**$ 6,823,504**	**$ 507,635,034**	**$ 22,712,158**	

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, 2016
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment
ADDITIONS			
Contributions:			
Employer	$ —	$ 16,353,889	$ —
Plan member	—	8,455,029	—
Non-employer	—	1,939,902	—
Total contributions	—	26,748,820	—
Investment income:			
Net appreciation (depreciation) in fair value of investments	(191,108)	(1,901,217)	—
Interest, dividends, and other investment income	288,592	6,451,755	90,709
Less: investment expense	(3,933)	(1,198,350)	—
Net investment income	93,551	3,352,188	90,709
Receipts from depositors	3,483,700	—	23,802,929
Other	—	82,590	—
Total additions	**3,577,251**	**30,183,598**	**23,893,638**
DEDUCTIONS			
Distributions paid and payable to participants	—	34,714,503	89,147
Refunds of contributions	—	328,665	—
Administrative expense	7	403,271	1,562
Payments to and for depositors	3,257,403	585,291	22,579,919
Total deductions	**3,257,410**	**36,031,730**	**22,670,628**
Change in net position	319,841	(5,848,132)	1,223,010
Net position – beginning	**6,503,663**	**513,483,166**	**21,489,148**
Net position – ending	**$ 6,823,504**	**$ 507,635,034**	**$ 22,712,158**

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

This page intentionally left blank

Discretely Presented Component Units Financial Statements

Statement of Net Position

Discretely Presented Component Units – Enterprise Activity

June 30, 2016
(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
ASSETS				
Current assets:				
Cash and pooled investments	$ 461,477	$ 1,246,992	$ 1,045,849	$ 2,754,318
Investments	6,224,967	57,386	477,513	6,759,866
Restricted assets:				
Cash and pooled investments	—	—	406,741	406,741
Investments	—	—	3,190	3,190
Receivables (net)	3,452,191	213,352	320,761	3,986,304
Due from primary government	170,203	—	—	170,203
Due from other governments	94,307	—	—	94,307
Prepaid items	—	468	1,052	1,520
Inventories	214,680	—	—	214,680
Other current assets	334,877	18,622	39,771	393,270
Total current assets	10,952,702	1,536,820	2,294,877	14,784,399
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	—	—	25,588	25,588
Investments	—	—	16,058	16,058
Investments	24,816,866	247,183	1,841,132	26,905,181
Receivables (net)	2,251,456	—	240,935	2,492,391
Loans receivable	—	2,944,550	296,051	3,240,601
Capital assets:				
Land	1,163,095	—	153,626	1,316,721
Collections – nondepreciable	434,738	—	10,300	445,038
Buildings and other depreciable property	46,413,298	1,249	2,070,926	48,485,473
Intangible assets – amortizable	910,769	—	10,387	921,156
Less: accumulated depreciation/amortization	(22,298,114)	(662)	(1,070,195)	(23,368,971)
Construction/development in progress	3,065,029	—	26,812	3,091,841
Intangible assets – nonamortizable	—	—	5,098	5,098
Other noncurrent assets	178,367	7,686	44,699	230,752
Total noncurrent assets	56,935,504	3,200,006	3,671,417	63,806,927
Total assets	**67,888,206**	**4,736,826**	**5,966,294**	**78,591,326**
DEFERRED OUTFLOWS OF RESOURCES	5,573,864	38,037	45,670	5,657,571
Total assets and deferred outflows of resources	**$ 73,462,070**	**$ 4,774,863**	**$ 6,011,964**	**$ 84,248,897**

(continued)

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

Statement of Net Position (continued)

Discretely Presented Component Units – Enterprise Activity

June 30, 2016
(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
LIABILITIES				
Current liabilities:				
Accounts payable	$ 1,720,584	$ 60,373	$ 545,744	$ 2,326,701
Revenues received in advance	1,173,229	—	68,494	1,241,723
Deposits	578,901	243,911	1,933	824,745
Contracts and notes payable	—	—	8,592	8,592
Interest payable	—	39,690	2,883	42,573
Securities lending obligations	866,650	—	—	866,650
Current portion of long-term obligations	3,845,664	59,438	91,602	3,996,704
Other current liabilities	1,531,365	924	202,035	1,734,324
Total current liabilities	9,716,393	404,336	921,283	11,042,012
Noncurrent liabilities:				
Compensated absences payable	294,842	—	15,823	310,665
Workers' compensation benefits payable	391,440	—	44,603	436,043
Commercial paper and other borrowings	—	—	700	700
Capital lease obligations	147,745	—	348,342	496,087
Revenue bonds payable	17,107,477	2,529,360	471,377	20,108,214
Net other postemployment benefits obligation	10,456,840	29,611	110,551	10,597,002
Net pension liability	15,124,690	47,369	180,674	15,352,733
Other noncurrent liabilities	1,480,656	217,739	455,745	2,154,140
Total noncurrent liabilities	45,003,690	2,824,079	1,627,815	49,455,584
Total liabilities	**54,720,083**	**3,228,415**	**2,549,098**	**60,497,596**
DEFERRED INFLOWS OF RESOURCES	1,733,739	9,219	38,599	1,781,557
Total liabilities and deferred inflows of resources	**56,453,822**	**3,237,634**	**2,587,697**	**62,279,153**
NET POSITION				
Net investment in capital assets	12,816,190	587	541,420	13,358,197
Restricted:				
Nonexpendable – endowments	4,847,898	—	1,079,429	5,927,327
Expendable:				
Endowments and gifts	9,826,929	—	18,321	9,845,250
Education	461,402	—	902,346	1,363,748
Indenture	—	531,130	—	531,130
Statute	—	1,059,583	280,326	1,339,909
Other purposes	—	—	28,431	28,431
Total expendable	10,288,331	1,590,713	1,229,424	13,108,468
Unrestricted	(10,944,171)	(54,071)	573,994	(10,424,248)
Total net position	**17,008,248**	**1,537,229**	**3,424,267**	**21,969,744**
Total liabilities, deferred inflows of resources, and net position	**$ 73,462,070**	**$ 4,774,863**	**$ 6,011,964**	**$ 84,248,897**

(concluded)

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

Statement of Activities

Discretely Presented Component Units – Enterprise Activity

Year Ended June 30, 2016
(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
OPERATING EXPENSES				
Personal services	$ 20,979,910	$ 28,983	$ 516,087	$ 21,524,980
Scholarships and fellowships	651,565	—	58,951	710,516
Supplies	3,108,907	—	9,949	3,118,856
Services and charges	282,692	24,327	1,262,914	1,569,933
Department of Energy laboratories	1,252,842	—	—	1,252,842
Depreciation	1,804,046	232	72,443	1,876,721
Interest expense and fiscal charges	693,062	72,288	34,078	799,428
Grants provided	889,278	—	—	889,278
Other	4,436,608	78,712	78,704	4,594,024
Total operating expenses	**34,098,910**	**204,542**	**2,033,126**	**36,336,578**
PROGRAM REVENUES				
Charges for services	20,030,835	37,896	1,039,572	21,108,303
Operating grants and contributions	9,020,465	—	640,574	9,661,039
Capital grants and contributions	248,705	—	29,230	277,935
Total program revenues	**29,300,005**	**37,896**	**1,709,376**	**31,047,277**
Net revenues (expenses)	(4,798,905)	(166,646)	(323,750)	(5,289,301)
GENERAL REVENUES				
Investment and interest income (loss)	(275,479)	223,127	(11,154)	(63,506)
Other	2,799,236	31,717	446,840	3,277,793
Total general revenues	**2,523,757**	**254,844**	**435,686**	**3,214,287**
Change in net position	(2,275,148)	88,198	111,936	(2,075,014)
Net position – beginning	**19,283,396**	**1,449,031** *	**3,312,331** *	**24,044,758**
Net position – ending	**$ 17,008,248**	**$ 1,537,229**	**$ 3,424,267**	**$ 21,969,744**

* Restated

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

Notes to the Financial Statements – Index

This page intentionally left blank

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 year ended June 30, 2016:

GASB Statement No. 72, *Fair Value Measurement and Application,* effective for the fiscal year ended June 30, 2016, defines fair value and provides guidance for determining fair value measurement for financial reporting purposes, applying fair value to certain investments, and disclosures related to fair value measurements. A new schedule categorizing the State's investments by levels of fair value measurement hierarchy was added to Note 3, Deposits and Investments.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, includes some provisions that are applicable to the State that are effective for the fiscal year ended June 30, 2016. The State does not offer any defined benefit pensions that are not within the scope of Statement No. 68; thus, the provisions of Statement No. 73 related to those pensions are not applicable. The provisions that amended Statements Nos. 67 and 68 are applicable to the State; however, implementation of these provisions had no impact on the financial statements for the year ended June 30, 2016.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* became effective for the fiscal year ended June 30, 2016, and should be applied retroactively. The objective of this Statement is to identify the hierarchy of generally accepted accounting principles for governmental financial reporting and establish the framework for selecting those principles. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Implementation of Statement No. 76 had no impact on the financial statements for the year ended June 30, 2016.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, with some provisions effective for the fiscal year ended June 30, 2016, and others effective for next fiscal year, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The State administers one external investment pool for local governments and public agencies, the Local Agency Investment Fund (LAIF). The California State Treasurer has determined that LAIF does not meet the criteria established by Statement No. 79 and, therefore, the election was *not* made. Implementation of Statement No. 79 had no impact on the financial statements for the year ended June 30, 2016.

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 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 State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the Public Agency Deferred Compensation Plan, and the public employee Supplemental Contributions Program 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 and other employee benefit trust funds: the Defined Benefit Program, the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. 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 association's financial report is as of and for the year ended December 31, 2015).

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, and is administered by a board 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, 2016, CADA had total assets and deferred outflows of resources of $33.6 million, total liabilities and deferred inflows of resources of $21.3 million, and total net position of $12.3 million. Total revenues for the fiscal year were $11.4 million and expenses were $8.8 million, resulting in an increase in net position of $2.6 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 from the Capitol Area Development Authority, 1522 14th Street, Sacramento, California 95814-5958 or 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 it 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, contact the Independent System Operator, P.O. Box 639014, Folsom, California 95763-9014 or 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 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, contact the California Earthquake Authority, 801 K Street, Suite 1000, Sacramento, California 95814 or 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, contact the State Compensation Insurance Fund, 333 Bush Street, 8th Floor, San Francisco, California 94104 or go to its website at www.statefundca.com.

The *California Health Benefit Exchange (the Exchange)*, an independent public entity, offers new health insurance to individuals, families, and small businesses. A five-member board of state-elected 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 of state-elected officials 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, contact the State Treasurer's Office, 915 Capitol Mall, Room 457, Sacramento, California 95814 or 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 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, contact the State Treasurer's Office, 915 Capitol Mall, Suite 590, Sacramento, California 95814 or go to its website at www.treasurer.ca.gov/chffa.

The *California Educational Facilities Authority (CEFA)* was created by Board of Control approval in 1974. 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 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, contact the State Treasurer's Office, 915 Capitol Mall, Suite 590, Sacramento, California 95814 or 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 of state officials 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, contact the State Treasurer's Office, 300 South Spring Street, Suite 8500, Los Angeles, California 90013 or 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.

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 certain

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 are recorded at the fair market value on the date the gift was 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.

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.
- *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 plus residual interest made to a third party are reported as deferred inflows of resources and will be recognized on a straight-line basis through the expiration of the patents.

M. Abnormal Account Balances

In the 2015-16 fiscal year, the Water Resources Electric Power Fund had a net refund of $182 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 the 2015-16 fiscal year, the fund returned $178 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, 2016, the government-wide financial statements show restricted net position for the primary government of $34.8 billion, of which $7.9 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% 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, 2016, the Budget Stabilization Account had restricted fund balance of $3.4 billion.

P. Restatement of Beginning Fund Balances and Net Position

1. Fund Financial Statements

The beginning fund balance of *governmental funds* increased by $24 million. The net increase is comprised of a $27 million increase in the Health Care Related Programs Fund, a nonmajor special revenue fund for the reclassification of a program previously reported in an agency fund and a decrease of $3 million due to the overstatement of prior-year revenue reported in the Building Authorities Fund, a nonmajor capital projects fund.

The beginning net position of the *internal service funds* decreased by $183 million due to the allocation of net pension liability and related amounts to a department included in the Other Internal Service Programs Fund. In the prior year, this amount was part of the unallocated total reported only within governmental activities in the government-wide financial statements.

The beginning net position of the *discretely presented component units* decreased by $90 million ($264 thousand in the California Housing Finance Agency Fund, a major component unit, and $90 million in the District Agriculture Associations Fund, a nonmajor component unit) for the recognition of net pension liability and deferred outflows of resources from the first-year implementation of GASB Statements No. 68 and No. 71 for entities whose financial information is presented as of and for the year ended December 31, 2015.

2. Government-wide Financial Statements

The beginning net position of *governmental activities* increased by $24 million. In addition to the $24 million increase described in the previous section for governmental funds, the restatement also includes a $35 million decrease for overstated capital assets and a $35 million increase for overstated pollution remediation liability. 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 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 year ended June 30, 2016, increased spending authority for the budgetary/legal basis-reported General Fund and Transportation Funds, and decreased spending authority for the Environmental and Natural Resources Funds.

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

B. Legal Compliance

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

Financial activities are mainly controlled at the appropriation level but can vary, depending on the presentation and wording contained in the Budget Act. The Budget Act appropriations are identified by department, reference item, and fund. The annual appropriated budget may establish detailed allocations to specific programs, projects, or sources of reimbursement within an appropriation. The Department of Finance can authorize adjustments between the detail allocations but cannot increase the amount of the overall appropriation. While the financial activities are controlled at various levels, the legal level of budgetary control—the extent to which management may amend the budget without seeking approval of the governing body—has been established in the Budget Act for the annual operating budget.

The Budgetary Comparison Schedule is not presented in this document at the legal level of budgetary control because such a presentation would be extremely lengthy and cumbersome. The State prepares a separate report, the Comprehensive Annual Financial Report Supplement, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with Government Accounting Standards Board'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 request by emailing 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 United States 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, 2016, the discretely presented component units and related organizations account for approximately 3.4% 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 that earn income that compensates the banks for their services.

Demand and time deposits held by financial institutions as of June 30, 2016, totaling approximately $7.8 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, 2016, the State Treasurer's Office had on deposit with a fiscal agent amounts totaling $22 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 $41 million in interest revenue received by the General Fund from the pooled investment program in fiscal year 2015-16 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 generally is 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 does not use Level 3 inputs to measure the fair value of its investments.

Table 1

Schedule of Investments – Primary Government – Investments by Fair Value Level
June 30, 2016
(amounts in thousands)

		Fair Value Measurements Using	
	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Pooled investments			
U.S. Treasury bills and notes	$ 33,912,924	$ 33,912,924	$ —
U.S. Agency bonds and discount notes (IBRD)	9,241,229	9,241,229	—
Supranational debentures	601,736	601,736	—
Small Business Administration loans	705,336	705,336	—
Mortgage-backed securities	63,530	63,530	—
Certificates of deposit	16,574,127	—	16,574,127
Bank notes	799,736	—	799,736
Commercial paper	7,492,217	—	7,492,217
Total pooled investments at fair value	**69,390,835**	**$ 44,524,755**	**$ 24,866,080**
Other primary government investments			
U.S. Treasuries and agencies	2,585,251	1,488,790	1,096,461
Commercial paper	40,056	—	40,056
Corporate debt securities	1,030,765	—	1,030,765
Repurchase agreements	19,774	—	19,774
Other	1,035,204	406,656	628,548
Total other primary government investments at fair value	**4,711,050**	**$ 1,895,446**	**$ 2,815,604**
Investments measured at the net asset value (NAV)			
2a-7 money market funds	287,426		
Total investments measured at the NAV	**287,426**		
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	22,701,071		
Less: other trust and agency funds	4,323,877		
Less: discretely presented component units and related organizations	2,373,319		
Total primary government investments	**$ 45,191,044**		

[1] Reported at carrying value.

As of June 30, 2016, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 174 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, 2016, 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, 2016, medium-term asset-backed securities comprised approximately 1.1% 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 are called real estate mortgage investment conduits (REMICs), and 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 1.37% 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 $5.5 billion of time deposits and $502 million of internal loans to state funds. Repurchase agreements of the California State University system mature in one day. 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, 2016, only $64 million, or 0.09% of the total pooled investments, was invested in mortgage-backed securities.

Table 3

Schedule of Investments – Primary Government – Interest Rate Risk
June 30, 2016
(amounts in thousands)

	Fair Value at Year End	Weighted Average Maturity (in years)
Pooled investments		
U.S. Treasury bills and notes	$ 33,912,924	0.68
U.S. Agency bonds and discount notes (IBRD)	9,241,229	0.42
Supranational debentures	601,736	1.24
Small Business Administration loans	705,336	0.25
Mortgage-backed securities	63,530	2.12
Certificates of deposit	16,574,127	0.21
Bank notes	799,736	0.35
Commercial paper	7,492,217	0.15
Total pooled investments	**69,390,835**	
Other primary government investments		
U.S. Treasuries and agencies	2,585,251	3.36
Commercial paper	40,056	3.40
Guaranteed investment contracts	200,000	5.83
Corporate debt securities	1,030,765	1.12
Repurchase agreements	19,774	—
Other	1,322,630	2.02
Total other primary government investments	**5,198,476**	
Funds outside primary government included in pooled investments		
Less: investment trust funds	22,701,071	
Less: other trust and agency funds	4,323,877	
Less: discretely presented component units and related organizations	2,373,319	
Total primary government investments	$ **45,191,044**	

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, 2016
(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	$ 7,549,713
A-1/P-1/F-1	AA/Aa/AA	25,809,354
A-2/P-2/F-2	A/A/A	1,349,978
Not rated		63,530
Not applicable		34,618,260
Total pooled investments		**$ 69,390,835**
Other primary government investments		
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 935,887
A-1/P-1/F-1	AA/Aa/AA	1,780,339
A-2/P-2/F-2	A/A/A	1,080,922
A-3/P-3/F-3	BBB/Baa/BBB	22,384
B/NP/B	BB/Ba/BB	5,101
Not rated		1,373,837
Not applicable		6
Total other primary government investments		**$ 5,198,476**

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, 2016, 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, 2016, the State had investments in the Federal National Mortgage Association totaling 6.6% of the total pooled 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 97% 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 disclosure for CalPERS' investments and derivative instruments is included in CalPERS' separately issued financial statements, which may be found on its website at www.CalPERS.ca.gov. Additional disclosure for CalSTRS' investments and derivative instruments is included in CalSTRS' separately issued financial statements, which may be found on its website at www.CalSTRS.com.

C. Discretely Presented Component Units

The discretely presented component units consist of the University of California and its foundation, the California Housing Finance Agency (CalHFA), and various nonmajor component units. The University and CalHFA constitute 93.1% 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 disclosure for CalHFA's investments and derivative instruments is 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, 2016
(amounts in thousands)

	Taxes	Licenses, Permits and Fees	Lottery Retailers	Unemployment Programs	California State University	Other	Total
Current governmental activities							
General Fund	$ 12,993,809	$ —	$ —	$ —	$ —	$ 820,866	$ 13,814,675
Federal Fund	—	—	—	—	—	14,950	14,950
Transportation Fund	476,056	386,211	—	—	—	86,700	948,967
Environmental and Natural Resources Fund	—	389,485	—	—	—	120,249	509,734
Nonmajor governmental funds	340,242	2,504,787	—	—	—	845,972	3,691,001
Internal service funds	—	—	—	—	—	91,280	91,280
Adjustment:							
Unavailable revenue [1]	(1,484,015)	(74,059)	—	—	—	(345,642)	(1,903,716)
Total current governmental activities	**$ 12,326,092**	**$ 3,206,424**	**$ —**	**$ —**	**$ —**	**$ 1,634,375**	**$ 17,166,891**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ 1,484,015**	**$ 74,059**	**$ —**	**$ —**	**$ —**	**$ 409,963** [2]	**$ 1,968,037**
Current business-type activities							
Water Resources Fund	$ —	$ —	$ —	$ —	$ —	$ 119,701	$ 119,701
State Lottery Fund	—	—	461,786	—	—	—	461,786
Unemployment Programs Fund	—	—	—	1,211,282	—	—	1,211,282
California State University	—	—	—	—	158,103	—	158,103
Nonmajor enterprise programs	—	—	—	—	—	33,605	33,605
Total current business-type activities	**$ —**	**$ —**	**$ 461,786**	**$ 1,211,282**	**$ 158,103**	**$ 153,306**	**$ 1,984,477**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ —**	**$ —**	**$ —**	**$ 76,086**	**$ 289,073**	**$ —**	**$ 365,159**

[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 $64 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, 2016
(amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Governments	Loans Receivable	Total
Primary government					
Debt service	$ 1,677,885	$ 363,669	$ 156,108	$ 1,411,250	$ 3,608,912
Construction	1,381,096	—	—	—	1,381,096
Operations	46,000	—	—	—	46,000
Other	694	—	—	—	694
Total primary government	**3,105,675**	**363,669**	**156,108**	**1,411,250**	**5,036,702**
Discretely presented component units					
Debt service	422,294	19,248	—	—	441,542
Other	10,035	—	—	—	10,035
Total discretely presented component units	**432,329**	**19,248**	**—**	**—**	**451,577**
Total restricted assets	**$ 3,538,004**	**$ 382,917**	**$ 156,108**	**$ 1,411,250**	**$ 5,488,279**

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 $7.3 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 certain auxiliary organizations. These agreements lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from certain revenue bonds issued by 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
2017	$ 37,793	$ 39,986	$ 77,779	$ 30,433
2018	24,864	32,698	57,562	26,714
2019	15,986	26,183	42,169	26,741
2020	15,978	13,369	29,347	26,995
2021	15,960	12,754	28,714	27,281
2022-2026	79,696	63,523	143,219	160,755
2027-2031	79,031	56,823	135,854	131,348
2032-2036	62,789	7,513	70,302	74,898
2037-2041	—	—	—	28,647
2042-2046	—	—	—	17,972
Total minimum lease payments	**332,097**	**252,849**	**584,946**	**551,784**
Less: unearned income	143,688	60,933	204,621	209,605
Net investment in direct financing leases	188,409	191,916	380,325	342,179
Less: current portion	23,235	30,688	53,923	12,356
Noncurrent net investment in direct financing leases	**$ 165,174**	**$ 161,228**	**$ 326,402**	**$ 329,823**

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, 2016
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets not being depreciated/amortized				
Land	$ 19,014,276 *	$ 495,565	$ 126,605	$ 19,383,236
State highway infrastructure	70,684,432 *	2,882,122	103,947	73,462,607
Collections	22,630	—	3	22,627
Construction/development in progress	15,886,117 *	3,322,560	3,892,618	15,316,059
Intangible assets	418,477 *	7,709	—	426,186
Total capital assets not being depreciated/amortized	**106,025,932**	**6,707,956**	**4,123,173**	**108,610,715**
Capital assets being depreciated/amortized				
Buildings and improvements	22,568,634 *	1,395,331	55,711	23,908,254
Infrastructure	736,156	1,592	83	737,665
Equipment and other assets	4,903,365 *	398,668	331,673	4,970,360
Intangible assets	1,659,204 *	435,860	62,785	2,032,279
Total capital assets being depreciated/amortized	**29,867,359**	**2,231,451**	**450,252**	**31,648,558**
Less accumulated depreciation/amortization for:				
Buildings and improvements	7,722,917 *	588,915	30,330	8,281,502
Infrastructure	360,410	16,667	83	376,994
Equipment and other assets	4,019,521 *	317,564	320,335	4,016,750
Intangible assets	624,453 *	159,334	59,312	724,475
Total accumulated depreciation/amortization	**12,727,301**	**1,082,480**	**410,060**	**13,399,721**
Total capital assets being depreciated/amortized, net	**17,140,058**	**1,148,971**	**40,192**	**18,248,837**
Governmental activities, capital assets, net	**$ 123,165,990**	**$ 7,856,927**	**$ 4,163,365**	**$ 126,859,552**
Business-type activities				
Capital assets not being depreciated/amortized				
Land	$ 239,322 *	$ 7,963	$ 2,560	$ 244,725
Collections	11,088	5,125	7	16,206
Construction/development in progress	1,167,867 *	787,871	316,494	1,639,244
Intangible assets	115,761	4,643	6,873	113,531
Total capital assets not being depreciated/amortized	**1,534,038**	**805,602**	**325,934**	**2,013,706**
Capital assets being depreciated/amortized				
Buildings and improvements	11,098,198 *	446,877	1,790	11,543,285
Infrastructure	305,549	69,344	2,044	372,849
Equipment and other assets	740,532	107,225	20,447	827,310
Intangible assets	337,629	13,609	14,778	336,460
Total capital assets being depreciated/amortized	**12,481,908**	**637,055**	**39,059**	**13,079,904**
Less accumulated depreciation/amortization for:				
Buildings and improvements	4,205,428 *	294,595	961	4,499,062
Infrastructure	84,420	18,041	2,115	100,346
Equipment and other assets	437,292	69,984	18,657	488,619
Intangible assets	151,979	18,423	14,032	156,370
Total accumulated depreciation/amortization	**4,879,119**	**401,043**	**35,765**	**5,244,397**
Total capital assets being depreciated/amortized, net	**7,602,789**	**236,012**	**3,294**	**7,835,507**
Business-type activities, capital assets, net	**$ 9,136,827**	**$ 1,041,614**	**$ 329,228**	**$ 9,849,213**

* 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, 2016
(amounts in thousands)

	Amount
Governmental activities	
General government	$ 226,524
Education	163,433
Health and human services	119,322
Natural resources and environmental protection	59,895
Business, consumer services, and housing	13,029
Transportation	176,347
Corrections and rehabilitation	273,072
Internal service funds (charged to the activities that utilize the fund)	50,858
Total governmental activities	**1,082,480**
Business-type activities	401,043
Total primary government	**$ 1,483,523**

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, 2016
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets not being depreciated/amortized				
Land	$ 1,125,463	$ 193,328	$ 2,070	$ 1,316,721
Collections	394,180	51,030	172	445,038
Construction/development in progress	2,859,030	276,209	43,398	3,091,841
Intangible assets	5,098	—	—	5,098
Total capital assets not being depreciated/amortized	**4,383,771**	**520,567**	**45,640**	**4,858,698**
Capital assets being depreciated/amortized				
Buildings and improvements	35,276,089	1,775,033	60,028	36,991,094
Infrastructure	734,287	20,985	5,085	750,187
Equipment and other depreciable assets	10,445,545	660,216	361,569	10,744,192
Intangible assets	863,343	101,071	43,258	921,156
Total capital assets being depreciated/amortized	**47,319,264**	**2,557,305**	**469,940**	**49,406,629**
Less accumulated depreciation/amortization for:				
Buildings and improvements	13,806,309	1,126,322	27,988	14,904,643
Infrastructure	352,449	24,729	5,085	372,093
Equipment and other depreciable assets	7,332,506	651,652	295,667	7,688,491
Intangible assets	360,964	74,018	31,238	403,744
Total accumulated depreciation/amortization	**21,852,228**	**1,876,721**	**359,978**	**23,368,971**
Total capital assets being depreciated/amortized, net	**25,467,036**	**680,584**	**109,962**	**26,037,658**
Capital assets, net	**$ 29,850,807**	**$ 1,201,151**	**$ 155,602**	**$ 30,896,356**

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, 2016
(amounts in thousands)

	General Government	Education	Health and Human Services	Natural Resources and Environmental Protection	Transportation	Other	Total
Governmental activities							
General Fund	$ 250,452	$ 454,545	$ 482,163	$ 267,880	$ —	$ 366,355	$ 1,821,395
Federal Fund	124,941	213,362	303,604	54,128	463,134	34,700	1,193,869
Transportation Fund	2,217	—	1	10,446	350,205	51	362,920
Environmental and Natural Resources Fund	3,987	51	915	336,439	134,811	501	476,704
Nonmajor governmental funds	613,248	929	199,152	5,286	1,837	27,534	847,986
Internal service funds	278,147	—	127,340	15,799	—	10,500	431,786
Adjustment:							
Fiduciary funds	710,696	1,473,320	17,153,402	—	63,352	—	19,400,770
Total governmental activities	**$ 1,983,688**	**$ 2,142,207**	**$ 18,266,577**	**$ 689,978**	**$ 1,013,339**	**$ 439,641**	**$ 24,535,430**
Business-type activities							
Electric Power Fund	$ —	$ —	$ —	$ 2,000	$ —	$ —	$ 2,000
Water Resources Fund	—	—	—	115,898	—	—	115,898
State Lottery Fund	42,190	—	—	—	—	—	42,190
Unemployment Programs Fund	—	—	2,769	—	—	—	2,769
California State University	—	223,033	—	—	—	—	223,033
Nonmajor enterprise funds	47	31	55	617	—	1,618	2,368
Adjustment:							
Fiduciary funds	—	—	—	—	—	8	8
Total business-type activities	**$ 42,237**	**$ 223,064**	**$ 2,824**	**$ 118,515**	**$ —**	**$ 1,626**	**$ 388,266**

NOTE 9: LONG-TERM OBLIGATIONS

As of June 30, 2016, the primary government had long-term obligations totaling $228.5 billion. Of that amount, $7.1 billion is due within one year. Governmental activities had a net increase in long-term obligations of $7.7 billion. Significant increases included $6.8 billion in net pension liability and $3.4 billion in net OPEB obligation. Significant decreases included $1.5 billion in general obligation bonds payable, $1.2 billion in revenue bonds payable, and $298 million in Proposition 98 funding guarantees.

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, 2016, the pollution remediation obligations decreased by $75 million to $1.0 billion. Under federal Superfund law, responsibility for pollution remediation is placed on current and previous owners or operators of polluted sites. Currently, the State's most significant superfund site is the Stringfellow Class 1 Hazardous Waste Disposal Facility (Stringfellow) located in Riverside County. As of June 30, 2016, the State estimates that remediation costs at Stringfellow will total $426 million. At two other sites, Leviathan Mine and BKK Landfill, obligating events have occurred. At the Leviathan Mine site, litigation was concluded by settlement in March 2015. The settlement requires the State to pay 20% to 25% of ongoing cleanup costs at the Leviathan Mine site, with the remainder paid by ARCO. At the BKK Landfill site, reasonable estimates of the remediation costs cannot be made at this time. 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 $18 million owed to the University of California, the Technology Services Revolving Fund notes payable of $23 million, and the Water Resources Revolving Fund notes payable of $5 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 $550 million, as restated. Significant decreases included $2.6 billion in loans payable to the US Department of Labor for prior-year's shortfalls in the Unemployment Fund and $821 million in capital lease obligations. Significant increases included $1.3 billion in revenue bonds payable, $1.2 billion in net pension liability, and $343 million in lottery prizes and annuities.

This page intentionally left blank

Table 12 summarizes the changes in long-term obligations during the year ended June 30, 2016.

Table 12

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due Within One Year	Noncurrent Liabilities
Governmental activities						
Compensated absences payable	$ 3,686,010	$ 1,459,159	$ 1,361,803	$ 3,783,366	$ 5,959	$ 3,777,407
Workers' compensation benefits payable	3,840,191	539,868	443,621	3,936,438	408,606	3,527,832
Certificates of participation and commercial paper outstanding[1]	493,800	1,816,520	1,539,105	771,215	—	771,215
Discounts	(30)	—	(30)	—	—	—
Total certificates of participation and commercial paper payable	493,770	1,816,520	1,539,075	771,215	—	771,215
Capital lease obligations	274,760	120,535	25,113	370,182	25,689	344,493
General obligation bonds outstanding	76,949,340	7,316,280	9,323,865	74,941,755	2,963,410	71,978,345
Premiums	3,560,462	1,017,929	476,851	4,101,540	226,242	3,875,298
Total general obligation bonds payable	80,509,802	8,334,209	9,800,716	79,043,295	3,189,652	75,853,643
Revenue bonds outstanding	17,187,495	990,835	2,245,691	15,932,639	585,661	15,346,978
Accreted interest	467,317	45,346	—	512,663	—	512,663
Premiums	756,579	136,424	127,386	765,617	94,938	670,679
Discounts	(1,420)	—	(1,000)	(420)	(108)	(312)
Total revenue bonds payable	18,409,971	1,172,605	2,372,077	17,210,499	680,491	16,530,008
Mandated cost claims payable	3,006,566	145,525	209,941	2,942,150	177,681	2,764,469
Net other postemployment benefits obligation	21,593,644	5,423,222	2,049,807	24,967,059	—	24,967,059
Net pension liability	57,456,241	22,325,704	15,487,916	64,294,029	—	64,294,029
Other long-term obligations:						
Proposition 98 funding guarantee	1,512,469	13,274	311,003	1,214,740	218,000	996,740
Pollution remediation obligations	1,098,641 *	43,695	118,978	1,023,358	59,544	963,814
Other	50,857	15,653	20,543	45,967	11,017	34,950
Total other long-term obligations	2,661,967	72,622	450,524	2,284,065	288,561	1,995,504
Total governmental activities	**$ 191,932,922**	**$ 41,409,969**	**$ 33,740,593**	**$ 199,602,298**	**$ 4,776,639**	**$ 194,825,659**
Business-type activities						
Loans payable	$ 5,670,653	$ —	$ 2,558,475	$ 3,112,178	$ —	$ 3,112,178
Lottery prizes and annuities	1,334,895	4,265,312	3,922,738	1,677,469	968,569	708,900
Compensated absences payable	337,561	133,628	114,315	356,874	155,976	200,898
Workers' compensation benefits payable	2,976	442	136	3,282	—	3,282
Commercial paper outstanding	237,186	183,970	373,740	47,416	400	47,016
Capital lease obligations	1,210,409	66,972	887,996	389,385	43,818	345,567
General obligation bonds outstanding	651,150	545,440	404,330	792,260	58,010	734,250
Premiums	—	3,697	72	3,625	—	3,625
Discounts	(1,017)	(1,573)	(1,074)	(1,516)	—	(1,516)
Total general obligation bonds payable	650,133	547,564	403,328	794,369	58,010	736,359
Revenue bonds outstanding	11,813,518	3,073,320	2,107,660	12,779,178	943,470	11,835,708
Premiums	857,295	428,669	136,718	1,149,246	80,007	1,069,239
Discounts	(194)	—	(144)	(50)	—	(50)
Total revenue bonds payable	12,670,619	3,501,989	2,244,234	13,928,374	1,023,477	12,904,897
Net other postemployment benefits obligation	735,176	188,642	72,991	850,827	—	850,827
Net pension liability	6,248,976	2,544,017	1,330,778	7,462,215	—	7,462,215
Other long-term obligations	347,339 *	31,073	104,636	273,776	27,381	246,395
Total business-type activities	**$ 29,445,923**	**$ 11,463,609**	**$ 12,013,367**	**$ 28,896,165**	**$ 2,277,631**	**$ 26,618,534**

* Restated
[1] All certificates of participation were retired in the 2015-16 fiscal year.

NOTE 10: PENSION TRUSTS

The California Public Employees' Retirement System (CalPERS) provides retirement and health 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 previously administered three defined contribution plans: the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF), the Public Employees' Deferred Compensation Fund, and the Supplemental Contributions Program Fund. The SPOFF plan was terminated in 2014 and, as directed by state statute, the remaining funds were transferred to 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 the 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 Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. 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 earned. Employer and state contributions are recognized when earned 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 that have 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, 2015, included the primary government and certain discretely presented component units; 1,423 school employers, including charter schools; and 1,630 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, 2014 Actuarial Valuation Report, which may be found at www.CalPERS.ca.gov/docs/forms-publications/2014-state-valuation.pdf. In general, for the PERF plans, retirement benefits 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 year 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, 2015 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, 2015

	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol	Total PERF Plans
Inactive employees or beneficiaries currently receiving benefits	182,297	12,752	22,687	34,781	8,650	**261,167**
Inactive employees entitled to but not yet receiving benefits	51,939	3,202	5,857	6,378	366	**67,742**
Active employees	204,731	19,888	31,536	46,237	7,493	**309,885**
Total	**438,967**	**35,842**	**60,080**	**87,396**	**16,509**	**638,794**

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.

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, 2015.

Table 14

Contribution Rates – PERF Plans
June 30, 2015

	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol
Average active employee rate	6.587 %	7.735 %	10.450 %	11.498 %	10.388 %
Employer rate of annual payroll	24.265 %	18.134 %	19.278 %	36.780 %	43.455 %
Total	**30.852 %**	**25.869 %**	**29.728 %**	**48.278 %**	**53.843 %**

Actuarial Methods and Assumptions: The total pension liability for PERF plans was measured as of June 30, 2015 (measurement date), by rolling forward the total pension liability determined by the June 30, 2014 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, 2014
Actuarial cost method:	Entry age normal in accordance with the requirement 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 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-2015.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. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, CalPERS calculated expected compound (geometric) returns 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- 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	51.0 %	5.25 %	5.71 %
Global fixed income	19.0	0.99	2.43
Inflation sensitive	6.0	0.45	3.36
Private equity	10.0	6.83	6.95
Real estate	10.0	4.50	5.13
Infrastructure and forestland	2.0	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.

This page intentionally left blank

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, 2014 (Valuation Date)	$ 92,189,174	$ 68,380,562	$ 23,808,612	$ 3,367,907	$ 2,826,449	$ 541,458
Changes recognized for the measurement period:						
Service cost	1,576,695	—	1,576,695	100,006	—	100,006
Interest on total pension liability	6,970,837	—	6,970,837	257,527	—	257,527
Difference between expected and actual experience	693,639	—	693,639	26,976	—	26,976
Plan to plan resources movement	—	(354)	354	—	30	(30)
Employer contributions	—	2,608,785	(2,608,785)	—	107,238	(107,238)
Employee contributions	—	771,046	(771,046)	—	49,482	(49,482)
Investment income	—	1,505,042	(1,505,042)	—	62,385	(62,385)
Benefit payments, including refunds of employee contributions	(5,098,222)	(5,098,222)	—	(157,029)	(157,029)	—
Administrative expense	—	(76,678)	76,678	—	(3,252)	3,252
Net changes	**4,142,949**	**(290,381)**	**4,433,330**	**227,480**	**58,854**	**168,626**
Balance at June 30, 2015 (Measurement Date)	**$ 96,332,123**	**$ 68,090,181**	**$ 28,241,942**	**$ 3,595,387**	**$ 2,885,303**	**$ 710,084**

	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, 2014 (Valuation Date)	$ 9,626,597 *	$ 7,841,392	$ 1,785,205	$ 36,219,196 *	$ 26,367,989	$ 9,851,207
Changes recognized for the measurement period:						
Service cost	422,634	—	422,634	838,628	—	838,628
Interest on total pension liability	734,333	—	734,333	2,759,982	—	2,759,982
Difference between expected and actual experience	(4,150)	—	(4,150)	288,526	—	288,526
Plan to plan resources movement	—	499	(499)	—	194	(194)
Employer contributions	—	393,925	(393,925)	—	1,146,192	(1,146,192)
Employee contributions	—	215,482	(215,482)	—	366,419	(366,419)
Investment income	—	175,677	(175,677)	—	584,142	(584,142)
Benefit payments, including refunds of employee contributions	(469,275)	(469,275)	—	(1,697,676)	(1,697,676)	—
Administrative expense	—	(9,200)	9,200	—	(30,069)	30,069
Net changes	**683,542**	**307,108**	**376,434**	**2,189,460**	**369,202**	**1,820,258**
Balance at June 30, 2015 (Measurement Date)	**$ 10,310,139**	**$ 8,148,500**	**$ 2,161,639**	**$ 38,408,656**	**$ 26,737,191**	**$ 11,671,465**

* Restated

(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, 2014						
(Valuation Date)	$ 10,060,085	$ 6,656,447	$ 3,403,638	**$ 151,462,959**	**$ 112,072,839**	**$ 39,390,120**
Changes recognized for the measurement period:						
Service cost	198,665	—	198,665	**3,136,628**	**—**	**3,136,628**
Interest on total pension liability	764,348	—	764,348	**11,487,027**	**—**	**11,487,027**
Difference between expected and actual experience	75,593	—	75,593	**1,080,584**	**—**	**1,080,584**
Plan to plan movement	—	(214)	214	**—**	**155**	**(155)**
Employer contributions	—	351,197	(351,197)	**—**	**4,607,337**	**(4,607,337)**
Employee contributions	—	85,791	(85,791)	**—**	**1,488,220**	**(1,488,220)**
Investment income	—	146,782	(146,782)	**—**	**2,474,028**	**(2,474,028)**
Benefit payments, including refunds of employee contributions	(487,061)	(487,061)	—	**(7,909,263)**	**(7,909,263)**	**—**
Administrative expense	—	(7,600)	7,600	**—**	**(126,799)**	**126,799**
Net changes	**551,545**	**88,895**	**462,650**	**7,794,976**	**533,678**	**7,261,298**
Balance at June 30, 2015						
(Measurement Date)	**$ 10,611,630**	**$ 6,745,342**	**$ 3,866,288**	**$ 159,257,935**	**$ 112,606,517**	**$ 46,651,418**

Reported in governmental activities	$ 37,543,522
Reported in business-type activities	7,462,215
Reported by discretely presented component units	133,525
Not reported in government-wide Statement of Net Position [1]	1,512,156
Total net pension liability – PERF plans	**$ 46,651,418**

(concluded)

[1] Includes amounts allocated to related organizations and fiduciary funds. Additionally, this amount includes the difference in net pension liability for discretely presented component units with a reporting period ended December 31, 2015. Also includes adjustments for net pension liability understatments or overstatements included in the separately issued financial statements of proprietary funds, fiduciary component units, 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, 2016
(amounts in thousands)

	Current Rate -1%	Current Rate 7.65%	Current Rate +1%
State Miscellaneous	$ 39,887,881	$ 28,241,942	$ 18,471,007
State Industrial	1,195,626	710,084	308,543
State Safety	3,525,745	2,161,639	1,054,683
State Peace Officers and Firefighters	17,052,265	11,671,465	7,258,454
California Highway Patrol	5,342,954	3,866,288	2,655,853
Total PERF plans	**$ 67,004,471**	**$ 46,651,418**	**$ 29,748,540**

***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 year ended June 30, 2016, the State recognized pension expense of $4.3 billion. At June 30, 2016, 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, 2015, but prior to the year ended June 30, 2016. 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 inflows 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, 2016
(amounts in thousands)

	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol	Total PERF Plans
Pension Expense	$ 2,415,705	$ 84,220	$ 294,062	$ 1,153,836	$ 352,040	$ **4,299,863**
Deferred Outflows of Resources:						
Employer contributions	2,814,126	116,594	404,595	1,263,436	377,534	**4,976,285**
Difference between expected and actual experience	515,782	19,042	—	231,952	61,594	**828,370**
Deferred Inflows of Resources:						
Difference between expected and actual experience	—	—	(3,207)	—	—	**(3,207)**
Net difference between projected and actual earnings on pension plan investments	(616,506)	(21,457)	(52,450)	(214,556)	(54,680)	**(959,649)**

Table 20 shows amounts reported as deferred outflows and inflows of resources related to pensions that will be recognized in 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
2017	$ (270,130)	$ (9,405)	$ (46,902)	$ (109,417)	$ (28,161)	$ **(464,015)**
2018	(270,130)	(9,404)	(46,902)	(109,417)	(28,161)	**(464,014)**
2019	(287,915)	(14,165)	(46,901)	(109,416)	(28,161)	**(486,558)**
2020	727,451	30,559	85,048	339,989	85,798	**1,268,845**
2021	—	—	—	5,657	5,599	**11,256**

Payable to the Pension Plans: At June 30, 2016, the State reported a payable of $628 million for the outstanding amount of contributions to the PERF pension plans required for the year ended June 30, 2016.

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 and 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 had 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, 2015 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, 2015

	Judges'	Judges' II	Legislators'	Total
Inactive employees or beneficiaries currently receiving benefits	1,924	96	244	**2,264**
Inactive employees entitled to but not yet receiving benefits	15	1	14	**30**
Active employees	231	1,470	9	**1,710**
Total	**2,170**	**1,567**	**267**	**4,004**

***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% of pay. In certain situations, employers make member contributions.

Judges' II contribution rates are determined through the CalPERS' annual actuarial valuation process as required by section 75600.5 of the PERL. Classic members contribute 8% of their annual compensation to the plan. New members contribute half of the total normal cost calculated on January 1, 2013. The percentage only changes in any given year once the change to the total normal cost is greater than one percent from the original percentage determined.

For Legislators', contribution rates are determined through the CalPERS' annual actuarial valuation process as required by section 9358 on 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, 2015.

Table 22

Contribution Rates – Single-employer Plans
June 30, 2015

	Judges'	Judges' II	Legislators'
Average active employee rate	"Pay-	8.062 %	7.533 %
Employer rate of annual payroll	as-you-	24.615 %	42.257 %
Total	go"	**32.677 %**	**49.790 %**

***Actuarial Methods and Assumptions*:** The total pension liability for single-employer plans was measured as of June 30, 2015 (measurement date), by rolling forward the total pension liability determined by the June 30, 2014 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, 2014
Actuarial cost method:	Entry age normal in accordance with the requirement of GASB 68
Actuarial assumptions:	
Discount rate	Judges' 3.82%, 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' 3.82%, Judges' II 7.15%, Legislators' 6.00%, net of pension plan investment without reduction of 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)	Judges' – 3.00% Judges' II – 2.75% Legislators' – 2.75%

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

Judges' – 3.82%, reflecting the short-term nature of the assets. As the plan is insufficiently funded, CalPERS uses a discount rate of 3.82%, 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.

This page intentionally left blank

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

Table 25

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

	Judges'			Judges' II		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2014						
(Valuation Date)	$ 3,357,212	$ 57,199	$ 3,300,013	$ 967,962	$ 1,013,840	$ (45,878)
Changes recognized for the measurement period:						
Service cost	27,841	—	27,841	79,641	—	79,641
Interest on total pension liability	133,181	—	133,181	69,128	—	69,128
Difference between expected and actual experience:	57,568	—	57,568	(17,319)	—	(17,319)
Changes of assumptions	158,646	—	158,646	(16,619)	—	(16,619)
Employer contributions	—	180,910	(180,910)	—	65,629	(65,629)
Employee contributions	—	3,878	(3,878)	—	22,242	(22,242)
Investment income	—	88	(88)	—	(2,402)	2,402
Benefit payments, including refunds of employee contributions	(201,868)	(201,868)	—	(14,041)	(14,041)	—
Administrative expense	—	(1,227)	1,227	—	(1,127)	1,127
Other miscellaneous income	—	2,198	(2,198)	—	—	—
Net changes	**175,368**	**(16,021)**	**191,389**	**100,790**	**70,301**	**30,489**
Balance at June 30, 2015						
(Measurement Date)	**$ 3,532,580**	**$ 41,178**	**$ 3,491,402**	**$ 1,068,752**	**$ 1,084,141**	**$ (15,389)**

	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
Balance at June 30, 2014						
(Valuation Date)	$ 115,521	$ 130,354	$ (14,833)	**$ 4,440,695**	**$ 1,201,393**	**$ 3,239,302**
Changes recognized for the measurement period:						
Service cost	769	—	769	**108,251**	**—**	**108,251**
Interest on total pension liability	6,268	—	6,268	**208,577**	**—**	**208,577**
Difference between expected and actual experience:	(4,246)	—	(4,246)	**36,003**	**—**	**36,003**
Changes of assumptions	(2,654)	—	(2,654)	**139,373**	**—**	**139,373**
Employer contributions	—	590	(590)	**—**	**247,129**	**(247,129)**
Employee contributions	—	105	(105)	**—**	**26,225**	**(26,225)**
Investment income	—	(94)	94	**—**	**(2,408)**	**2,408**
Benefit payments, including refunds of employee contributions	(9,087)	(9,087)	—	**(224,996)**	**(224,996)**	**—**
Administrative expense	—	(399)	399	**—**	**(2,753)**	**2,753**
Other miscellaneous income	—	—	—	**—**	**2,198**	**(2,198)**
Net changes	**(8,950)**	**(8,885)**	**(65)**	**267,208**	**45,395**	**221,813**
Balance at June 30, 2015						
(Measurement Date)	**$ 106,571**	**$ 121,469**	**$ (14,898)**	**$ 4,707,903**	**$ 1,246,788**	**$ 3,461,115**
					Reported in governmental activities	**$ 3,461,115**

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*:** Judges' net pension liability was calculated using a discount rate of 3.82%; 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, 2016
(amounts in thousands)

	Current Rate -1%	Current Rate	Current Rate +1%
Judges' (3.82%)	$ 3,906,181	$ 3,491,402	$ 3,143,782
Judges' II (7.15%)	124,249	(15,389)	(124,114)
Legislators' (6.00%)	(2,489)	(14,898)	(25,065)
Total Single-employer Plans	**$ 4,027,941**	**$ 3,461,115**	**$ 2,994,603**

***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 year ended June 30, 2015, the State recognized pension expense of $227 million. At June 30, 2016, 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, 2015, but prior to the year ended June 30, 2016, 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, 2016
(amounts in thousands)

	Judges'	Judges' II	Legislators'	Total
Pension Expense	$ 194,248	$ 40,216	$ (7,278)	$ **227,186**
Deferred Outflows of Resources:				
Employer contributions subsequent to the measurement date	3,252	60,476	549	**64,277**
Net difference between projected and actual earnings on pension plan investments	3,510	7,231	1,212	**11,953**
Deferred Inflows of Resources:				
Difference between expected and actual experience	—	(15,305)	—	**(15,305)**
Changes of assumptions	—	(14,686)	—	**(14,686)**

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**
2017	$ 1,051	$ (6,702)	$ (106)	$ **(5,757)**
2018	1,051	(6,702)	(106)	**(5,757)**
2019	1,050	(6,702)	(106)	**(5,758)**
2020	358	11,552	1,530	**13,440**
2021	—	(3,946)	—	**(3,946)**
Thereafter	—	(10,260)	—	**(10,260)**

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. 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 1740 contributing employers, 438,388 active and 187,804 inactive program members, and 288,079 benefit recipients as of June 30, 2016. The payroll for employees covered by the DB Program for the year ended June 30, 2015, was approximately $32.0 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

8.15% and 8.88% of creditable compensation, respectively. The General Fund contributed an additional 2.017% 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 2046-47. The State contributed a total of $1.9 billion for the fiscal year 2015-16. CalSTRS' June 30, 2014 Defined Benefit Actuarial Valuation Report, may be found on CalSTRS' website at www.CalSTRS.com/sites/main/files/file-attachements/2014_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, 2015, the CB Benefit Program had 33 contributing school districts and 36,530 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, 2015, 287 individuals were receiving benefits from the RB program.

***Actuarial Methods and Assumptions*:** The total pension liability in the June 30, 2014 actuarial valuation (valuation date) was determined using the actuarial methods and assumptions shown in Table 29, applied to the measurement period ended June 30, 2015.

Table 29

Actuarial Methods and Assumptions – CalSTRS

Valuation date	June 30, 2014
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. 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. Based on the model from CalSTRS' consulting actuary's investment practice, a best estimate range was determined by assuming that the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect since 2012.

Table 30 shows the assumed allocation and best estimates of 10-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 %	4.50 %
Private equity	12	6.20
Real estate	15	4.35
Inflation sensitive	5	3.20
Fixed income	20	0.20
Cash/liquidity	1	0.00
Total	**100 %**	

***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, 2015 (measurement date) by applying update procedures and rolling forward the total pension liability determined by the actuarial valuation as of June 30, 2014 (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, 2015, the State's proportionate share of the CalSTRS' net pension liability was 34.593%, or $23.3 billion; this amount is reported in the governmental activities column of the government-wide Statement of Net Position as of June 30, 2016.

As a result of its requirement to contribute to CalSTRS, the State recognized expense of $1.55 billion for the year ended June 30, 2016 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, 2016
(amounts in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ —	$ 1,898,464
Difference between expected and actual experiences	—	389,171
Proportionate share change	—	1,908,275
State contributions subsequent to the measurement date	1,935,287	—
Total	**$ 1,935,287**	**$ 4,195,910**

The $1.9 billion reported as deferred outflows of resources resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Table 32 shows amounts reported as deferred outflows and deferred inflows of resources related to pensions that will be recognized in pension expense in futures 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
2017	$ (1,168,663)
2018	(1,168,663)
2019	(1,168,663)
2020	75,820
2021	(382,883)
Thereafter	(382,858)

***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, 2016
(amounts in thousands)

	Current Rate –1%	Current Rate 7.60%	Current Rate +1%
State's proportionate share of net pension liability	$ 35,165,160	$ 23,289,390	$ 13,419,660

***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 the 2015-16 fiscal year, approximately 178,750 annuitants were enrolled to receive health benefits and approximately 149,560 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, 12, and 16. The maximum 2016 monthly State contribution was $705 for one-party coverage, $1,343 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 2015-16 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 $2,977,294, with the average being $145,805. 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 the 2015-16 fiscal year 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 the 2016-17 fiscal year, and Nevada contributing $25,000 in the 2015-16 fiscal year. Shasta will make future trust contributions as funds are available, with an annual target of $100,000. For the year ended June 30, 2016, the State contributed $2.1 billion toward annuitants' health and dental benefits. Of this amount, the trial courts represent $91 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 year ended June 30, 2016, 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, 2014	$ 5,129,284	37.20 %	$ 19,489,030
June 30, 2015	5,156,787	39.33	22,617,653
June 30, 2016	5,693,106	37.74	26,162,194

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, 2016
(amounts in thousands)

	Amount
Annual required contribution	$ 5,626,380
Interest on net OPEB obligation	967,619
Adjustment to annual required contribution	(900,893)
Annual OPEB cost	**5,693,106**
Contributions made	(2,148,565)
Increase in net OPEB obligation	**3,544,541**
Net OPEB obligation – beginning of year	22,617,653
Net OPEB obligation – end of year [1]	**$ 26,162,194**

[1] This total is not fully reported within this State's financial statements as a portion is allocated to related organizations that are not included in the CAFR and fiduciary component units that deem the amount immaterial for inclusion in their separately issued financial statements.

***Funded Status and Funding Progress*:** As of June 30, 2016—the most recent actuarial valuation date for the State substantive plan—the actuarial accrued liability (AAL) for benefits was $76.7 billion, and the actuarial value of assets was $148 million, resulting in an unfunded actuarial accrued liability (UAAL) of $76.5 billion. The covered payroll (annual payroll of active employees covered by the plan) was $20.2 billion, and the ratio of the UAAL to the covered payroll was 380%.

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 of 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, 2016 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 2017 and 8.00% in 2018 initially, reduced to an ultimate rate of 4.50% in 2023. 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 an open 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 4.4% 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, 2016, the general obligation commercial paper program had

$771 million in outstanding commercial paper notes for governmental activities. The current agreement for the enterprise fund commercial paper program authorizes the issuance of notes in an aggregate principal amount not to exceed $140 million. As of June 30, 2016, the enterprise fund commercial paper program had $43 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, 2016, $5 million in outstanding bond anticipation notes existed in anticipation of the primary government issuing revenue bonds to the public.

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

NOTE 13: LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30, 2016, was approximately $1.8 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 year ended June 30, 2016, amounted to approximately $256 million for governmental activities and $27 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 $760 million. Note 9, Long-term Obligations, reports current additions and deductions for these capital lease obligations. Included in the capital lease commitments are lease-purchase agreements, amounting to a present value of net minimum lease payments of $208 million that the California State University, reported as an enterprise fund, has entered into with the State Public Works Board (SPWB), reported as an internal service fund. This amount represents 27.3% 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 $467 million for business-type activities.

The capital lease commitments do not include $7.3 billion in lease-purchase agreements with the SPWB and $186 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**
2017	$ 215,480	$ 65,031	$ 25,274	$ 63,683	$ 369,468
2018	166,683	54,120	19,227	61,232	301,262
2019	122,124	46,876	15,918	34,614	219,532
2020	68,942	30,025	14,355	33,229	146,551
2021	27,511	26,423	15,289	32,476	101,699
2022-2026	65,915	65,846	30,268	144,813	306,842
2027-2031	9,538	42,143	15,920	127,436	195,037
2032-2036	3,735	39,765	5,198	91,829	140,527
2037-2041	104	21,106	2,603	13,005	36,818
2042-2046	104	262	397	—	763
2047-2051	104	—	324	—	428
2052-2056	98	—	33	—	131
2057-2061	45	—	33	—	78
2062-2066	—	—	211	—	211
Total minimum lease payments	**$ 680,383**	**391,597**	**$ 145,050**	**602,317**	**$ 1,819,347**
Less: amount representing interest		21,415		212,932	
Present value of net minimum lease payments		**370,182**		**389,385**	
Less: current portion		25,689		43,818	
Capital lease obligation, net of current portion		**$ 344,493**		**$ 345,567**	

NOTE 14: COMMITMENTS

As of June 30, 2016, the primary government had commitments of $7.3 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 $1.1 billion from local governments and $6.2 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 $623 million for various education programs, $371 million for terrorism prevention and disaster-preparedness response projects, $296 million for services under the workforce development program, $189 million for services provided under various public health programs, $111 million for community service programs, $44 million for services provided under the welfare program, and $18 million for services provided under the child support program.

The primary government had other commitments, totaling $9.1 billion, that are not included as a liability on the Balance Sheet or the Statement of Net Position. The $9.1 billion in commitments includes grant agreements totaling approximately $4.9 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 $9.1 billion in commitments includes $379 million in undisbursed loan commitments for various programs aimed at providing housing and emergency shelter to persons in need and $2.0 billion for undisbursed loan commitments to qualified agencies for clean water projects.

The $9.1 billion in commitments also includes contracts of $1.0 billion 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 $473 million for CSU construction projects. In addition, CSU participates in forward-purchase contracts of natural gas and electricity. As of June 30, 2016, CSU's obligation under these special purchase arrangements requires it to purchase at fixed prices an estimated total of $30 million in electricity through December 2019 and $10 million in natural gas through June 2018. The primary government also had commitments of $43 million to veterans for the purchase of properties under contracts of sale. The California State Lottery Commission had commitments of $243 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, 2016, the primary government encumbered expenditures of $989 million for the General Fund, $2.5 billion for the Transportation Fund, $977 million for the Environmental and Natural Resources Fund, and $910 million 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, 2016, 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 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, 2016, the State had $74.9 billion in outstanding general obligation bonds related to governmental activities and $792 million related to business-type activities. In addition, $27.9 billion in long-term general obligation bonds had been authorized but not issued, of which $27.6 billion is related to governmental activities and $368 million is related to business-type activities. The total amount authorized but not issued includes $15.5 billion authorized by the applicable finance committees for issuance in the form of commercial paper notes. Of this amount, $771 million in general obligation indebtedness in the form of commercial paper notes was not yet retired by long-term bonds.

A. Variable-rate General Obligation Bonds

The State issues both fixed and variable-rate general obligation bonds. As of June 30, 2016, the State had $3.0 billion in variable-rate general obligation bonds outstanding, consisting of $803 million in daily-rate bonds with credit enhancement and $1.7 billion in weekly-rate bonds with credit enhancement, and $498 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 12 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 2015-16.

The letters of credit for the Series 2003 variable-rate bonds have expiration dates of December 16, 2016; September 7, 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 December 16, 2016; April 11, 2017; November 16, 2018; November 4, 2019; and November 15, 2019. The Series 2012A and 2013 C, D, and E Index Floating Rate Bonds have mandatory purchase dates on December 1, 2016 (Series 2013C); December 1, 2017 (Series 2013D); May 1, 2018 (Series 2012A); and December 3, 2018 (Series 2013E). The Series 2012B SIFMA Index Floating Rate Bonds have final maturities from 2017 to 2020.

Based on the schedules provided in the Official Statements, any required sinking fund deposits for the variable-rate general obligation bonds were set aside in a mandatory sinking fund at the beginning of each of fiscal year 2015-16 and will continue through 2033-34, and 2039-40. 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.

B. Mandatory Tender Bonds

As of June 30, 2016, the State had $1.1 billion in outstanding general obligation mandatory tender bonds, including $675 million with a fixed interest rate and $400 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, 2016; December 1, 2017; May 1, 2018; December 3, 2018; December 2, 2019; and December 1, 2021. 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, 2016, 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 United States 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 7.3% for the federal fiscal year ending September 30, 2015, and by 6.8% for the federal fiscal year ending September 30, 2016. The cash payment does not constitute a full faith and credit guarantee of the federal government, but is required to be paid by the United States 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, 2016. The estimated debt service requirements for the $3.0 billion variable-rate general obligation bonds are calculated using the actual interest rates in effect on June 30, 2016. 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**
2017	$ 2,963,410	$ 3,842,972	$ 6,806,382	$ 58,010	$ 25,933	$ 83,943
2018	2,922,565	3,744,362	6,666,927	62,325	23,640	85,965
2019	2,856,030	3,621,838	6,477,868	49,000	21,997	70,997
2020	2,975,970	3,470,786	6,446,756	41,365	20,700	62,065
2021	2,724,850	3,340,243	6,065,093	31,445	19,496	50,941
2022 - 2026	12,644,665	14,832,444	27,477,109	39,235	91,220	130,455
2027 - 2031	14,360,190	11,729,861	26,090,051	172,830	79,632	252,462
2032 - 2036	15,178,125	8,111,319	23,289,444	191,805	42,744	234,549
2037 - 2041	13,745,625	3,502,269	17,247,894	102,300	17,062	119,362
2042 - 2046	4,570,325	478,323	5,048,648	41,915	3,996	45,911
2047	—	—	—	2,030	33	2,063
Total	**$ 74,941,755**	**$ 56,674,417**	**$ 131,616,172**	**$ 792,260**	**$ 346,453**	**$ 1,138,713**

E. General Obligation Bond Defeasances

1. Current Year Activity

On September 9, 2015, the primary government issued $1.4 billion in general obligation bonds to current and advance refund $1.5 billion in outstanding general obligation bonds maturing in 2016 to 2036. 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 $273 million and resulted in an economic gain of $205 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 2.80% per year over the life of the new bonds.

On November 3, 2015, the primary government issued $866 million in general obligation bonds to advance refund $930 million in outstanding general obligation bonds maturing in 2017 to 2035. 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 $160 million and resulted in an economic gain of $123 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 2.71% per year over the life of the new bonds.

On March 17, 2016, the primary government issued $1.8 billion in general obligation bonds to current and advance refund $2.0 billion in outstanding general obligation bonds maturing in 2016 to 2037. 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 $399 million and resulted in an economic gain of $294 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 2.62% per year over the life of the new bonds.

On April 28, 2016, the primary government issued $998 million in general obligation bonds to current and advance refund $1.1 billion in outstanding general obligation bonds maturing 2017 to 2037. 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 $251 million and resulted in an economic gain of $196 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 2.05% 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, 2016, the outstanding balance of defeased general obligation bonds was approximately $3.6 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 in order 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 $46 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. In 2013 and 2015, bonds were issued to partially refund the 2005 bonds. Total principal and interest remaining on all asset-backed bonds is $16.6 billion, payable through 2047. All of the Tobacco Settlement Revenue and interest has been pledged in support of these asset-backed bonds. Principal and interest paid in the current year totaled $371 million, while Tobacco

Settlement Revenue and interest earned totaled $365 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 $14.8 billion, payable through 2040. 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 2015-16, 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 2015-16, 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, 2016
(amounts in thousands)

Primary government	
Governmental activities	
Transportation Fund	$ 44,213
Public Buildings Construction Fund	10,017,624
Nonmajor governmental funds:	
Golden State Tobacco Securitization Corporation Fund	6,926,057
Building authorities	222,605
Total governmental activities	**17,210,499**
Business-type activities	
Electric Power Fund	4,880,000
Water Resources Fund	2,770,888
California State University	5,450,928
Nonmajor enterprise funds	826,558
Total business-type activities	**13,928,374**
Total primary government	**31,138,873**
Discretely presented component units	
University of California	18,379,830
California Housing Finance Agency	2,583,952
Nonmajor component units	485,300
Total discretely presented component units	**21,449,082**
Total revenue bonds payable	**$ 52,587,955**

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	
	Governmental Activities		Business-type Activities		Component Units	
Year Ending June 30	Principal	Interest	Principal	Interest	Principal	Interest *
2017	$ 585,661	$ 794,652	$ 943,470	$ 590,843	$ 418,057	$ 913,104
2018	633,856	766,394	1,001,000	545,980	441,035	898,970
2019	611,811	736,244	1,050,405	498,776	446,010	879,669
2020	621,616	705,990	1,105,103	449,566	753,840	856,823
2021	628,206	676,967	1,128,540	397,369	727,630	832,652
2022-2026	2,918,736	3,081,895	2,651,660	1,372,908	2,958,465	3,658,865
2027-2031	3,116,910	2,347,108	1,751,670	909,721	3,310,730	2,910,341
2032-2036	2,930,995	1,482,848	1,552,955	534,444	3,531,885	2,099,123
2037-2041	1,968,860	885,462	801,235	267,891	3,490,031	1,296,701
2042-2046	1,579,475	667,894	490,145	109,699	2,304,190	687,053
2047-2051	849,176	3,169,381	258,580	28,189	684,735	380,862
2052-2116	—	—	44,415	777	1,375,810	4,077,092
Total	**$ 16,445,302**	**$ 15,314,835**	**$ 12,779,178**	**$ 5,706,163**	**$ 20,442,418**	**$ 19,491,255**

* Includes interest on variable-rate bonds based on rates in effect on June 30, 2016.

D. Revenue Bond Defeasances

1. Current Year – Governmental Activities

In April 2016, the SPWB and the California State University (CSU) entered into a restructuring agreement in which the bonds held by SPWB for CSU projects were refunded by revenue bonds issued by CSU. A portion of the bond proceeds of the CSU refunding bonds were deposited into escrow accounts and will be used to make principal and interest payments for the refunded debt, resulting in the legal defeasance of $773 million in bonds payable. The restructuring was authorized in the 2015-16 budget.

The SPWB and CSU also executed termination agreements for the leases related to the defeased bonds. As a result, the net investment in direct financing leases, construction work in progress, and bonds payable related to these leases were removed from the Public Buildings Construction Fund's Statement of Net Position. The net effect of these transactions was a gain of $41 million, and is shown in the Public Buildings Construction Fund's Statement of Revenues, Expenses, and Changes in Fund Net Position.

During the 2015-16 fiscal year, the SPWB issued $618 million in lease revenue refunding bonds. The bond proceeds were used to refund $731 million in outstanding lease revenue bonds. The net proceeds of the refunding bonds, along with additional resources, were deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased debt service payments by $137 million and resulted in an economic gain of $117 million. These lease revenue bonds are reported in the Public Buildings Construction Fund, an internal service fund.

During the 2015-16 fiscal year, the San Francisco State Building Authority issued $103 million in lease revenue refunding bonds to advance refund $132 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 bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased debt service payments by $15 million and resulted in an economic gain of $15 million.

During the 2015-16 fiscal year, the Oakland State Building Authority issued $59 million in lease revenue refunding bonds to advance refund $74 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 bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased debt service payments by $11 million and resulted in an economic gain of $10 million.

2. Current Year – Business-type Activities

In August 2015 and April 2016, the CSU issued a total of $2.4 billion in systemwide revenue refunding bonds to refund certain outstanding systemwide revenue bonds. A portion of the proceeds was deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered defeased and the liability for these bonds has been removed from the financial statements. This refunding decreased debt service payments by $210 million over the life of the bonds and resulted in an economic gain of $154 million for the refunded bonds.

3. Outstanding Balances

In current and prior 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, 2016, the outstanding balances of defeased revenue bonds were $233 million for governmental activities and $2.3 billion for business-type activities.

NOTE 17: SERVICE CONCESSION ARRANGEMENTS

The State entered into various service concessions arrangements with independent third parties to develop, equip, operate, and maintain nonexclusive concessions at park grounds in exchange for fixed installment payments, for a fixed period of time. These third parties are compensated by user fees. These existing facilities are reported as capital assets by the State, the present value of installment payments are reported as receivables, and a corresponding deferred inflow of resources is reported in the government-wide Statement of Net Position. The State reserves the right to provide or modify the types of goods and services provided by the operator to ensure that the public receives fair pricing, proper service, and appropriate quality. The State is not obligated by the debts of the operator in the event of a default, nor does the State guarantee minimum revenue to the operator. The amount of the primary government's service concession arrangements can be found in Note 21, Deferred Outflows and Deferred Inflows of Resources.

The University of California, a discretely presented component unit, has entered into service concession arrangements with third parties for student housing and certain other faculty and student services. Payments received or to be received by the University from service concession arrangements are reported as deferred inflows of resources. Additional information on the University's service concession arrangements can be found in the University's separately issued financial statements on its website at www.ucop.edu.

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 40 shows the amounts due from and due to other funds.

Table 40

Schedule of Due From Other Funds and Due To Other Funds
June 30, 2016
(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	$ —	$ —	$ —	$ 574,836	$ —	$ —	$ —	$ —	$ 254	$ —	$ 305,722	$ 2,942,362	$ 3,823,174
Federal Fund	113,110	920,411	339,175	90,647	—	—	—	3,183	—	81	39,876	13,189,735	14,696,218
Transportation Fund	13,920	—	—	48,757	—	—	—	—	—	—	23,437	50,310	136,424
Environmental and Natural Resources Fund	10,841	16,547	—	1,758	—	—	—	—	—	—	13,027	—	42,173
Nonmajor governmental funds	1,109,148	18,138	13,926	15,009	—	—	—	—	231	57	46,979	3,215,829	4,419,317
Total governmental funds	**1,247,019**	**955,096**	**353,101**	**731,007**	**—**	**—**	**—**	**3,183**	**485**	**138**	**429,041**	**19,398,236**	**23,117,306**
Enterprise funds													
Water Resources Fund	—	—	—	—	—	—	—	—	—	—	39,370	—	39,370
State Lottery Fund	952	—	—	383,781	—	—	—	—	—	—	—	—	384,733
Unemployment Programs Fund	217,160	—	—	—	—	—	—	—	—	—	—	—	217,160
Nonmajor enterprise funds	1,292	—	195	343	—	—	—	—	—	—	317	8	2,155
Total enterprise funds	**219,404**	**—**	**195**	**384,124**	**—**	**—**	**—**	**—**	**—**	**—**	**39,687**	**8**	**643,418**
Internal service funds	4,113	5,938	8,873	25,282	4,000	1,265	1,394	4,484	338	1,440	46,420	2,534	**106,081**
Total due from other funds	**$ 1,470,536**	**$ 961,034**	**$ 362,169**	**$ 1,140,413**	**$ 4,000**	**$ 1,265**	**$ 1,394**	**$ 7,667**	**$ 823**	**$ 1,578**	**$ 515,148**	**$ 19,400,778**	**$ 23,866,805**

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 40, annual enacted budgets provide for long-term loans from many of the State's special funds—mainly the Transportation Fund, Environmental and Natural Resources Fund, and nonmajor governmental funds—to the General Fund. The $2.4 billion in Transportation Fund loans payable from the General Fund also includes $849 million in deferred Proposition 42 transfers for traffic congestion relief and other direct loans from the Traffic Congestion Relief Program.

Table 41 shows the primary government's interfund receivables and payables.

Table 41

Schedule of Interfund Receivables and Payables
June 30, 2016
(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	$ —	$ 2,413,168	$ 454,800	$ 791,160	$ —	$ 308,233	$ 1,600	$ 14,207	$ 3,983,168
Transportation Fund	—	—	—	10,000	—	—	—	864	10,864
Environmental and Natural Resources Fund	4,790	10,000	—	—	—	—	—	—	14,790
Nonmajor governmental funds	22,527	1,448	—	—	—	—	—	—	23,975
Total governmental funds	**27,317**	**2,424,616**	**454,800**	**801,160**	**—**	**308,233**	**1,600**	**15,071**	**4,032,797**
Internal service funds	41,717	—	—	86	92,011	—	—	10,292	**144,106**
Total primary government	**$ 69,034**	**$ 2,424,616**	**$ 454,800**	**$ 801,246**	**$ 92,011**	**$ 308,233**	**$ 1,600**	**$ 25,363**	**$ 4,176,903**

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

Table 42

Schedule of Due from Primary Government and Due to Component Units
June 30, 2016
(amounts in thousands)

Due From	Due To University of California
Governmental funds	
General Fund	$ 137,882
Nonmajor governmental funds	32,321
Total governmental funds	**170,203**
Total primary government	**$ 170,203**

This page intentionally left blank

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 $2.3 billion to nonmajor governmental funds, mainly for support of trial courts, local governments, and health care related programs. The General Fund also transferred $2.8 billion to the California State University, an enterprise fund. The Transportation Fund transferred $1.1 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 $500 million to the General Fund for administration of the Unemployment Insurance Program.

Table 43 shows interfund transfers of the primary government.

Table 43

Schedule of Interfund Transfers
June 30, 2016
(amounts in thousands)

	Transferred To						
Transferred From	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**	**Nonmajor Governmental Funds**	**California State University Fund**	**Internal Service Funds**	**Total**
Governmental funds							
General Fund	$ —	$ —	$ 853	$ 2,265,715	$ 2,800,101	$ —	$ 5,066,669
Federal Fund	500,156	—	168,572	18,857	—	—	687,585
Transportation Fund	72,868	—	40,409	1,148,605	—	—	1,261,882
Environmental and Natural Resources Fund	1,067	—	—	13,031	—	—	14,098
Nonmajor governmental funds	35,636	10,021	26,107	28,144	—	—	99,908
Total governmental funds	**609,727**	**10,021**	**235,941**	**3,474,352**	**2,800,101**	**—**	**7,130,142**
Internal service funds	16,448	—	—	38,634	—	1,459	**56,541**
Total primary government	**$ 626,175**	**$ 10,021**	**$ 235,941**	**$ 3,512,986**	**$ 2,800,101**	**$ 1,459**	**$ 7,186,683**

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

A. Fund Balances

Table 44 shows the composition of the governmental fund balances.

Table 44

Schedule of Fund Balances by Function
June 30, 2016
(amounts in thousands)

	General Fund	Federal Fund	Transportation Fund	Environmental and Natural Resources Fund	Nonmajor Governmental Funds
Nonspendable					
Long-term interfund receivables	$ 69,034	$ —	$ —	$ —	$ —
Long-term loans receivable	6,905	—	—	—	—
Other	—	—	—	—	11,188
Total nonspendable	**75,939**	**—**	**—**	**—**	**11,188**
Restricted					
General government	6,360	27,906	7,220	5,603	3,551,089
Education	457,181	432	457	—	350,216
Health and human services	153,726	257	—	1,685,994	2,490,843
Natural resources and environmental protection	5,578	10,808	—	4,406,860	145,852
Business, consumer services, and housing	1,644	208,431	216,772	42,423	3,461,533
Transportation	—	—	8,262,661	—	9,161
Corrections and rehabilitation	—	—	—	—	648
Budget stabilization	3,420,422	—	—	—	—
Total restricted	**4,044,911**	**247,834**	**8,487,110**	**6,140,880**	**10,009,342**
Committed					
General government	12,193	—	—	18,212	385,512
Education	3,745	—	—	—	46,454
Health and human services	4,057	—	1,251	—	350,900
Natural resources and environmental protection	2,024	—	4	3,930,112	686,605
Business, consumer services, and housing	—	—	50,552	38,927	131,973
Transportation	—	—	—	—	3,818
Corrections and rehabilitation	46,083	—	—	—	8,158
Total committed	**68,102**	**—**	**51,807**	**3,987,251**	**1,613,420**
Assigned – general government	—	—	—	—	14,622
Unassigned	(3,827,224)	—	—	(1,037)	—
Total fund balances	**$ 361,728**	**$ 247,834**	**$ 8,538,917**	**$ 10,127,094**	**$ 11,648,572**

B. Net Position Deficits

Table 45 shows the net position deficit balances.

Table 45

Schedule of Net Position Deficits
June 30, 2016
(amounts in thousands)

	Internal Service Funds	Enterprise Funds
Architecture Revolving Fund	$ 22,877	$ —
Service Revolving Fund	642,247	—
Technology Services Revolving Fund	202,472	—
Water Resources Revolving Fund	5,301	—
Other Internal Service Programs Fund	55,604	—
California State University Fund	—	2,576,689
Total net position deficits	**$ 928,501**	**$ 2,576,689**

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, 2016, the value of restricted endowments and gifts totaled $14.6 billion, and unrestricted endowments and gifts totaled $3.0 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 $2.1 billion at June 30, 2016. 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 $1.1 billion and $9 million, respectively.

NOTE 20: 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 $3.9 billion as of June 30, 2016. 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 $5.6 billion is discounted to $3.9 billion using a 3.5% interest rate. Of the total discounted liability, $409 million is a current liability, of which $276 million is included in the General Fund, $130 million in the special revenue funds, and $3 million in the internal service funds. The remaining $3.5 billion is reported as other noncurrent liabilities in the government-wide Statement of Net Position.

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

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

Table 46

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

	2016	2015
Unpaid claims, beginning	$ 3,843,167	$ 3,703,970
Incurred claims	540,310	566,194
Claim payments	(443,757)	(426,997)
Unpaid claims, ending	**$ 3,939,720** *	**$ 3,843,167**

* Includes $3,282 for business-type activities.

NOTE 21: DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

In the fund financial statements, governmental funds reported deferred inflows of resources of $1.9 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, 2016
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Deferred outflows of resources:				
Loss on refunding of debt	$ 808,177	$ 390,176	$ 1,198,353	$ 397,863
Decrease in fair value of hedging derivatives	—	—	—	179,564
Net pension liability	6,917,408	938,106	7,855,514	5,080,144
Total deferred outflows of resources	**7,725,585**	**1,328,282**	**9,053,867**	**5,657,571**
Deferred inflows of resources:				
Gain on refunding of debt	194,700	—	194,700	773
Service concession arrangements	64,321	—	64,321	71,139
Net pension liability	4,990,302	162,346	5,152,648	1,210,490
Other deferred inflows	—	922,505	922,505	499,155
Total deferred inflows of resources	**$ 5,249,323**	**$ 1,084,851**	**$ 6,334,174**	**$ 1,781,557**

NOTE 22: 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, 2016, the CalHFA had $592 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, 2016, these component units had approximately $4.3 billion of debt outstanding, which is not debt of the State.

NOTE 23: 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, 2016; those in progress as of June 30, 2016, and settled or decided against the primary government as of March 22, 2017; and those having a high probability of resulting in a decision against the primary government as of March 22, 2017, 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 the more significant lawsuits pending against the primary government:

The primary government is a defendant in two cases, *Bakersfield Mall, LLC v. Franchise Tax Board*, and *CA–Centerside II, LLC v. Franchise Tax Board*, both regarding the constitutionality of a fee imposed on limited-liability companies (LLC). Plaintiffs allege class action and declaratory relief, and seek attorney fees based on alleged violations to the state and federal constitutions. They seek certification of two classes of allegedly similarly situated LLCs and unspecified amount of refunds on behalf of the LLC classes, alleged to be in excess of 50,000 members. 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.

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. The primary government has already begun to pay refunds to LLCs, with the same facts as Northwest, that have no income earned inside California. In another previously settled case, *Ventas Finance I, LLC v. Franchise Tax Board*, the Court of Appeal also ruled that the fee is 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* raised 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. This plaintiff also intended to bring a class action suit for refund on behalf of all similarly situated LLCs and to declare the LLC fee unconstitutional. However, the Court of Appeal ruled that Bakersfield Mall, LLC did not follow mandatory class action claim procedures. *CA-Centerside II, LLC v. Franchise Tax Board* raised 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. Actual and expected future claims for refunds from LLCs are estimated to be as high as $1.2 billion.

The primary government is a defendant in another case, *Abercrombie & Fitch Co. & Subsidiaries v. Franchise Tax Board*, regarding 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. A Notice of Appeal was filed December 7, 2016.

A writ petition, *Bekkerman et al v. California Board of Equalization*, has been filed against the primary government challenging the validity of a Board of Equalization (the Board) sales tax regulation (Cal. 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. One plaintiff has removed the class action to federal court. The primary government has filed a motion to remand that is fully briefed and pending before the District Court. If the sales tax regulation is invalidated, the companion class action could lead to an order requiring the Board to refund up to $1.0 billion in sales tax collections. The superior court will hold a hearing on the merits of the writ on June 2, 2017.

The primary government is a defendant in several matters collectively known as the Suction Dredge Mining Cases. Mining interests have challenged the State’s regulation of suction dredge gold mining, alleging federal preemption and takings claims. One of these matters, *The New 49’ERS, Inc. et al. v. California Department of Fish and Game (The New 49’ERS)*, is also pled as a class action. If the plaintiffs in *The New 49’ERS* succeed in certifying a class of miners, and that class ultimately prevails in their claim that the state moratorium on suction dredge mining resulted in a constitutional taking of their federal mining rights, the State could face a judgment in excess of $5 billion.

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 have been 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 is involved in similar disputes with LA Care and other local initiatives regarding application of budget reduction factors to managed-care capitation rates; these disputes are still pending in administrative hearings. The combined total potential loss is more than $200 million.

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 24: SUBSEQUENT EVENTS

The following information describes significant events that occurred subsequent to June 30, 2016, but prior to the date of the auditor's report.

A. Debt Issuances

In August 2016, October 2016 and March 2017, the primary government issued $2.7 billion, $1.6 billion, and $2.8 billion, respectively, in general obligation bonds to finance or refinance capital facilities or other voter-approved costs for public purposes, including: stem cell research; housing and emergency shelter; high-speed rail; K-12 public school facilities; K-12 public education facilities; public higher education facilities; library construction and renovation; safe drinking water; clean air and transportation improvement; earthquake safety and public building rehabilitation; new prison construction; passenger rail and clean air; safe, clean, and reliable water supply; safe drinking water, clean water, watershed and flood protection; safe neighborhood parks, clean water, clean air, and coastal protection; seismic retrofit; water conservation; children's hospitals; highway safety, traffic reduction, air quality and port security; safe drinking water, water quality and supply, flood control, river and coastal protection; veterans' housing; water quality, supply, and infrastructure improvement; clean water, clean air, safe neighborhood and coastal protection; disaster preparedness and flood protection; public safety; correctional facilities; water security, clean drinking water, coastal and beach protection.

In August 2016, the University of California, a major component unit, issued a total of $1.0 billion in revenue bonds to finance and refinance certain facilities and projects of their medical centers.

In September 2016, the primary government issued $100 million in general obligation bonds for public purposes, including highway safety, traffic reduction, air quality and port security. The primary government also remarketed $100 million in mandatory tender bonds originally issued to finance capital facilities or other voter-approved costs for public purposes..

In September 2016 and October 2016, the Department of Water Resources issued a combined $995 million in revenue bonds. The $567 million in power supply revenue bonds were issued to refund outstanding power supply bonds and to pay related issuance costs. The $428 million in water system revenue bonds were issued to fund construction of certain water system projects, to refund or redeem certain outstanding water system revenue bonds and commercial paper notes, to fund deposits to a debt service reserve account, to fund capitalized interest, and to pay related issuance costs.

In October 2016, the State Public Works Board issued $705 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 Correction and Rehabilitation, to reimburse interim loans, and to pay related issuance costs.

In October 2016, the primary government issued $167 million in veterans home purchase revenue bonds to refund certain outstanding home purchase revenue bonds, to make deposits into funds, accounts or subaccounts as provided in the resolution, to finance new and refinance existing contracts of purchase, and to pay related issuance costs.

In November 2016, two of the State's building authorities issued $22 million in lease revenue bonds to refund outstanding bonds for two state office buildings, to fund a debt service reserve account, and to pay related issuance costs.

Subsequent to June 30, 2016, the California State University issued $199 million in bond anticipation notes to fund capital projects at various campuses. In September 2016, the university deposited cash and certain investment securities in an irrevocable escrow with the State Treasurer as security for the partial refunding of certain outstanding Systemwide Revenue Bonds maturities. In February 2017, the university issued $1.2 billion in revenue bonds to finance and refinance the acquisition, construction, improvement, and renovation of certain university facilities, to refund certain outstanding Systemwide Revenue Bond maturities, to fund capitalized interest, and to pay related issuance costs.

B. Other

In the November 8, 2016 general election:

- Voters passed Proposition 51 authorizing the State to sell $9.0 billion in general obligation bonds for education facilities—$7.0 billion for K-12 public school facilities and $2.0 billion for community college facilities. The bonds will be issued over a five-year period and will increase the General Fund's debt service expenditures by approximately $500 million per year for 35 years.

- Voters passed Proposition 55 authorizing the State to extend through 2030 the income tax rates established by Proposition 30 that were scheduled to end in 2018. Proposition 55 guarantees revenues for K-12 public schools and community colleges, health care services for low-income Californians, budget reserves, and outstanding debt paydowns. After satisfying these constitutional requirements, remaining revenues, if any, would be available for any budget purpose.

- Voters passed Proposition 56 authorizing the State to increase its excise tax on cigarettes by $2 per pack and by a similar amount for other tobacco products such as cigars, chewing tobacco, and electronic cigarettes effective April 1, 2017. Revenue from these higher taxes will be used for many purposes, but primarily to increase spending on health care services for low-income Californians.

- Voters passed Proposition 64 legalizing the use, growth, and possession of marijuana for adults 21 years and older for nonmedical purposes, with certain restrictions. The State will regulate nonmedical marijuana businesses and tax the growing and selling of medical and nonmedical marijuana. Most of the revenue from these taxes will support youth programs, environmental protection, and law enforcement.

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. In addition, Fitch 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."

California's demand for unemployment insurance benefits requires the State to continue borrowing from the U.S. Department of Labor during the 2016-17 fiscal year. As of June 30, 2016, the State had $3.1 billion in outstanding loans with the U.S. Department of Labor that were used to cover deficits in the Unemployment Programs Fund. As of March 22, 2017, the State had an outstanding loan balance of $3.0 billion and estimates that these loans will be fully repaid in 2018.

In December 2016, the California Public Employees' Retirement System (CalPERS) Board of Administration voted to lower the discount rate used in its actuarial assumptions from 7.5% to 7.0% over the next three years. The Board approved separate timelines for implementing the new rate for the State, school districts, and public agencies. The new discount rate for the State would take effect July 1, 2017, and the new discount rate for school districts and public agencies would take effect July 1, 2018. CalPERS' decrease in the discount rate will potentially increase the State's unfunded pension liability and will likely result in higher employer contributions in the future.

In February 2017, the California State Teacher's Retirement System (CalSTRS) Board of Administration voted to adopt a new set of actuarial assumptions that reflect members' increasing life expectancies and current economic trends. The board voted to decrease the discount rate over a two-year period from 7.50% to 7.25% for the June 30, 2016 actuarial valuation to be presented at the April 2017 board meeting, and a decrease from 7.25% to 7.00% for the June 30, 2017 actuarial valuation to be presented at the April/May 2018 board meeting. CalSTRS' decrease in the discount rate will potentially increase the State's share of CalSTRS' unfunded liability and will likely result in a higher non-employer contribution required from the State.

Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios

For the Past Two Fiscal Years [1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

	2014 [3]	2015 [3]
STATE MISCELLANEOUS [2]		
Total pension liability		
Service cost	$ 1,477,762	$ 1,576,695
Interest on total pension liability	6,670,928	6,970,837
Differences between expected and actual experience	—	693,639
Benefit payments, including refunds of employee contributions	(4,844,631)	(5,098,222)
Net change in total pension liability	3,304,059	4,142,949
Total pension liability – beginning	**88,885,115**	**92,189,174**
Total pension liability – ending (a)	**$ 92,189,174**	**$ 96,332,123**
Plan fiduciary net position		
Contributions – employer	2,156,312	2,608,785
Contributions – employee	766,896	771,046
Net investment income	10,370,838	1,505,042
Benefit payments, including refunds of employee contributions	(4,844,631)	(5,098,222)
Plan to plan resource movement	—	(354)
Administrative expense	(86,473)	(76,678)
Net change in plan fiduciary net position	8,362,942	(290,381)
Plan fiduciary net position – beginning	**60,017,620**	**68,380,562**
Plan fiduciary net position – ending (b)	**$ 68,380,562**	**$ 68,090,181**
State's net pension liability – ending (a) – (b)	**$ 23,808,612**	**$ 28,241,942**
Plan fiduciary net position as a percentage of the total pension liability	74.17%	70.68%
Covered-employee payroll	$ 10,019,739	$ 10,640,884
State's net pension liability as a percentage of covered-employee payroll	237.62%	265.41%

(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 Two Fiscal Years [1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

	2014 [3]	2015 [3]
STATE INDUSTRIAL [2]		
Total pension liability		
Service cost	$ 92,324	$ 100,006
Interest on total pension liability	241,278	257,527
Differences between expected and actual experience	—	26,976
Benefit payments, including refunds of employee contributions	(146,977)	(157,029)
Net change in total pension liability	186,625	227,480
Total pension liability – beginning	**3,181,282**	**3,367,907**
Total pension liability – ending (a)	**$ 3,367,907**	**$ 3,595,387**
Plan fiduciary net position		
Contributions – employer	88,516	107,238
Contributions – employee	44,459	49,482
Net investment income	423,076	62,385
Benefit payments, including refunds of employee contributions	(146,977)	(157,029)
Plan to plan resource movement	—	30
Administrative expense	(3,583)	(3,252)
Net change in plan fiduciary net position	405,491	58,854
Plan fiduciary net position – beginning	**2,420,958**	**2,826,449**
Plan fiduciary net position – ending (b)	**$ 2,826,449**	**$ 2,885,303**
State's net pension liability – ending (a) – (b)	**$ 541,458**	**$ 710,084**
Plan fiduciary net position as a percentage of the total pension liability	83.92%	80.25%
Covered-employee payroll	$ 532,490	$ 577,711
State's net pension liability as a percentage of covered-employee payroll	101.68%	122.91%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Two Fiscal Years [1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

	2014 [3]	2015 [3]
STATE SAFETY [2]		
Total pension liability		
Service cost	$ 402,902	$ 422,634
Interest on total pension liability	663,219	734,333
Differences between expected and actual experience	—	(4,150)
Benefit payments, including refunds of employee contributions	(429,353)	(469,275)
Net change in total pension liability	636,768	683,542
Total pension liability – beginning	**8,682,750**	**9,626,597** *
Total pension liability – ending (a)	**$ 9,319,518**	**$ 10,310,139**
Plan fiduciary net position		
Contributions – employer	339,232	393,925
Contributions – employee	196,148	215,482
Net investment income	1,162,050	175,677
Benefit payments, including refunds of employee contributions	(429,353)	(469,275)
Plan to plan resource movement	—	499
Administrative expense	(9,945)	(9,200)
Net change in plan fiduciary net position	1,258,132	307,108
Plan fiduciary net position – beginning	**6,583,260**	**7,841,392**
Plan fiduciary net position – ending (b)	**$ 7,841,392**	**$ 8,148,500**
State's net pension liability – ending (a) – (b)	**$ 1,478,126**	**$ 2,161,639**
Plan fiduciary net position as a percentage of the total pension liability	84.14%	79.03%
Covered-employee payroll	$ 1,901,235	$ 2,003,777
State's net pension liability as a percentage of covered-employee payroll	77.75%	107.88%

(continued)

* Restated

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Two Fiscal Years [1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

	2014 [3]	2015 [3]
STATE PEACE OFFICERS AND FIREFIGHTERS [2]		
Total pension liability		
Service cost	$ 816,836	$ 838,628
Interest on total pension liability	2,622,406	2,759,982
Differences between expected and actual experience	—	288,526
Benefit payments, including refunds of employee contributions	(1,568,738)	(1,697,676)
Net change in total pension liability	1,870,504	2,189,460
Total pension liability – beginning	**34,655,771**	**36,219,196** *
Total pension liability – ending (a)	**$ 36,526,275**	**$ 38,408,656**
Plan fiduciary net position		
Contributions – employer	959,741	1,146,192
Contributions – employee	331,956	366,419
Net investment income	3,964,754	584,142
Benefit payments, including refunds of employee contributions	(1,568,738)	(1,697,676)
Plan to plan resource movement	—	194
Administrative expense	(33,334)	(30,069)
Net change in plan fiduciary net position	3,654,379	369,202
Plan fiduciary net position – beginning	**22,713,610**	**26,367,989**
Plan fiduciary net position – ending (b)	**$ 26,367,989**	**$ 26,737,191**
State's net pension liability – ending (a) – (b)	**$ 10,158,286**	**$ 11,671,465**
Plan fiduciary net position as a percentage of the total pension liability	72.19%	69.61%
Covered-employee payroll	$ 3,030,525	$ 3,115,287
State's net pension liability as a percentage of covered-employee payroll	335.20%	374.65%

(continued)

* Restated

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Two Fiscal Years [1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

	2014 [3]	2015 [3]
CALIFORNIA HIGHWAY PATROL		
Total pension liability		
Service cost	$ 191,730	$ 198,665
Interest on total pension liability	724,474	764,348
Differences between expected and actual experience	—	75,593
Benefit payments, including refunds of employee contributions	(460,991)	(487,061)
Net change in total pension liability	455,213	551,545
Total pension liability – beginning	**9,604,872**	**10,060,085**
Total pension liability – ending (a)	**$ 10,060,085**	**$ 10,611,630**
Plan fiduciary net position		
Contributions – employer	277,702	351,197
Contributions – employee	83,161	85,791
Net investment income	1,005,007	146,782
Benefit payments, including refunds of employee contributions	(460,991)	(487,061)
Plan to plan resource movement	—	(214)
Administrative expense	(8,417)	(7,600)
Net change in plan fiduciary net position	896,462	88,895
Plan fiduciary net position – beginning	**5,759,985**	**6,656,447**
Plan fiduciary net position – ending (b)	**$ 6,656,447**	**$ 6,745,342**
State's net pension liability – ending (a) – (b)	**$ 3,403,638**	**$ 3,866,288**
Plan fiduciary net position as a percentage of the total pension liability	66.17%	63.57%
Covered-employee payroll	$ 765,283	$ 809,610
State's net pension liability as a percentage of covered-employee payroll	444.76%	477.55%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Two Fiscal Years [1]
(amounts in thousands)

SINGLE-EMPLOYER PLANS

	2014 [3]	2015 [3]
JUDGES'		
Total pension liability		
Service cost	$ 27,581	$ 27,841
Interest on total pension liability	140,256	133,181
Differences between expected and actual experience	—	57,568
Changes of assumptions	—	158,646
Benefit payments, including refunds of employee contributions	(193,935)	(201,868)
Net change in total pension liability	(26,098)	175,368
Total pension liability – beginning	**3,383,310**	**3,357,212**
Total pension liability – ending (a)	**$ 3,357,212**	**$ 3,532,580**
Plan fiduciary net position		
Contributions – employer	191,148	180,910
Contributions – employee	7,248	3,877
Net investment income	59	88
Other miscellaneous income	—	2,198
Benefit payments, including refunds of employee contributions	(193,935)	(201,867)
Administrative expense	(1,141)	(1,227)
Net change in plan fiduciary net position	3,379	(16,021)
Plan fiduciary net position – beginning	**53,820**	**57,199**
Plan fiduciary net position – ending (b)	**$ 57,199**	**$ 41,178**
State's net pension liability – ending (a) – (b)	**$ 3,300,013**	**$ 3,491,402**
Plan fiduciary net position as a percentage of the total pension liability	1.70%	1.17%
Covered-employee payroll	$ 163,574	$ 28,770
State's net pension liability as a percentage of covered-employee payroll	2017.44%	12135.56%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Two Fiscal Years [1]
(amounts in thousands)

SINGLE-EMPLOYER PLANS

	2014 [3]	2015 [3]
JUDGES' II		
Total pension liability		
Service cost	$ 78,670	$ 79,641
Interest	61,044	69,128
Differences between expected and actual experience	—	(17,319)
Changes of assumptions	—	(16,619)
Benefit payments, including refunds of employee contributions	(8,950)	(14,041)
Net change in total pension liability	130,764	100,790
Total pension liability – beginning	**837,198**	**967,962**
Total pension liability – ending (a)	**$ 967,962**	**$ 1,068,752**
Plan fiduciary net position		
Contributions – employer	57,027	65,629
Contributions – employee	20,413	22,242
Net investment income	150,168	(2,402)
Benefit payments, including refunds of employee contributions	(8,950)	(14,041)
Administrative expense	(785)	(1,127)
Net change in plan fiduciary net position	217,873	70,301
Plan fiduciary net position – beginning	**795,967**	**1,013,840**
Plan fiduciary net position – ending (b)	**$ 1,013,840**	**$ 1,084,141**
State's net pension liability/(asset) – ending (a) – (b)	**$ (45,878)**	**$ (15,389)**
Plan fiduciary net position as a percentage of the total pension liability	104.74%	101.44%
Covered-employee payroll	$ 40,476	$ 180,230
State's net pension liability/(asset) as a percentage of covered-employee payroll	-113.35%	-8.54%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Two Fiscal Years [1]
(amounts in thousands)

SINGLE-EMPLOYER PLANS

	2014 [3]	2015 [3]
LEGISLATORS'		
Total pension liability		
Service cost	$ 732	$ 769
Interest on total pension liability	6,465	6,268
Differences between expected and actual experience	—	(4,246)
Changes of assumptions	—	(2,654)
Benefit payments, including refunds of employee contributions	(7,482)	(9,087)
Net change in total pension liability	(285)	(8,950)
Total pension liability – beginning	**115,806**	**115,521**
Total pension liability – ending (a)	**$ 115,521**	**$ 106,571**
Plan fiduciary net position		
Contributions – employer	565	590
Contributions – employee	113	105
Net investment income	15,372	(94)
Benefit payments, including refunds of employee contributions	(7,482)	(9,087)
Administrative expense	(362)	(399)
Net change in plan fiduciary net position	8,206	(8,885)
Plan fiduciary net position – beginning	**122,148**	**130,354**
Plan fiduciary net position – ending (b)	**$ 130,354**	**$ 121,469**
State's net pension liability/(asset) – ending (a) – (b)	**$ (14,833)**	**$ (14,898)**
Plan fiduciary net position as a percentage of the total pension liability	112.84%	113.98%
Covered-employee payroll	$ 1,471	$ 1,397
State's net pension liability as a percentage of covered-employee payroll	-1008.36%	-1066.43%

(concluded)

Schedule of State Pension Contributions

For the Past Two Fiscal Years [1]
(amounts in thousands)

	2015	2016
PUBLIC EMPLOYEES' RETIREMENT FUND PLANS		
STATE MISCELLANEOUS [2]		
Actuarially determined contribution	$ 2,421,157	$ 2,718,895
Contributions in relation to the actuarially determined contribution	(2,583,400)	(2,814,126)
Contribution deficiency (excess)	$ (162,243)	$ (95,231)
Covered-employee payroll	$ 10,655,117	$ 11,197,607
Contributions as a percentage of covered-employee payroll	24.25%	25.13%
STATE INDUSTRIAL [2]		
Actuarially determined contribution	$ 92,024	$ 103,293
Contributions in relation to the actuarially determined contribution	(104,769)	(116,594)
Contribution deficiency (excess)	$ (12,745)	$ (13,301)
Covered-employee payroll	$ 577,713	$ 625,220
Contributions as a percentage of covered-employee payroll	18.14%	18.65%
STATE SAFETY [2]		
Actuarially determined contribution	$ 341,509	$ 368,444
Contributions in relation to the actuarially determined contribution	(387,508)	(404,595)
Contribution deficiency (excess)	$ (45,999)	$ (36,151)
Covered-employee payroll	$ 2,003,716	$ 2,100,289
Contributions as a percentage of covered-employee payroll	19.34%	19.26%
STATE PEACE OFFICERS AND FIREFIGHTERS [2]		
Actuarially determined contribution	$ 1,086,102	$ 1,197,160
Contributions in relation to the actuarially determined contribution	(1,148,597)	— (1,263,436)
Contribution deficiency (excess)	$ (62,495)	$ (66,276)
Covered-employee payroll	$ 3,115,364	$ 3,241,763
Contributions as a percentage of covered-employee payroll	36.87%	38.97%

(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 Two Fiscal Years [1]
(amounts in thousands)

	2015	2016
PUBLIC EMPLOYEES' RETIREMENT FUND PLANS		
CALIFORNIA HIGHWAY PATROL		
Actuarially determined contribution	$ 323,393	$ 363,634
Contributions in relation to the actuarially determined contribution	(352,139)	(377,534)
Contribution deficiency (excess)	$ (28,746)	$ (13,900)
Covered-employee payroll	$ 809,610	$ 808,032
Contributions as a percentage of covered-employee payroll	43.49%	46.72%
SINGLE-EMPLOYER PLANS		
JUDGES'		
Actuarially determined contribution	$ 1,884,555	$ 463,073
Contributions in relation to the actuarially determined contribution	(3,598)	(3,252)
Contribution deficiency (excess)	$ 1,880,957	$ 459,821
Covered-employee payroll	$ 167,542	$ 29,771
Contributions as a percentage of covered-employee payroll	2.15%	10.92%
JUDGES' II		
Actuarially determined contribution	$ 63,193	$ 58,362
Contributions in relation to the actuarially determined contribution	(59,982)	(60,476)
Contribution deficiency (excess)	$ 3,211	$ (2,114)
Covered-employee payroll	$ 41,458	$ 186,505
Contributions as a percentage of covered-employee payroll	144.68%	32.43%
LEGISLATORS'		
Actuarially determined contribution	$ 260	$ 141
Contributions in relation to the actuarially determined contribution	(544)	(549)
Contribution deficiency (excess)	$ (284)	$ (408)
Covered-employee payroll	$ 1,397	$ 1,298
Contributions as a percentage of covered-employee payroll	38.94%	42.3%

(continued)

Schedule of State Pension Contributions (continued)

For the Past Two 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-employee payroll:	Pensionable earnings provided by the employer
Valuation date:	Actuarially determined contribution rates were calculated as of June 30, 2013.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method	See each plan's June 30, 2013 Actuarial Valuation Report.
Asset valuation method	Actuarial value of assets; for details see each plan's June 30, 2013 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 Two Fiscal Years [1]
(amounts in thousands)

	2014 [2]	2015 [2]
State's proportion of CalSTRS' net pension liability	37.65%	34.59%
State's proportionate share of CalSTRS' net pension liability	$ 22,001,531	$ 23,289,391
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%

[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 Two Fiscal Years [1]
(amounts in thousands)

	2015	2016
Statutorily required contribution	$ 1,486,004	$ 1,935,288
Contributions in relation to the statutorily required contribution	1,486,004	1,935,288
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, 2014.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method/period	Level percent of payroll, closed/open period, 32 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 Plan

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, 2014	$ 41	$ 71,814	$ 71,773	0.0 %	$ 19,250	372.8 %
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
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, 2016, are in the following categories and amounts: state highway infrastructure (completed highway projects) totaling $73.5 billion, land purchased for highway projects totaling $14.3 billion, and infrastructure construction-in-progress (uncompleted highway projects) totaling $11.0 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, 2016, there were no donations of infrastructure land, and relinquishments are $40 million of state highway infrastructure (completed highway projects) and $8 million of infrastructure land.

B. Condition Baselines and Assessments

1. Bridges

The State uses the Bridge Health Index (BHI)—a numerical rating scale from 0 to 100 that uses element-level inspection data—to determine the aggregate condition of its bridges. The inspection data is based on the American Association of State Highway and Transportation Officials' "Guide Manual for Bridge Element Inspection."

The BHI represents the remaining asset value of the bridge. A new bridge that has 100% of its asset value has a BHI of 100. As a bridge deteriorates, it loses asset value, as represented by a decline in its BHI. When a bridge is repaired, it will regain some (or all) of its asset value and its BHI will increase.

The following table shows the State's established condition baseline and actual BHI for fiscal years 2013-14 through 2015-16:

Fiscal Year Ended June 30	Established BHI Baseline [1]	Actual BHI
2014	80.0	95.6
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.

The following table provides details on the State's actual BHI as of June 30, 2016:

BHI Range[1]	Bridge Count	Percent	Network BHI
Greater than 99.50	4,739	36.53 %	99.9
90.0 < = HI < = 99.50	5,784	44.59	97.0
80.0 < = HI < 90.0	862	6.65	85.8
70.0 < = HI < 80.0	980	7.55	73.9
0.0 < HI < 70.0	367	2.83	58.9
Does not carry traffic	240	1.85	97.3
Total	**12,972**	**100.00 %**	

[1] Effective FY 2015-16, the BHI Range is being displayed instead of the BHI Description for the analysis of State Bridges - Statewide as requested by the Office of Structure Maintenance and Invesigations.

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.

The State's budgeted and actual preservation cost information for the most recent and four previous fiscal years is shown in the following table:

Fiscal Year Ended June 30	Estimated Budgeted Preservation Costs (in millions)[1]	Actual Preservation Costs (in millions)[1]
2012	$ 3,362	$ 3,184
2013	2,621	2,533
2014	2,510	2,353
2015	3,340	2,686
2016	3,975	1,909

[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.

This page intentionally left blank

Budgetary Comparison Schedule

General Fund and Major Special Revenue Funds

Year Ended June 30, 2016
(amounts in thousands)

General

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance With Final Budget
REVENUES				
Corporation tax	$ 10,304,000	$ 10,309,000	$ 10,024,833	$ (284,167)
Intergovernmental	—	—	—	—
Cigarette and tobacco taxes	84,000	87,000	85,344	(1,656)
Insurance gross premiums tax	2,493,000	2,486,000	2,561,932	75,932
Vehicle license fees	839	839	23,559	22,720
Motor vehicle fuel tax	—	—	—	—
Personal income tax	81,354,000	79,962,000	79,427,730	(534,270)
Retail sales and use taxes	25,246,000	25,028,000	24,782,415	(245,585)
Other major taxes and licenses	366,000	370,000	369,769	(231)
Other revenues	1,619,161	1,732,161	1,837,251	105,090
Total revenues	**121,467,000**	**119,975,000**	**119,112,833**	**(862,167)**
EXPENDITURES				
Business, consumer services, and housing	36,217	36,931	36,774	(157)
Transportation	83,423	83,423	83,423	—
Natural resources and environmental protection	1,717,223	2,043,758	1,854,968	(188,790)
Health and human services	31,939,104	32,259,043	31,436,819	(822,224)
Corrections and rehabilitation	9,919,638	10,130,414	9,947,947	(182,467)
Education	60,007,610	60,765,227	60,509,876	(255,351)
General government:				
Tax relief	431,657	431,657	413,953	(17,704)
Debt service	5,495,445	5,495,446	4,874,617	(620,829)
Other general government	5,589,125	5,672,413	5,201,493	(470,920)
Total expenditures	**115,219,442**	**116,918,312**	**114,359,870**	**(2,558,442)**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	460,146	—
Transfers to other funds	—	—	(3,614,440)	—
Other additions (deductions)	—	—	(1,778,426)	—
Total other financing sources (uses)	**—**	**—**	**(4,932,720)**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	(179,757)	—
Fund balances – beginning	**—**	**—**	**6,459,790**	**—**
Fund balances – ending	**$ —**	**$ —**	**$ 6,280,033**	**$ —**

Federal

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance With Final Budget
REVENUES				
Corporation tax	$ —	$ —	$ —	$ —
Intergovernmental	80,431,240	80,431,240	80,431,240	—
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	—	—	—	—
Other revenues	39	39	39	—
Total revenues	**80,431,279**	**80,431,279**	**80,431,279**	**—**
EXPENDITURES				
Business, consumer services, and housing	63,715	63,715	63,715	—
Transportation	5,327,977	5,327,977	5,327,977	—
Natural resources and environmental protection	463,526	463,526	463,526	—
Health and human services	65,071,720	65,071,720	65,071,720	—
Corrections and rehabilitation	48,357	48,357	48,357	—
Education	6,918,928	6,918,928	6,918,928	—
General government:				
Tax relief	—	—	—	—
Debt service	—	—	—	—
Other general government	1,061,272	1,061,272	1,061,272	—
Total expenditures	**78,955,495**	**78,955,495**	**78,955,495**	**—**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	5,548,078	—
Transfers to other funds	—	—	(6,992,514)	—
Other additions (deductions)	—	—	(32,036)	—
Total other financing sources (uses)	**—**	**—**	**(1,476,472)**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	(688)	—
Fund balances – beginning	**—**	**—**	**7,032**	**—**
Fund balances – ending	**$ —**	**$ —**	**$ 6,344**	**$ —**

Transportation

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance With Final Budget
REVENUES				
Corporation tax	$ —	$ —	$ —	$ —
Intergovernmental	—	—	—	—
Cigarette and tobacco taxes	—	—	—	—
Insurance gross premiums tax	—	—	—	—
Vehicle license fees	—	—	—	—
Motor vehicle fuel tax	4,909,791	4,958,537	5,003,318	44,781
Personal income tax	—	—	—	—
Retail sales and use taxes	—	—	—	—
Other major taxes and licenses	4,154,218	4,138,032	4,161,638	23,606
Other revenues	436,916	415,833	447,238	31,405
Total revenues	**9,500,925**	**9,512,402**	**9,612,194**	**99,792**
EXPENDITURES				
Business, consumer services, and housing	110,082	110,082	101,613	(8,469)
Transportation	8,744,420	9,354,009	8,006,473	(1,347,536)
Natural resources and environmental protection	402,811	403,189	376,719	(26,470)
Health and human services	3,546	3,546	2,838	(708)
Corrections and rehabilitation	—	—	—	—
Education	2,550	2,550	2,297	(253)
General government:				
Tax relief	—	—	—	—
Debt service	1,175	1,175	188	(987)
Other general government	913,714	913,543	904,218	(9,325)
Total expenditures	**10,178,298**	**10,788,094**	**9,394,346**	**(1,393,748)**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	15,538,760	—
Transfers to other funds	—	—	(15,863,508)	—
Other additions (deductions)	—	—	(324,857)	—
Total other financing sources (uses)	**—**	**—**	**(649,605)**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	(431,757)	—
Fund balances – beginning	**—**	**—**	**15,603,396**	**—**
Fund balances – ending	**$ —**	**$ —**	**$ 15,171,639**	**$ —**

(continued)

Budgetary Comparison Schedule (continued)

General Fund and Major Special Revenue Funds

Year Ended June 30, 2016

(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	171,601	171,601	171,601	—
Other revenues	5,436,934	5,436,934	5,436,934	—
Total revenues	**5,608,535**	**5,608,535**	**5,608,535**	**—**
EXPENDITURES				
Business, consumer services, and housing	81,084	81,084	72,585	(8,499)
Transportation	70,673	72,506	69,337	(3,169)
Natural resources and environmental protection	4,973,544	4,875,648	4,357,661	(517,987)
Health and human services	59,220	59,220	53,887	(5,333)
Corrections and rehabilitation	—	—	—	—
Education	814	814	404	(410)
General government:				
Tax relief	—	—	—	—
Debt service	—	—	—	—
Other general government	52,768	54,964	48,709	(6,255)
Total expenditures	**5,238,103**	**5,144,236**	**4,602,583**	**(541,653)**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	632,771	—
Transfers to other funds	—	—	(394,357)	—
Other additions (deductions)	—	—	121,255	—
Total other financing sources (uses)	**—**	**—**	**359,669**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	1,365,621	—
Fund balances – beginning	**—**	**—**	**19,149,003**	**—**
Fund balances – ending	**$ —**	**$ —**	**$ 20,514,624**	**$ —**

(concluded)

Reconciliation of Budgetary Basis Fund Balances of the General Fund and the Major Special Revenue Funds to GAAP Basis Fund Balances

June 30, 2016

(amounts in thousands)

		Major Special Revenue Funds		
	General	Federal	Transportation	Environmental and Natural Resources
Budgetary fund balance reclassified into GAAP statement fund structure	**$ 6,280,033**	**$ 6,344**	**$ 15,171,639**	**$ 20,514,624**
Basis difference:				
Interfund receivables	66,034	—	2,424,616	454,800
Loans receivable	43,283	240,613	—	1,424,076
Interfund payables	(3,983,168)	—	(10,864)	(14,790)
Escheat property	(949,685)	—	—	—
Bonds authorized but unissued	—	—	(11,068,265)	(12,111,532)
Tax revenues	(997,000)	—	—	—
Fund classification changes	4,037,384	2,053	—	—
Other	—	—	2,486,799	(52,875)
Timing difference:				
Liabilities budgeted in subsequent years	(4,135,153)	(1,176)	(465,008)	(87,209)
GAAP fund balance – ending	**$ 361,728**	**$ 247,834**	**$ 8,538,917**	**$ 10,127,094**

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 by emailing 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 $66 million in the General Fund, $2.4 billion in the Transportation Fund, and $455 million in the Environmental and Natural Resources Fund. The adjustments related to loans receivable caused increases of $43 million in the General Fund, $241 million in the Federal Fund, and $1.4 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 $4.0 billion in the General Fund, $11 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 an $950 million 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 $11.1 billion in the Transportation Fund and $12.1 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 a decrease of $997 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 $4.0 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, respectively, for any budgetary purpose or for the Budgetary/Legal Basis Annual Report.

Other: Certain other adjustments and reclassifications are necessary in order to present the financial statements in accordance with GAAP. The other adjustments caused an increase of $2.5 billion in the Transportation Fund and a decrease of $53 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 $4.1 billion in the General Fund, $1 million in the Federal Fund, $465 million in the Transportation Fund, and $87 million in the Environmental and Natural Resources Fund. The large decrease in the General Fund primarily consists of $1.9 billion for medical assistance, $1.1 billion for June 2016 payroll that was deferred to July 2016, $627 million for pension contributions, and $285 million for workers' compensation claims.

This page intentionally left blank

Combining Financial Statements and Schedules – Nonmajor and Other Funds

This page intentionally left blank

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 **Economic Recovery Bond Sinking Fund** accounts for General Fund transfers, proceeds from the sale of surplus property, and the 0.25% sales and use tax revenue collected for the payment of principal, interest, and other related costs of the Economic Recovery Bonds. In August 2015, the outstanding Economic Recovery Bonds were defeased and all excess revenue remaining in this fund was transferred to the Financing for Local Governments and the Public Fund.

(continued)

(continued)

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.

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.

This page intentionally left blank

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2016
(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
ASSETS									
Cash and pooled investments	$ 1,335,354	$ 1,153,682	$ 465,288	$ 3,610,114	$ 1,525,586	$ 1,387,472	$ 396,620	$ 2,057,402	$ 11,931,518
Investments	—	—	—	—	—	287,432	151,596	—	439,028
Receivables (net)	80,970	18,280	240,551	45,813	2,610,752	260,359	200,639	233,595	3,690,959
Due from other funds	50,617	487,035	54,449	41,649	81,247	1,552	—	395,376	1,111,925
Due from other governments	10,332	551	—	—	802,485	29,429	—	63,117	905,914
Interfund receivables	203,186	180,660	—	—	—	90,000	—	327,400	801,246
Loans receivable	108,693	2,543,668	—	—	32,156	—	—	65,670	2,750,187
Other assets	15	—	—	—	—	11,145	—	—	11,160
Total assets	**$ 1,789,167**	**$ 4,383,876**	**$ 760,288**	**$ 3,697,576**	**$ 5,052,226**	**$ 2,067,389**	**$ 748,855**	**$ 3,142,560**	**$ 21,641,937**
LIABILITIES									
Accounts payable	$ 60,940	$ 245,319	$ 10,797	$ 15,792	$ 82,655	$ 241,309	$ 23	$ 189,557	$ 846,392
Due to other funds	21,798	9,238	7,440	24,159	4,267,574	24,460	—	60,991	4,415,660
Due to component units	—	—	31,345	—	—	—	—	976	32,321
Due to other governments	380	242,326	10,059	3,429,959	12,160	127,581	—	374,405	4,196,870
Interfund payables	20,505	—	—	—	—	—	—	3,470	23,975
Revenues received in advance	39,953	2,825	—	—	15,465	12,003	—	42,933	113,179
Deposits	—	—	—	—	—	440,499	—	20,593	461,092
Other liabilities	35,008	977	—	—	34	87,576	—	22,049	145,644
Total liabilities	**178,584**	**500,685**	**59,641**	**3,469,910**	**4,377,888**	**933,428**	**23**	**714,974**	**10,235,133**
DEFERRED INFLOWS OF RESOURCES	—	—	176,527	—	—	—	—	5,957	182,484
Total liabilities and deferred inflows of resources	**178,584**	**500,685**	**236,168**	**3,469,910**	**4,377,888**	**933,428**	**23**	**720,931**	**10,417,617**
FUND BALANCES									
Nonspendable	—	—	—	—	—	11,188	—	—	11,188
Restricted	853,096	3,608,751	524,120	170,190	552,932	994,351	748,832	2,155,380	9,607,652
Committed	757,487	274,440	—	57,476	121,406	113,800	—	266,249	1,590,858
Assigned	—	—	—	—	—	14,622	—	—	14,622
Total fund balances	**1,610,583**	**3,883,191**	**524,120**	**227,666**	**674,338**	**1,133,961**	**748,832**	**2,421,629**	**11,224,320**
Total liabilites, deferred inflows of resources, and fund balances	**$ 1,789,167**	**$ 4,383,876**	**$ 760,288**	**$ 3,697,576**	**$ 5,052,226**	**$ 2,067,389**	**$ 748,855**	**$ 3,142,560**	**$ 21,641,937**

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2016
(amounts in thousands)

	Debt Service			Capital Projects						
	Economic Recovery Bond Sinking	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	$ —	$ —	$ —	$ 176,432	$ 52,817	$ 29,875	$ 25,425	$ 112,614	$ 397,163	$ 12,328,681
Investments	—	—	—	—	—	—	—	—	—	439,028
Receivables (net)	—	—	—	—	—	—	—	42	42	3,691,001
Due from other funds	—	—	—	252	81	107	19,397	8,651	28,488	1,140,413
Due from other governments	—	—	—	—	—	3,891	—	—	3,891	909,805
Interfund receivables	—	—	—	—	—	—	—	—	—	801,246
Loans receivable	—	—	—	—	—	—	—	—	—	2,750,187
Other assets	—	—	—	—	—	—	—	—	—	11,160
Total assets	**$ —**	**$ —**	**$ —**	**$ 176,684**	**$ 52,898**	**$ 33,873**	**$ 44,822**	**$ 121,307**	**$ 429,584**	**$ 22,071,521**
LIABILITIES										
Accounts payable	$ —	$ —	$ —	$ 91	$ 21	$ —	$ —	$ 1,482	$ 1,594	$ 847,986
Due to other funds	—	—	—	394	—	962	—	2,301	3,657	4,419,317
Due to component units	—	—	—	—	—	—	—	—	—	32,321
Due to other governments	—	—	—	—	—	—	—	—	—	4,196,870
Interfund payables	—	—	—	—	—	—	—	—	—	23,975
Revenues received in advance	—	—	—	—	—	—	—	—	—	113,179
Deposits	—	—	—	—	—	—	—	—	—	461,092
Other liabilities	—	—	—	—	—	—	81	—	81	145,725
Total liabilities	**—**	**—**	**—**	**485**	**21**	**962**	**81**	**3,783**	**5,332**	**10,240,465**
DEFERRED INFLOWS OF RESOURCES	—	—	—	—	—	—	—	—	—	182,484
Total liabilities and deferred inflows of resources	**—**	**—**	**—**	**485**	**21**	**962**	**81**	**3,783**	**5,332**	**10,422,949**
FUND BALANCES										
Nonspendable	—	—	—	—	—	—	—	—	—	11,188
Restricted	—	—	—	176,199	52,877	32,911	44,741	94,962	401,690	10,009,342
Committed	—	—	—	—	—	—	—	22,562	22,562	1,613,420
Assigned	—	—	—	—	—	—	—	—	—	14,622
Total fund balances	**—**	**—**	**—**	**176,199**	**52,877**	**32,911**	**44,741**	**117,524**	**424,252**	**11,648,572**
Total liabilites, deferred inflows of resources, and fund balances	**$ —**	**$ —**	**$ —**	**$ 176,684**	**$ 52,898**	**$ 33,873**	**$ 44,822**	**$ 121,307**	**$ 429,584**	**$ 22,071,521**

(concluded)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2016
(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	$ —	$ 1,423,508	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,423,508
Sales and use taxes	—	—	—	13,834,322	—	—	—	—	13,834,322
Motor vehicle excise taxes	38,883	61,775	—	—	—	—	—	—	100,658
Insurance taxes	—	—	—	—	1,634,781	—	—	—	1,634,781
Other taxes	35,783	650,739	746,428	—	—	—	—	377	1,433,327
Intergovernmental	—	—	—	—	2,154,318	819,283	—	—	2,973,601
Licenses and permits	417,677	18,057	188	2,422,408	—	—	—	11,241	2,869,571
Charges for services	42,061	2,679	—	—	91	60,072	—	163,998	268,901
Fees	1,042,567	619	24	—	4,863,375	537,691	—	1,541,504	7,985,780
Penalties	52,548	9,674	—	—	7,099	415,434	—	235,263	720,018
Investment and interest	36,139	4,307	1,805	4,355	5,768	5,226	3,740	8,462	69,802
Escheat	13	—	—	—	—	434	—	—	447
Other	16,880	52,087	156	—	289,696	155,032	361,560	367,152	1,242,563
Total revenues	**1,682,551**	**2,223,445**	**748,601**	**16,261,085**	**8,955,128**	**1,993,172**	**365,300**	**2,327,997**	**34,557,279**
EXPENDITURES									
Current:									
General government	595,436	654,344	17,883	5,148,048	209	3,214,364	586	1,171,838	10,802,708
Education	20,573	266,841	39,652	—	193,538	—	—	5,866	526,470
Health and human services	399,834	1,505,731	457,157	9,598,400	9,007,895	—	—	705,217	21,674,234
Natural resources and environmental protection	53,977	100,166	9,166	—	237	—	—	53,020	216,566
Business, consumer services, and housing	565,003	277,710	—	—	—	103	—	24,730	867,546
Transportation	8,264	—	—	—	—	—	—	1,140	9,404
Corrections and rehabilitation	—	125,097	—	1,331,696	—	—	—	22,549	1,479,342
Capital outlay	—	—	—	—	—	—	—	—	—
Debt service:									
Bond and commercial paper retirement	—	128,480	—	—	166,265	—	70,535	—	365,280
Interest and fiscal charges	—	104	—	—	158	—	299,935	—	300,197
Total expenditures	**1,643,087**	**3,058,473**	**523,858**	**16,078,144**	**9,368,302**	**3,214,467**	**371,056**	**1,984,360**	**36,241,747**
Excess (deficiency) of revenues over (under) expenditures	39,464	(835,028)	224,743	182,941	(413,174)	(1,221,295)	(5,756)	343,637	(1,684,468)
OTHER FINANCING SOURCES (USES)									
General obligation bonds and commercial paper issued	—	375,860	—	—	373,265	—	—	—	749,125
Refunding debt issued	—	1,115	—	—	—	—	—	—	1,115
Payment to refund long-term debt	—	(1,280)	—	—	—	—	—	—	(1,280)
Premium on bonds issued	—	9,888	—	—	158	—	—	—	10,046
Transfers in	3,700	874,645	—	2,626	142,309	1,242,688	—	26,563	2,292,531
Transfers out	(16,572)	(19,508)	(15,984)	—	—	—	—	(44,382)	(96,446)
Total other financing sources (uses)	**(12,872)**	**1,240,720**	**(15,984)**	**2,626**	**515,732**	**1,242,688**	**—**	**(17,819)**	**2,955,091**
Net change in fund balances	26,592	405,692	208,759	185,567	102,558	21,393	(5,756)	325,818	1,270,623
Fund balances – beginning	**1,583,991**	**3,477,499**	**315,361**	**42,099**	**571,780** *	**1,112,568**	**754,588**	**2,095,811**	**9,953,697**
Fund balances – ending	**$ 1,610,583**	**$ 3,883,191**	**$ 524,120**	**$ 227,666**	**$ 674,338**	**$ 1,133,961**	**$ 748,832**	**$ 2,421,629**	**$ 11,224,320**

* Restated

(continued)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (continued)

Nonmajor Governmental Funds

Year Ended June 30, 2016
(amounts in thousands)

	Debt Service			Capital Projects						
	Economic Recovery Bond Sinking	**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	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,423,508
Sales and use taxes	—	—	—	—	—	—	—	—	—	13,834,322
Motor vehicle excise taxes	—	—	—	—	—	—	—	—	—	100,658
Insurance taxes	—	—	—	—	—	—	—	—	—	1,634,781
Other taxes	—	—	—	—	—	—	—	—	—	1,433,327
Intergovernmental	—	—	—	—	—	—	—	—	—	2,973,601
Licenses and permits	—	—	—	—	—	—	—	1,069	1,069	2,870,640
Charges for services	—	—	—	—	—	—	—	55	55	268,956
Fees	—	—	—	—	—	—	—	—	—	7,985,780
Penalties	—	—	—	—	—	—	—	—	—	720,018
Investment and interest	144	—	144	872	296	2,835	45	67	4,115	74,061
Escheat	—	—	—	—	—	—	—	—	—	447
Other	335	—	335	—	—	—	—	14,259	14,259	1,257,157
Total revenues	**479**	**—**	**479**	**872**	**296**	**2,835**	**45**	**15,450**	**19,498**	**34,577,256**
EXPENDITURES										
Current:										
General government	—	—	—	—	38,410	—	—	—	38,410	10,841,118
Education	—	—	—	—	—	350,521	—	—	350,521	876,991
Health and human services	—	—	—	—	—	—	—	—	—	21,674,234
Natural resources and environmental protection	—	—	—	—	—	—	—	4,148	4,148	220,714
Business, consumer services, and housing	—	—	—	—	—	—	—	—	—	867,546
Transportation	—	—	—	—	—	—	—	—	—	9,404
Corrections and rehabilitation	—	—	—	—	—	—	—	—	—	1,479,342
Capital outlay	—	—	—	49,575	442	6,657	—	49,756	106,430	106,430
Debt service:										
Bond and commercial paper retirement	929,735	355,985	1,285,720	181,055	12,550	1,106,375	19,815	2,435	1,322,230	2,973,230
Interest and fiscal charges	67,527	755,268	822,795	9,133	913	38,689	14,502	6	63,243	1,186,235
Total expenditures	**997,262**	**1,111,253**	**2,108,515**	**239,763**	**52,315**	**1,502,242**	**34,317**	**56,345**	**1,884,982**	**40,235,244**
Excess (deficiency) of revenues over (under) expenditures	(996,783)	(1,111,253)	(2,108,036)	(238,891)	(52,019)	(1,499,407)	(34,272)	(40,895)	(1,865,484)	(5,657,988)
OTHER FINANCING SOURCES (USES)										
General obligation bonds and commercial paper issued	—	—	—	6,880	11,450	405,455	—	4,085	427,870	1,176,995
Refunding debt issued	—	—	—	775,315	67,210	3,115,845	162,500	450	4,121,320	4,122,435
Payment to refund long-term debt	—	—	—	(698,729)	(76,847)	(2,568,330)	(205,980)	(482)	(3,550,368)	(3,551,648)
Premium on bonds issued	—	—	—	107,527	11,825	450,559	19,992	338	590,241	600,287
Transfers in	—	1,111,253	1,111,253	—	—	—	48,677	60,525	109,202	3,512,986
Transfers out	(2,619)	—	(2,619)	—	—	(843)	—	—	(843)	(99,908)
Total other financing sources (uses)	**(2,619)**	**1,111,253**	**1,108,634**	**190,993**	**13,638**	**1,402,686**	**25,189**	**64,916**	**1,697,422**	**5,761,147**
Net change in fund balances	(999,402)	—	(999,402)	(47,898)	(38,381)	(96,721)	(9,083)	24,021	(168,062)	103,159
Fund balances – beginning	**999,402**	**—**	**999,402**	**224,097**	**91,258**	**129,632**	**53,824** *	**93,503**	**592,314**	**11,545,413**
Fund balances – ending	**$ —**	**$ —**	**$ —**	**$ 176,199**	**$ 52,877**	**$ 32,911**	**$ 44,741**	**$ 117,524**	**$ 424,252**	**$ 11,648,572**

* Restated

(concluded)

Budgetary Comparison Schedule

Budgetary Basis

Nonmajor Governmental Funds[1]

Year Ended June 30, 2016
(amounts in thousands)

	Budgeted Amounts	Actual Amounts	Variance with Final Budget
REVENUES			
Cigarette and tobacco taxes	$ 480,212	$ 480,212	$ —
Vehicle license fees	1,883,513	1,883,513	—
Personal income tax	1,423,508	1,423,508	—
Retail sales and use taxes	13,834,408	13,834,408	—
Other major taxes and licenses	1,647,881	1,647,881	—
Other revenues	10,622,509	10,622,509	—
Total revenues	**29,892,031**	**29,892,031**	**—**
EXPENDITURES			
Business, consumer services, and housing	775,209	712,354	(62,855)
Transportation	1,060,705	1,060,309	(396)
Natural resources and environmental protection	248,110	223,730	(24,380)
Health and human services	21,712,662	21,485,725	(226,937)
Corrections and rehabilitation	32,917	23,894	(9,023)
Education	548,033	540,683	(7,350)
General government:			
Tax relief	798,776	798,776	—
Other general government	9,201,732	8,719,209	(482,523)
Total expenditures	**34,378,144**	**33,564,680**	**(813,464)**
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	—	25,869,653	—
Transfers to other funds	—	(23,110,739)	—
Other additions and deductions	—	726,878	—
Total other financing sources (uses)	**—**	**3,485,792**	**—**
Excess of revenues and other sources over expenditures and other uses	—	(186,857)	—
Fund balances – beginning	**—**	**11,997,297**	**—**
Fund balances – ending	**$ —**	**$ 11,810,440**	**$ —**

[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, 2016
(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	$ —	$ 398,815	$ 123,856	$ 215,906	$ 47,841	$ 63,129	$ 11,208	$ 394,785	$ 1,255,540
Restricted assets:									
Cash and pooled investments	1,358,022	—	—	—	—	—	—	—	1,358,022
Net investment in direct financing leases	453,875	—	—	—	—	—	—	—	453,875
Receivables (net)	—	30	1,073	1,148	20	7,143	27,173	54,693	91,280
Due from other funds	219,094	18,727	43,551	600	—	39,711	63,766	129,699	515,148
Due from other governments	—	—	1,048	184	—	619	—	10,980	12,831
Prepaid items	—	46,133	125,125	351	6,496	1,054	9,354	953	189,466
Inventories	—	—	8,275	39,150	—	28,845	838	—	77,108
Total current assets	2,030,991	463,705	302,928	257,339	54,357	140,501	112,339	591,110	3,953,270
Noncurrent assets:									
Restricted assets:									
Cash and pooled investments	204,388	—	—	—	—	—	—	—	204,388
Net investment in direct financing leases	7,267,038	—	—	—	—	—	—	—	7,267,038
Interfund receivables	—	—	—	—	—	—	—	25,363	25,363
Long-term prepaid charges	1,373	—	—	—	—	—	—	—	1,373
Capital assets:									
Land	—	—	—	—	—	—	—	2,082	2,082
Buildings and other depreciable property	—	317	154,318	174,451	2,646	222,473	38,235	11,273	603,713
Intangible assets – amortizable	—	—	10,237	3,672	1,913	47,265	2,449	113	65,649
Less: accumulated depreciation/amortization	—	(317)	(107,185)	(127,234)	(1,781)	(199,245)	(40,684)	(7,844)	(484,290)
Construction/development in progress	893,929	—	—	1,838	217,530	2,753	—	97	1,116,147
Total noncurrent assets	8,366,728	—	57,370	52,727	220,308	73,246	—	31,084	8,801,463
Total assets	**10,397,719**	**463,705**	**360,298**	**310,066**	**274,665**	**213,747**	**112,339**	**622,194**	**12,754,733**
DEFERRED OUTFLOWS OF RESOURCES	49,488	6,017	56,361	13,896	4,778	23,228	—	38,075	191,843
Total assets and deferred outflows of resources	**$ 10,447,207**	**$ 469,722**	**$ 416,659**	**$ 323,962**	**$ 279,443**	**$ 236,975**	**$ 112,339**	**$ 660,269**	**$ 12,946,576**

(continued)

Combining Statement of Net Position (continued)

Internal Service Funds

June 30, 2016
(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	$ 79,742	$ 12,524	$ 56,228	$ 10,499	$ 36,714	$ 16,006	$ 15,801	$ 204,272	$ 431,786
Due to other funds	16,176	5,567	37,706	2,255	2,686	642	1,437	39,612	106,081
Due to other governments	59,536	—	—	—	49	23	5	405	60,018
Revenues received in advance	—	443,780	30,504	270	—	—	88	—	474,642
Deposits	—	—	1,147	—	—	—	—	—	1,147
Contracts and notes payable	—	—	1,595	—	—	6,086	1,098	—	8,779
Interest payable	109,738	—	—	—	—	—	—	—	109,738
Current portion of long-term obligations	544,004	—	—	2,727	910	—	—	—	547,641
Other liabilities	33,497	76	—	1,750	—	—	492	2,876	38,691
Total current liabilities	842,693	461,947	127,180	17,501	40,359	22,757	18,921	247,165	1,778,523
Noncurrent liabilities:									
Interfund payables	—	494	8,246	—	37,650	2,583	95,047	86	144,106
Compensated absences payable	—	8,625	67,824	9,859	4,521	43,563	—	26,042	160,434
Workers' compensation benefits payable	—	1,236	22,553	17,358	—	1,049	—	—	42,196
Revenue bonds payable	9,473,620	—	—	—	—	—	—	—	9,473,620
Net other postemployment benefits obligation	—	16,643	294,491	62,649	—	97,134	—	125,864	596,781
Net pension liability	—	3,576	527,152	39,717	31,909	249,761	—	309,986	1,162,101
Other noncurrent liabilities	—	—	—	—	—	17,146	3,672	—	20,818
Total noncurrent liabilities	9,473,620	30,574	920,266	129,583	74,080	411,236	98,719	461,978	11,600,056
Total liabilities	**10,316,313**	**492,521**	**1,047,446**	**147,084**	**114,439**	**433,993**	**117,640**	**709,143**	**13,378,579**
DEFERRED INFLOWS OF RESOURCES	—	78	11,460	1,080	697	5,454	—	6,730	25,499
Total liabilities and deferred inflows of resources	**10,316,313**	**492,599**	**1,058,906**	**148,164**	**115,136**	**439,447**	**117,640**	**715,873**	**13,404,078**
NET POSITION									
Net investment in capital assets	—	—	57,370	52,727	220,308	47,261	—	5,721	383,387
Restricted – expendable:									
Construction	130,894	—	—	—	—	—	—	—	130,894
Total expendable	130,894	—	—	—	—	—	—	—	130,894
Unrestricted	—	(22,877)	(699,617)	123,071	(56,001)	(249,733)	(5,301)	(61,325)	(971,783)
Total net position (deficits)	**130,894**	**(22,877)**	**(642,247)**	**175,798**	**164,307**	**(202,472)**	**(5,301)**	**(55,604)**	**(457,502)**
Total liabilites and net position	**$ 10,447,207**	**$ 469,722**	**$ 416,659**	**$ 323,962**	**$ 279,443**	**$ 236,975**	**$ 112,339**	**$ 660,269**	**$ 12,946,576**

(concluded)

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

Internal Service Funds

Year Ended June 30, 2016

(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	$ —	$ 182,332	$ 635,612	$ 253,821	$ 103,715	$ 357,013	$ 447,041	$ 916,505	$ 2,896,039
Investment and interest	8,991	—	—	—	—	267	—	—	9,258
Rent	404,816	—	—	—	—	—	—	—	404,816
Total operating revenues	**413,807**	**182,332**	**635,612**	**253,821**	**103,715**	**357,280**	**447,041**	**916,505**	**3,310,113**
OPERATING EXPENSES									
Personal services	—	29,478	252,161	81,269	22,691	211,054	—	278,477	875,130
Supplies	—	—	—	4,601	—	—	5,389	232	10,222
Services and charges	6,455	147,270	298,592	164,456	16,851	179,592	440,607	710,404	1,964,227
Depreciation	—	—	10,962	6,813	262	26,950	5,734	137	50,858
Interest expense	452,796	—	—	—	—	256	—	—	453,052
Amortization of long-term prepaid charges	3,608	—	—	—	—	—	—	—	3,608
Total operating expenses	**462,859**	**176,748**	**561,715**	**257,139**	**39,804**	**417,852**	**451,730**	**989,250**	**3,357,097**
Operating income (loss)	(49,052)	5,584	73,897	(3,318)	63,911	(60,572)	(4,689)	(72,745)	(46,984)
NONOPERATING REVENUES (EXPENSES)									
Investment and interest income	—	—	—	445	—	—	—	413	858
Interest expense and fiscal charges	—	—	—	(18)	—	—	—	—	(18)
Other	(2,270)	—	—	134	—	(2,943)	—	—	(5,079)
Total nonoperating revenues (expenses)	**(2,270)**	**—**	**—**	**561**	**—**	**(2,943)**	**—**	**413**	**(4,239)**
Income (loss) before transfers	(51,322)	5,584	73,897	(2,757)	63,911	(63,515)	(4,689)	(72,332)	(51,223)
Capital contributions	—	—	—	375	—	—	—	—	375
Gain on early extinguishment of debt	40,516	—	—	—	—	—	—	—	40,516
Transfers in	—	—	—	—	—	—	—	1,459	1,459
Transfers out	—	—	(38,634)	—	—	—	—	(17,907)	(56,541)
Change in net position	(10,806)	5,584	35,263	(2,382)	63,911	(63,515)	(4,689)	(88,780)	(65,414)
Total net position (deficit) – beginning	**141,700**	**(28,461)**	**(677,510)**	**178,180**	**100,396**	**(138,957)**	**(612)**	**33,176 ***	**(392,088)**
Total net position (deficit) – ending	**$ 130,894**	**$ (22,877)**	**$ (642,247)**	**$ 175,798**	**$ 164,307**	**$ (202,472)**	**$ (5,301)**	**$ (55,604)**	**$ (457,502)**

* Restated

Combining Statement of Cash Flows

Internal Service Funds

Year Ended June 30, 2016
(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	$ 25,043	$ —	$ —	$ 6,567	$ —	$ —	$ —	$ —	$ 31,610
Receipts from interfund services provided	869,339	334,330	596,098	247,994	103,268	355,615	440,410	798,657	3,745,711
Payments to suppliers	(491)	(189,129)	(292,853)	(168,112)	—	(169,801)	(6,190)	(687,220)	(1,513,796)
Payments to employees	—	(29,873)	(233,940)	(72,216)	(17,421)	(151,722)	—	(202,779)	(707,951)
Claims paid to other than employees	—	—	—	—	—	—	(440,607)	—	(440,607)
Other receipts (payments)	(522,848)	2	1,893	833	49	(6,791)	4,673	1,288	(520,901)
Net cash provided by (used in) operating activities	**371,043**	**115,330**	**71,198**	**15,066**	**85,896**	**27,301**	**(1,714)**	**(90,054)**	**594,066**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Changes in interfund receivables and loans receivable	—	—	—	—	—	—	—	(11,408)	(11,408)
Changes in interfund payables and loans payable	—	(1,037)	4,632	—	—	948	(82)	—	4,461
Interest paid	—	—	—	(18)	—	—	—	—	(18)
Transfers in	—	—	—	—	—	—	—	1,459	1,459
Transfers out	—	—	(38,634)	—	—	—	—	(17,907)	(56,541)
Net cash provided by (used in) noncapital financing activities	**—**	**(1,037)**	**(34,002)**	**(18)**	**—**	**948**	**(82)**	**(27,856)**	**(62,047)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisition of capital assets	(1,168,785)	—	(23,661)	(13,825)	(86,692)	(29,017)	(5,734)	(198)	(1,327,912)
Proceeds from sale of capital assets	—	—	146	837	2,199	7,587	—	598	11,367
Proceeds from revenue bonds	958,237	—	—	—	—	—	—	—	958,237
Retirement of revenue bonds	(1,243,020)	—	—	—	—	—	—	—	(1,243,020)
Net cash used in capital and related financing activities	**(1,453,568)**	**—**	**(23,515)**	**(12,988)**	**(84,493)**	**(21,430)**	**(5,734)**	**400**	**(1,601,328)**
CASH FLOWS FROM INVESTING ACTIVITIES									
Earnings on investments	—	—	—	445	—	—	—	413	858
Net cash provided by (used in) investing activities	**—**	**—**	**—**	**445**	**—**	**—**	**—**	**413**	**858**
Net increase (decrease) in cash and pooled investments	(1,082,525)	114,293	13,681	2,505	1,403	6,819	(7,530)	(117,097)	(1,068,451)
Cash and pooled investments – beginning	**2,644,935**	**284,522**	**110,175**	**213,401**	**46,438**	**56,310**	**18,738**	**511,882**	**3,886,401**
Cash and pooled investments – ending	**$ 1,562,410**	**$ 398,815**	**$ 123,856**	**$ 215,906**	**$ 47,841**	**$ 63,129**	**$ 11,208**	**$ 394,785**	**$ 2,817,950**

(continued)

Combining Statement of Cash Flows (continued)

Internal Service Funds

Year Ended June 30, 2016
(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
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES									
Operating income (loss)	$ (49,052)	$ 5,584	$ 73,897	$ (3,318)	$ 63,911	$ (60,572)	$ (4,689)	$ (72,745)	$ (46,984)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:									
Depreciation	—	—	10,962	6,813	262	26,950	5,734	137	50,858
Amortization of premiums and discounts	(76,985)	—	—	—	—	—	—	—	(76,985)
Amortization of long-term prepaid charges	297	—	—	—	—	256	—	—	553
Other	10,173	—	—	—	—	—	—	—	10,173
Change in account balances:									
Receivables	—	470	(111)	272	(11)	14	(19,529)	(51,038)	(69,933)
Due from other funds	12,541	25,756	(11,995)	(2,677)	6,094	(1,010)	11,058	17,497	57,264
Due from other governments	—	—	(43)	12	—	168	—	551	688
Prepaid items	—	(46,133)	(35,573)	149	(14)	6,958	840	125	(73,648)
Inventories	—	—	(1,406)	774	—	2,147	66	—	1,581
Net investment in direct financing leases	477,029	—	—	—	—	—	—	—	477,029
Deferred outflow of resources	3,311	(4,581)	(20,742)	(7,183)	(1,859)	(6,272)	—	(14,125)	(51,451)
Accounts payable	284	4,274	42,718	22	14,153	686	(1,707)	23,291	83,721
Due to other funds	—	3,150	(32,385)	3,329	(3,818)	871	1,812	(84,307)	(111,348)
Due to component units	—	—	—	—	—	—	—	(132)	(132)
Due to other governments	—	—	—	—	49	17	(12)	109	163
Deposits	—	—	462	—	—	—	—	—	462
Contracts and notes payable	—	—	1,490	—	—	(7,795)	1,098	—	(5,207)
Interest payable	(12,981)	—	—	—	—	—	—	—	(12,981)
Revenues received in advance	(637)	122,622	4,977	(184)	—	(1,540)	28	—	125,266
Other current liabilities	7,063	2	(16)	821	—	—	(85)	760	8,545
Benefits payables	—	—	—	—	—	—	—	12,207	12,207
Compensated absences payable	—	1,814	(2,175)	(304)	2,636	(2,524)	—	429	(124)
Other noncurrent liabilities	—	2,850	117,247	24,386	8,432	95,684	3,672	109,076	361,347
Deferred inflow of resources	—	(478)	(76,109)	(7,846)	(3,939)	(26,737)	—	(31,889)	(146,998)
Total adjustments	420,095	109,746	(2,699)	18,384	21,985	87,873	2,975	(17,309)	641,050
Net cash provided by (used in) operating activities	**$ 371,043**	**$ 115,330**	**$ 71,198**	**$ 15,066**	**$ 85,896**	**$ 27,301**	**$ (1,714)**	**$ (90,054)**	**$ 594,066**

(concluded)

This page intentionally left blank

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, 2016
(amounts in thousands)

	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
ASSETS				
Current assets:				
Cash and pooled investments	$ 521,615	$ 248,996	$ 238,883	$ 1,009,494
Restricted assets:				
Cash and pooled investments	237,524	—	—	237,524
Due from other governments	156,108	—	—	156,108
Receivables (net)	—	31,444	2,161	33,605
Due from other funds	882	323	373	1,578
Due from other governments	141,307	—	318	141,625
Inventories	—	—	2,431	2,431
Total current assets	1,057,436	280,763	244,166	1,582,365
Noncurrent assets:				
Restricted assets:				
Loans receivable	1,411,250	—	—	1,411,250
Investments	—	17,157	—	17,157
Interfund receivables	—	—	1,600	1,600
Loans receivable	2,021,885	815,047	114,497	2,951,429
Capital assets:				
Land	—	443	829	1,272
Buildings and other depreciable property	—	16,260	2,575	18,835
Intangible assets – amortizable	—	—	1,587	1,587
Less: accumulated depreciation/amortization	—	(16,062)	(1,623)	(17,685)
Construction/development in progress	—	—	214	214
Other noncurrent assets	—	6,396	—	6,396
Total noncurrent assets	3,433,135	839,241	119,679	4,392,055
Total assets	**4,490,571**	**1,120,004**	**363,845**	**5,974,420**
DEFERRED OUTFLOWS OF RESOURCES	40	3,313	5,095	8,448
Total assets and deferred outflows of resources	**$ 4,490,611**	**$ 1,123,317**	**$ 368,940**	**$ 5,982,868**

	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
LIABILITIES				
Current liabilities:				
Accounts payable	$ 617	$ 47	$ 1,704	$ 2,368
Due to other funds	41	347	1,767	2,155
Due to other governments	—	—	4	4
Revenues received in advance	5	—	33	38
Interest payable	4,329	14,453	—	18,782
Current portion of long-term obligations	22,947	11,265	9,892	44,104
Other current liabilities	—	—	14	14
Total current liabilities	27,939	26,112	13,414	67,465
Noncurrent liabilities:				
Compensated absences payable	—	—	10,604	10,604
Workers' compensation benefits payable	—	—	1,022	1,022
General obligation bonds payable	—	648,059	—	648,059
Revenue bonds payable	507,846	295,765	—	803,611
Net other postemployment benefits obligation	—	4,143	9,251	13,394
Net pension liability	1,108	14,581	20,750	36,439
Other noncurrent liabilities	—	726	48,095	48,821
Total noncurrent liabilities	508,954	963,274	89,722	1,561,950
Total liabilities	**536,893**	**989,386**	**103,136**	**1,629,415**
DEFERRED INFLOWS OF RESOURCES	142	160	526	828
Total liabilities and deferred inflows of resources	**537,035**	**989,546**	**103,662**	**1,630,243**
NET POSITION				
Net investment in capital assets	—	641	3,587	4,228
Restricted – expendable:				
Debt service	66,876	—	—	66,876
Security for revenue bonds	1,567,358	—	—	1,567,358
Other purposes	—	133,130	192,898	326,028
Total expendable	1,634,234	133,130	192,898	1,960,262
Unrestricted	2,319,342	—	68,793	2,388,135
Total net position	**3,953,576**	**133,771**	**265,278**	**4,352,625**
Total liabilities and net position	**$ 4,490,611**	**$ 1,123,317**	**$ 368,940**	**$ 5,982,868**

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

Nonmajor Enterprise Funds

Year Ended June 30, 2016
(amounts in thousands)

	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
OPERATING REVENUES				
Services and sales	$ 11,211	$ 2,390	$ 80,216	$ 93,817
Investment and interest	57,638	49,379	187	107,204
Rent	—	—	209	209
Other	—	1,659	647	2,306
Total operating revenues	**68,849**	**53,428**	**81,259**	**203,536**
OPERATING EXPENSES				
Personal services	—	8,194	36,113	44,307
Supplies	—	—	35,672	35,672
Services and charges	7,392	13,911	12,213	33,516
Depreciation	—	94	190	284
Interest expense	—	33,428	—	33,428
Other	321	—	—	321
Total operating expenses	**7,713**	**55,627**	**84,188**	**147,528**
Operating income (loss)	61,136	(2,199)	(2,929)	56,008
NONOPERATING REVENUES (EXPENSES)				
Investment and interest income	1,396	—	770	2,166
Interest expense and fiscal charges	(2,199)	—	—	(2,199)
Other	(1,902)	189	—	(1,713)
Total nonoperating revenues (expenses)	**(2,705)**	**189**	**770**	**(1,746)**
Income (loss) before capital contributions and transfers	58,431	(2,010)	(2,159)	54,262
Capital contributions	66,914	—	—	66,914
Transfers out	—	—	—	—
Change in net position	125,345	(2,010)	(2,159)	121,176
Total net position – beginning	**3,828,231**	**135,781**	**267,437**	**4,231,449**
Total net position – ending	**$ 3,953,576**	**$ 133,771**	**$ 265,278**	**$ 4,352,625**

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2016
(amounts in thousands)

	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers/employers	$ 50,459	$ 204,666	$ 79,159	$ 334,284
Receipts from interfund services provided	—	—	2,507	2,507
Payments to suppliers	(7,978)	(9,299)	(49,387)	(66,664)
Payments to employees	76	(8,196)	(22,928)	(31,048)
Payments for interfund services used	(22)	—	(715)	(737)
Other receipts (payments)	(140,922)	(217,907)	(12,982)	(371,811)
Net cash provided by (used in) operating activities	**(98,387)**	**(30,736)**	**(4,346)**	**(133,469)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from general obligation bonds	—	547,565	—	547,565
Retirement of general obligation bonds	—	(354,415)	—	(354,415)
Proceeds from revenue bonds	501,961	—	—	501,961
Retirement of revenue bonds	(13,000)	(64,085)	—	(77,085)
Interest paid	(2,608)	—	—	(2,608)
Grants received	67,889	—	—	67,889
Net cash provided by (used in) noncapital financing activities	**554,242**	**129,065**	**—**	**683,307**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	—	—	(516)	(516)
Net cash provided by (used in) capital and related financing activities	**—**	**—**	**(516)**	**(516)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	—	(1,100)	—	(1,100)
Proceeds from maturity and sale of investments	—	1,912	—	1,912
Earnings on investments	838	—	770	1,608
Net cash provided by (used in) investing activities	**838**	**812**	**770**	**2,420**
Net increase (decrease) in cash and pooled investments	456,693	99,141	(4,092)	551,742
Cash and pooled investments – beginning	**302,446**	**149,855**	**242,975**	**695,276**
Cash and pooled investments – ending	**$ 759,139**	**$ 248,996**	**$ 238,883**	**$ 1,247,018**

(continued)

Combining Statement of Cash Flows (continued)

Nonmajor Enterprise Funds

Year Ended June 30, 2016
(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)	$ 61,136	$ (2,199)	$ (2,929)	$ 56,008
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	—	94	190	284
Provisions and allowances	—	(2,161)	—	(2,161)
Amortization of premiums and discounts	—	1,136	—	1,136
Other	(13,708)	—	—	(13,708)
Change in account balances:				
Receivables	—	305	(1,894)	(1,589)
Due from other funds	(22)	—	(279)	(301)
Due from other governments	(4,210)	—	248	(3,962)
Prepaid items	—	—	(383)	(383)
Inventories	—	—	853	853
Other current assets	—	(1,285)	—	(1,285)
Loans receivable	(141,392)	(27,615)	1,995	(167,012)
Deferred outflow of resources	(75)	(2,259)	(4,213)	(6,547)
Accounts payable	—	283	(1,972)	(1,689)
Due to other funds	(114)	147	76	109
Due to other governments	—	—	(33)	(33)
Interest payable	—	2,622	—	2,622
Revenues received in advance	(2)	—	3	1
Other current liabilities	—	—	337	337
Benefits payables	—	—	590	590
Compensated absences payable	—	—	1,993	1,993
Other noncurrent liabilities	—	1,488	1,799	3,287
Deferred inflows of resources	—	(1,292)	(727)	(2,019)
Total adjustments	(159,523)	(28,537)	(1,417)	(189,477)
Net cash provided by (used in) operating activities	**$ (98,387)**	**$ (30,736)**	**$ (4,346)**	**$ (133,469)**

(concluded)

Noncash investing, capital, and financing activities				
Miscellaneous noncash activities	$ —	$ 6,619	$ —	$ 6,619

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, 2016
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ASSETS				
Cash and pooled investments	$ 2	$ 77,157	$ 26,815	$ 103,974
Investments, at fair value:				
Equity securities	3,323,022	—	—	3,323,022
Debt securities	2,227,087	—	—	2,227,087
Real estate	235,924	—	—	235,924
Other	962,251	—	—	962,251
Total investments	6,748,284	—	—	6,748,284
Receivables (net)	11,953	2	1	11,956
Due from other funds	—	10,999	37	11,036
Other assets	—	176,181	—	176,181
Total assets	**6,760,239**	**264,339**	**26,853**	**7,051,431**
LIABILITIES				
Accounts payable	12,234	14,062	19,869	46,165
Deposits	—	176,181	—	176,181
Other liabilities	—	4	5,577	5,581
Total liabilities	**12,234**	**190,247**	**25,446**	**227,927**
NET POSITION				
Held in trust for individuals, organizations, or other governments	**$ 6,748,005**	**$ 74,092**	**$ 1,407**	**$ 6,823,504**

Combining Statement of Changes in Fiduciary Net Position

Private Purpose Trust Funds

Year Ended June 30, 2016
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ADDITIONS				
Investment income:				
Net appreciation (depreciation) in fair value of investments	$ (191,108)	$ —	$ —	$ (191,108)
Interest, dividends, and other investment income	288,592	—	—	288,592
Less: investment expense	(3,933)	—	—	(3,933)
Net investment income	93,551	—	—	93,551
Receipts from depositors	3,152,700	321,301	9,699	3,483,700
Total additions	**3,246,251**	**321,301**	**9,699**	**3,577,251**
DEDUCTIONS				
Administrative expenses	—	—	7	7
Payments to and for depositors	2,927,818	320,045	9,540	3,257,403
Total deductions	**2,927,818**	**320,045**	**9,547**	**3,257,410**
Change in net position	318,433	1,256	152	319,841
Net position – beginning	**6,429,572**	**72,836**	**1,255**	**6,503,663**
Net position – ending	**$ 6,748,005**	**$ 74,092**	**$ 1,407**	**$ 6,823,504**

This page intentionally left blank

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 **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 Annuitants' Health Care Coverage Fund, Teachers' Health Benefits Fund, State Peace Officers' and Firefighters' Defined Contribution Plan Fund, Supplemental Contributions Program Fund, Boxers' Pension Fund, and Flexelect Benefit Fund.

This page intentionally left blank

Combining Statement of Fiduciary Net Position

Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

June 30, 2016
(amounts in thousands)

	Defined Benefit		Pension Plans				Other Pension and Other Employee Benefit Trust	
	Public Employees' Retirement	State Teachers' Retirement	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	Deferred Compensation		Total
ASSETS								
Cash and pooled investments	$ 2,818,148	$ 289,739	$ 2,823	$ 10,769	$ 868	$ 18,982	$ 90,199	$ 3,231,528
Investments, at fair value:								
Short-term	19,970,763	5,717,784	35,041	74,736	7,702	2,592,864	386,262	28,785,152
Equity securities	141,565,010	99,824,467	—	654,415	37,105	7,043,042	3,116,446	252,240,485
Debt securities	81,359,745	34,034,433	—	473,035	79,362	1,537,365	1,898,947	119,382,887
Real estate	31,225,522	26,732,928	—	—	—	—	—	57,958,450
Securities lending collateral	12,714,487	17,524,290	—	53,795	3,514	—	47,810	30,343,896
Other	26,153,355	23,582,474	—	—	—	2,018,006	—	51,753,835
Total investments	312,988,882	207,416,376	35,041	1,255,981	127,683	13,191,277	5,449,465	540,464,705
Receivables (net)	17,488,315	1,836,363	2,575	115,305	12,838	23,488	394,387	19,873,271
Due from other funds	627,255	—	22	13	—	155	30	627,475
Due from other governments	—	6,999	—	—	—	8	—	7,007
Loans receivable	—	2,131,694	—	—	—	2,321	—	2,134,015
Other assets	701,741	230,890	—	—	—	—	—	932,631
Total assets	**334,624,341**	**211,912,061**	**40,461**	**1,382,068**	**141,389**	**13,236,231**	**5,934,081**	**567,270,632**
DEFERRED OUTFLOWS OF RESOURCES	—	22,756	—	—	—	81	42	22,879
Total assets and deferred outflows of resources	**334,624,341**	**211,934,817**	**40,461**	**1,382,068**	**141,389**	**13,236,312**	**5,934,123**	**567,293,511**
LIABILITIES								
Accounts payable	13,293	1,479,643	111	125	54	3,978	636	1,497,840
Due to other governments	—	560	52	—	—	3	—	615
Benefits payable	1,682,747	1,188,518	—	—	589	1,843	53,280	2,926,977
Securities lending obligations	12,664,098	17,530,264	—	53,828	3,517	—	47,839	30,299,546
Loans payable	—	2,129,694	—	—	—	—	—	2,129,694
Other liabilities	21,560,201	477,106	504	155,162	18,179	2,640	574,290	22,788,082
Total liabilities	**35,920,339**	**22,805,785**	**667**	**209,115**	**22,339**	**8,464**	**676,045**	**59,642,754**
DEFERRED INFLOWS OF RESOURCES	—	15,545	—	—	—	156	22	15,723
Total liabilities and deferred inflows of resources	**35,920,339**	**22,821,330**	**667**	**209,115**	**22,339**	**8,620**	**676,067**	**59,658,477**
NET POSITION								
Held in Trust for:								
Pension and other postemployment benefits	298,704,002	189,113,487	39,794	1,172,953	119,050	—	124,354	489,273,640
Deferred compensation participants	—	—	—	—	—	13,227,692	—	13,227,692
Individuals, organizations, or other governments	—	—	—	—	—	—	5,133,702	5,133,702
Total net position	**$ 298,704,002**	**$ 189,113,487**	**$ 39,794**	**$ 1,172,953**	**$ 119,050**	**$ 13,227,692**	**$ 5,258,056**	**$ 507,635,034**

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, 2016
(amounts in thousands)

	Defined Benefit Pension Plans							
	Public Employees' Retirement	**State Teachers' Retirement**	**Judges' Retirement**	**Judges' Retirement II**	**Legislators' Retirement**	**Deferred Compensation**	**Other Pension and Other Employee Benefit Trust**	**Total**
ADDITIONS								
Contributions:								
Employer	$ 10,892,489	$ 3,391,140	$ 192,287	$ 65,839	$ 549	$ 1,363	$ 1,810,222	$ 16,353,889
Plan member	4,015,754	2,957,477	3,559	24,598	97	1,416,432	37,112	8,455,029
Non-employer	—	1,939,902	—	—	—	—	—	1,939,902
Total contributions	14,908,243	8,288,519	195,846	90,437	646	1,417,795	1,847,334	26,748,820
Investment income:								
Net appreciation (depreciation) in fair value of investments	736,827	(2,138,824)	—	20,595	4,562	(602,957)	78,580	(1,901,217)
Interest, dividends, and other investment income	1,677,128	4,760,676	195	825	46	12,561	324	6,451,755
Less: investment expense	(878,613)	(316,894)	(1)	(612)	(63)	(462)	(1,705)	(1,198,350)
Net investment income (loss)	1,535,342	2,304,958	194	20,808	4,545	(590,858)	77,199	3,352,188
Other	13,100	41,519	2,568	2	—	18,895	6,506	82,590
Total additions	**16,456,685**	**10,634,996**	**198,608**	**111,247**	**5,191**	**845,832**	**1,931,039**	**30,183,598**
DEDUCTIONS								
Distributions to beneficiaries	20,093,933	13,064,557	199,271	21,549	7,028	33,841	1,294,324	34,714,503
Refunds of contributions	238,821	84,001	78	155	379	5,231	—	328,665
Administrative expense	184,447	195,287	642	732	203	17,565	4,395	403,271
Payments to and for depositors	—	—	—	—	—	569,161	16,130	585,291
Total deductions	**20,517,201**	**13,343,845**	**199,991**	**22,436**	**7,610**	**625,798**	**1,314,849**	**36,031,730**
Change in net position	(4,060,516)	(2,708,849)	(1,383)	88,811	(2,419)	220,034	616,190	(5,848,132)
Net position – beginning	**302,764,518**	**191,822,336**	**41,177**	**1,084,142**	**121,469**	**13,007,658**	**4,641,866**	**513,483,166**
Net position – ending	**$ 298,704,002**	**$ 189,113,487**	**$ 39,794**	**$ 1,172,953**	**$ 119,050**	**$ 13,227,692**	**$ 5,258,056**	**$ 507,635,034**

This page intentionally left blank

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, 2016
(amounts in thousands)

	Receipting and Disbursing	Deposit	Other Agency Activities	Total
ASSETS				
Cash and pooled investments	$ 2,729,053	$ 3,062,415	$ 24,250	$ 5,815,718
Receivables (net)	3,665,883	162,694	1,452	3,830,029
Due from other funds	18,757,825	3,665	777	18,762,267
Due from other governments	34,625	281	—	34,906
Loans receivable	—	—	7,935	7,935
Other assets	55	15	—	70
Total assets	**$ 25,187,441**	**$ 3,229,070**	**$ 34,414**	**$ 28,450,925**
LIABILITIES				
Accounts payable	$ 16,985,632	$ 128,859	$ 3,472	$ 17,117,963
Due to other governments	8,172,020	4,087	6,529	8,182,636
Tax overpayments	646	—	—	646
Revenues received in advance	—	680	—	680
Deposits	29,009	1,239,867	10,353	1,279,229
Other liabilities	134	1,855,577	14,060	1,869,771
Total liabilities	**$ 25,187,441**	**$ 3,229,070**	**$ 34,414**	**$ 28,450,925**

This page intentionally left blank

Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year Ended June 30, 2016
(amounts in thousands)

Receipting and Disbursing Fund

	Balance July 1, 2015 *	Additions	Deductions	Balance June 30, 2016
ASSETS				
Cash and pooled investments	$ 2,204,168	$ 190,945,714	$ 190,420,829	$ 2,729,053
Receivables (net)	1,749,662	5,604,941	3,688,720	3,665,883
Due from other funds	16,367,074	21,910,799	19,520,048	18,757,825
Due from other governments	33,852	7,886	7,113	34,625
Prepaid items	26,001	—	26,001	—
Other assets	55	—	—	55
Total assets	**$ 20,380,812**	**$ 218,469,340**	**$ 213,662,711**	**$ 25,187,441**
LIABILITIES				
Accounts payable	$ 14,726,634	$ 44,621,984	$ 42,362,986	$ 16,985,632
Due to other governments	5,617,817	38,015,882	35,461,679	8,172,020
Tax overpayments	1,100	117,847	118,301	646
Revenues received in advance	2	—	2	—
Deposits	35,184	—	6,175	29,009
Other liabilities	75	59	—	134
Total liabilities	**$ 20,380,812**	**$ 82,755,772**	**$ 77,949,143**	**$ 25,187,441**

* Restated for reclassification of a fund to the Health Care Related Programs Fund, a nonmajor special revenue fund.

Deposit Fund

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
ASSETS				
Cash and pooled investments	$ 2,580,812	$ 16,894,117	$ 16,412,514	$ 3,062,415
Receivables (net)	115,601	336,591	289,498	162,694
Due from other funds	3,699	79,211	79,245	3,665
Due from other governments	4	290	13	281
Prepaid items	491	—	491	—
Other assets	34	15	34	15
Total assets	**$ 2,700,641**	**$ 17,310,224**	**$ 16,781,795**	**$ 3,229,070**
LIABILITIES				
Accounts payable	$ 105,739	$ 472,157	$ 449,037	$ 128,859
Due to other governments	4,069	1,331	1,313	4,087
Revenues received in advance	697	—	17	680
Deposits	1,106,164	475,435	341,732	1,239,867
Other liabilities	1,483,972	15,964,527	15,592,922	1,855,577
Total liabilities	**$ 2,700,641**	**$ 16,913,450**	**$ 16,385,021**	**$ 3,229,070**

Other Agency Activity Funds

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
ASSETS				
Cash and pooled investments	$ 24,603	$ 455	$ 808	$ 24,250
Receivables (net)	1,511	524	583	1,452
Due from other funds	773	1,098	1,094	777
Loans receivable	6,459	1,476	—	7,935
Total assets	**$ 33,346**	**$ 3,553**	**$ 2,485**	**$ 34,414**
LIABILITIES				
Accounts payable	$ 2,808	$ 765	$ 101	$ 3,472
Due to other governments	6,656	283	410	6,529
Deposits	9,855	498	—	10,353
Other liabilities	14,027	65	32	14,060
Total liabilities	**$ 33,346**	**$ 1,611**	**$ 543**	**$ 34,414**

Total Agency Funds

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
ASSETS				
Cash and pooled investments	$ 4,809,583	$ 207,840,286	$ 206,834,151	$ 5,815,718
Receivables (net)	1,866,774	5,942,056	3,978,801	3,830,029
Due from other funds	16,371,546	21,991,108	19,600,387	18,762,267
Due from other governments	33,856	8,176	7,126	34,906
Prepaid items	26,492	—	26,492	—
Loans receivable	6,459	1,476	—	7,935
Other assets	89	15	34	70
Total assets	**$ 23,114,799**	**$ 235,783,117**	**$ 230,446,991**	**$ 28,450,925**
LIABILITIES				
Accounts payable	$ 14,835,181	$ 45,094,906	$ 42,812,124	$ 17,117,963
Due to other governments	5,628,542	38,017,496	35,463,402	8,182,636
Tax overpayments	1,100	117,847	118,301	646
Revenues received in advance	699	—	19	680
Deposits	1,151,203	475,933	347,907	1,279,229
Other liabilities	1,498,074	15,964,651	15,592,954	1,869,771
Total liabilities	**$ 23,114,799**	**$ 99,670,833**	**$ 94,334,707**	**$ 28,450,925**

This page intentionally left blank

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, 2015.

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, 2016
(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
ASSETS					
Current assets:					
Cash and pooled investments	$ 5,516	$ 409,495	$ 109,683	$ 521,155	$ 1,045,849
Investments	—	476,891	622	—	477,513
Restricted assets:					
Cash and pooled investments	396,706	—	5,837	4,198	406,741
Investments	—	—	3,190	—	3,190
Receivables (net)	18,909	272,013	5,534	24,305	320,761
Prepaid items	—	—	936	116	1,052
Other current assets	—	39,244	527	—	39,771
Total current assets	421,131	1,197,643	126,329	549,774	2,294,877
Noncurrent assets:					
Restricted assets:					
Cash and pooled investments	—	25,588	—	—	25,588
Investments	12,761	—	3,297	—	16,058
Investments	—	1,771,550	—	69,582	1,841,132
Receivables (net)	—	226,867	—	14,068	240,935
Loans receivable	293,504	—	—	2,547	296,051
Capital assets:					
Land	—	126,305	22,232	5,089	153,626
Collections – nondepreciable	—	10,300	—	—	10,300
Buildings and other depreciable property	—	1,207,873	726,479	136,574	2,070,926
Intangible assets – amortizable	—	9,336	—	1,051	10,387
Less: accumulated depreciation/amortization	—	(563,725)	(450,281)	(56,189)	(1,070,195)
Construction/development in progress	—	20,684	4,209	1,919	26,812
Intangible assets – nonamortizable	—	5,098	—	—	5,098
Other noncurrent assets	—	36,345	—	8,354	44,699
Total noncurrent assets	306,265	2,876,221	305,936	182,995	3,671,417
Total assets	**727,396**	**4,073,864**	**432,265**	**732,769**	**5,966,294**
DEFERRED OUTFLOWS OF RESOURCES	4,943	19,721	10,361	10,645	45,670
Total assets and deferred outflows of resources	**$ 732,339**	**$ 4,093,585**	**$ 442,626**	**$ 743,414**	**$ 6,011,964**

(continued)

Combining Statement of Net Position (continued)

Nonmajor Component Units

June 30, 2016
(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
LIABILITIES					
Current liabilities:					
Accounts payable	$ 4,881	$ 86,503	$ 7,266	$ 447,094	$ 545,744
Revenues received in advance	—	65,349	2,564	581	68,494
Deposits	—	—	1,570	363	1,933
Contracts and notes payable	—	8,400	93	99	8,592
Interest payable	2,134	—	749	—	2,883
Current portion of long-term obligations	11,570	75,429	3,148	1,455	91,602
Other current liabilities	36,038	84,794	3,147	78,056	202,035
Total current liabilities	54,623	320,475	18,537	527,648	921,283
Noncurrent liabilities:					
Compensated absences payable	268	5,629	9,554	372	15,823
Workers' compensation benefits payable	—	44,257	346	—	44,603
Commercial paper and other borrowings	—	700	—	—	700
Capital lease obligations	—	348,342	—	—	348,342
Revenue bonds payable	361,018	43,436	46,449	20,474	471,377
Net other postemployment benefits obligation	1,375	100,764	7,762	650	110,551
Net pension liability	5,671	62,432	80,485	32,086	180,674
Other noncurrent liabilities	27,417	399,476	9,631	19,221	455,745
Total noncurrent liabilities	395,749	1,005,036	154,227	72,803	1,627,815
Total liabilities	**450,372**	**1,325,511**	**172,764**	**600,451**	**2,549,098**
DEFERRED INFLOWS OF RESOURCES	123	16,263	16,457	5,756	38,599
Total liabilities and deferred inflows of resources	**450,495**	**1,341,774**	**189,221**	**606,207**	**2,587,697**
NET POSITION					
Net investment in capital assets	—	227,166	246,934	67,320	541,420
Restricted:					
Nonexpendable – endowments	—	1,057,270	—	22,159	1,079,429
Expendable:					
Endowments and gifts	—	—	—	18,321	18,321
Education	—	893,104	—	9,242	902,346
Statute	280,326	—	—	—	280,326
Other purposes	1,618	—	16,318	10,495	28,431
Total expendable	281,944	893,104	16,318	38,058	1,229,424
Unrestricted	(100)	574,271	(9,847)	9,670	573,994
Total net position	**281,844**	**2,751,811**	**253,405**	**137,207**	**3,424,267**
Total liabilities, deferred inflows of resources, and net position	**$ 732,339**	**$ 4,093,585**	**$ 442,626**	**$ 743,414**	**$ 6,011,964**

(concluded)

Combining Statement of Activities

Nonmajor Component Units

Year Ended June 30, 2016
(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
OPERATING EXPENSES					
Personal services	$ 3,707	$ 369,673	$ 105,553	$ 37,154	$ 516,087
Scholarships and fellowships	—	55,386	—	3,565	58,951
Supplies	—	—	—	9,949	9,949
Services and charges	33,588	1,106,056	109,074	14,196	1,262,914
Depreciation	—	51,560	17,826	3,057	72,443
Interest expense and fiscal charges	7,422	23,694	1,971	991	34,078
Other	—	71,560	486	6,658	78,704
Total operating expenses	**44,717**	**1,677,929**	**234,910**	**75,570**	**2,033,126**
PROGRAM REVENUES					
Charges for services	1,769	736,244	238,550	63,009	1,039,572
Operating grants and contributions	28,470	598,192	—	13,912	640,574
Capital grants and contributions	—	28,540	266	424	29,230
Total program revenues	**30,239**	**1,362,976**	**238,816**	**77,345**	**1,709,376**
Net revenues (expenses)	(14,478)	(314,953)	3,906	1,775	(323,750)
GENERAL REVENUES					
Investment and interest income (loss)	10,956	(21,487)	60	(683)	(11,154)
Other	1,072	433,439	3,217	9,112	446,840
Total general revenues	**12,028**	**411,952**	**3,277**	**8,429**	**435,686**
Change in net position	(2,450)	96,999	7,183	10,204	111,936
Net position – beginning	**284,294**	**2,654,812**	**246,222 ***	**127,003**	**3,312,331**
Net position – ending	**$ 281,844**	**$ 2,751,811**	**$ 253,405**	**$ 137,207**	**$ 3,424,267**

* Restated

This page intentionally left blank

Statistical Section

This page intentionally left blank

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

Sources: 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)

	2007	2008	2009	2010	2011 [2]	2012	2013	2014 [3]	2015 [4]	2016
Governmental activities										
Net investment in capital assets	$ 81,352,744	$ 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
Restricted – Expendable	10,543,602	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
Unrestricted [1]	(56,519,478)	(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)
Total governmental activities net position (deficit)	**$ 35,376,868**	**$ 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)**
Business-type activities										
Net investment in capital assets	$ 208,268	$ 49,510	$ (130,634)	$ 89,334	$ 1,382,957	$ 1,561,258	$ 1,718,648	$ 2,065,550	$ 2,278,252	$ 2,520,621
Restricted – Nonexpendable	—	—	—	—	21,812	21,584	20,627	16,219	13,448	8,653
Restricted – Expendable	8,574,932	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
Unrestricted	2,430,492	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)
Total business-type activities net position (deficit)	**$ 11,213,692**	**$ 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**
Primary government										
Net investment in capital assets	$ 81,561,012	$ 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
Restricted – Nonexpendable	—	—	—	—	21,812	21,584	20,627	16,219	13,448	8,653
Restricted – Expendable	19,118,534	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
Unrestricted	(54,088,986)	(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)
Total primary government net position (deficit)	**$ 46,590,560**	**$ 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)**

[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.

[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)

	2007	2008	2009	2010	2011 [4]	2012	2013	2014 [5]	2015	2016
Governmental activities										
Expenses										
General government [1]	$ 14,261,590	$ 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
Education	61,542,105	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
Health and human services	69,979,980	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
Natural resources and environmental protection	5,316,769	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
Business, consumer services, and housing	1,214,740	1,129,063	1,518,402	979,962	1,405,019	1,241,269	1,475,486	589,715	903,782	814,676
Transportation	9,763,200	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
Corrections and rehabilitation	8,945,325	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
Interest on long-term debt	2,596,316	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
Total expenses	**173,620,025**	**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**
Program revenues										
Charges for services:										
General government [1]	4,495,166	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
Education	2,689,906	3,343,205	3,483,072	4,231,692	110,423	81,212	64,480	67,165	53,498	66,298
Health and human services	4,751,011	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
Natural resources and environmental protection	2,110,593	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
Business, consumer services, and housing	704,512	692,348	658,486	654,034	660,196	724,222	682,503	586,055	626,960	823,189
Transportation	4,040,268	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
Corrections and rehabilitation	30,821	27,702	21,592	18,097	14,981	16,757	45,153	13,645	18,557	19,411
Operating grants/contributions	43,440,102	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
Capital grants/contributions	1,164,526	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
Total program revenues	**63,426,905**	**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**
Total governmental activities net program expenses	**(110,193,120)**	**(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)**
General revenues and other changes in net position										
General revenues:										
Personal income taxes	53,272,229	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
Sales and use taxes	35,427,013	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
Corporation taxes	11,211,267	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
Motor vehicle excise taxes [2]	—	—	—	—	—	5,263,435	5,219,605	5,777,167	5,393,994	5,028,589
Insurance taxes	2,165,567	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
Other taxes [2]	5,939,890	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
Investment and interest	730,066	639,059	175,584	114,933	62,946	72,237	57,285	80,969	58,016	131,615
Escheat	334,002	282,287	315,642	149,996	229,146	372,215	551,580	487,937	400,807	304,960
Special item [3]	—	—	—	—	—	—	—	(54,537)	—	40,516
Transfers	29,855	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)
Total general revenues and other changes in net position	**109,109,889**	**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**
Total governmental activities change in net position	**$ (1,083,231)**	**$ (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**

(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 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.

[4] In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.

[5] 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)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Business-type activities										
Expenses										
Electric Power	$ 5,865,000	$ 5,362,000	$ 4,560,000	$ 3,908,000	$ 2,317,000	$ 915,000	$ 488,000	$ 835,000	$ 799,000	$ 728,000
Water Resources	951,590	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
Public Buildings Construction [5]	334,777	371,904	420,465	494,332	390,173	403,853	410,404	—	—	—
State Lottery	3,470,615	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
Unemployment Programs	9,136,218	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
California State University [4]	—	—	—	—	5,851,355	6,181,397	6,196,541	6,544,936	6,847,789	7,199,277
High Technology Education	22,704	16,916	15,590	15,025	9,590	7,778	6,568	847	—	—
State University Dormitory Building Maintenance and Equipment	844,798	699,018	486,349	856,106	—	—	—	—	—	—
State Water Pollution Control Revolving	12,702	13,056	12,261	16,893	10,953	8,780	3,698	5,072	9,082	11,814
Housing Loan	127,206	132,101	130,777	122,114	104,667	89,570	70,356	57,206	58,280	55,627
Other enterprise programs	141,859	122,921	147,441	130,329	118,006	78,601	58,578	79,641	77,475	84,188
Total expenses	**20,907,469**	**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**
Program revenues										
Charges for services:										
Electric Power	5,865,000	5,362,000	4,560,000	3,908,000	2,317,000	915,000	488,000	835,000	799,000	728,000
Water Resources	951,590	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
Public Buildings Construction [5]	396,895	384,816	366,151	430,069	456,467	428,260	616,041	—	—	—
State Lottery	3,461,699	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
Unemployment Programs	9,017,969	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
California State University [4]	—	—	—	—	2,505,545	2,915,123	2,891,432	3,014,030	3,113,988	3,172,154
High Technology Education	22,966	20,600	15,975	13,015	10,498	8,452	5,585	424	—	—
State University Dormitory Building Maintenance and Equipment	554,851	640,208	811,454	599,571	—	—	—	—	—	—
State Water Pollution Control Revolving	78,564	71,404	59,923	56,121	55,957	57,540	60,173	62,985	65,959	70,245
Housing Loan	130,293	130,139	109,636	85,321	89,224	84,830	66,050	65,247	57,742	53,617
Other enterprise programs	134,018	137,476	124,952	98,957	105,676	74,693	80,540	77,671	78,625	82,029
Operating grants/contributions	—	—	—	—	1,216,808	1,249,995	1,323,345	1,491,559	1,666,292	1,764,962
Capital grants/contributions	182,989	189,064	71,882	91,808	86,272	106,057	142,304	80,903	107,746	66,914
Total program revenues	**20,796,834**	**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**
Total business-type activities net program revenues (expenses)	**(110,635)**	**(1,506,005)**	**(5,006,048)**	**(18,640,625)**	**(2,921,487)**	**(956,324)**	**(615,462)**	**(401,987)**	**103,520**	**318,022**
Other changes in net position										
Special item [3]	—	—	—	—	—	—	—	(26,913)	—	—
Transfers	(29,855)	(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
Total business-type activities change in net position	**(140,490)**	**(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**
Total primary government change in net position	**$ (1,223,721)**	**$ (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**

(concluded)

Schedule of Fund Balances – Governmental Funds

For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	2007	2008	2009	2010	2011 [1]	2012	2013	2014	2015	2016
General Fund										
Reserved	$ 2,596,537	$ 2,113,149	$ 2,260,504	$ 1,320,782	$ —	$ —	$ —	$ —	$ —	$ —
Unreserved	(4,504,075)	(6,282,018)	(18,344,400)	(20,929,640)	—	—	—	—	—	—
Nonspendable	—	—	—	—	148,019	7,614	140,107	128,609	53,431	75,939
Restricted	—	—	—	—	156,496	80,849	178,643	394,246	2,266,635	4,044,911
Committed	—	—	—	—	29,850	19,600	22,879	125,120	102,793	68,102
Unassigned	—	—	—	—	(20,273,606)	(23,069,351)	(14,596,085)	(8,092,571)	(4,651,491)	(3,827,224)
Total General Fund	**$ (1,907,538)**	**$ (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**
All other governmental funds										
Reserved	$ 21,955,300	$ 19,512,083	$ 27,465,566	$ 41,087,578	$ —	$ —	$ —	$ —	$ —	$ —
Unreserved, reported in:										
Special revenue funds	(914,843)	(1,817,290)	(3,539,254)	(8,554,611)	—	—	—	—	—	—
Capital projects funds	(1,128,608)	(837,349)	686,113	838,879	—	—	—	—	—	—
Nonspendable	—	—	—	—	39,448	—	15,022	27,260	5,620	11,188
Restricted	—	—	—	—	27,709,325	24,790,661	24,137,270	24,269,093	24,224,167	24,885,166
Committed	—	—	—	—	2,701,702	2,109,089	2,318,035	2,914,747	4,090,563	5,652,478
Assigned	—	—	—	—	268,888	3	209,171	18,857	16,767	14,622
Unassigned	—	—	—	—	(21,847)	(103,177)	(176,066)	(20,145)	(6,456)	(1,037)
Total all other governmental funds	**$ 19,911,849**	**$ 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**

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 $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)

	2007	2008	2009	2010	2011 [4]	2012	2013	2014	2015	2016
Revenues										
Personal income taxes	$ 53,289,524	$ 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
Sales and use taxes	35,451,311	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
Corporation taxes	11,210,267	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
Motor vehicle excise taxes [1]	—	—	—	—	—	5,263,435	5,219,605	5,777,167	5,393,994	5,028,589
Insurance taxes	2,165,567	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
Other taxes [1]	5,800,027	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
Intergovernmental	46,442,519	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
Licenses and permits	5,266,142	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
Charges for services	911,387	1,025,569	986,773	974,181	1,008,647	728,980	741,201	769,302	849,895	870,142
Fees and penalties	6,093,948	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
Investment and interest	1,555,202	1,591,025	1,108,058	281,881	212,116	175,898	135,928	137,754	119,690	232,285
Escheat	334,002	282,287	315,642	149,996	229,146	372,215	551,580	488,945	406,899	305,394
Other	3,732,591	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
Total revenues	**172,252,487**	**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**
Expenditures										
General government [2]	14,062,920	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
Education	61,103,008	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
Health and human services	70,157,806	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
Natural resources and environmental protection	5,191,078	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
Business, consumer services, and housing	1,214,752	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
Transportation	11,485,069	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
Corrections and rehabilitation	9,030,299	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
Capital outlay	1,345,021	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
Debt service:										
Bond and commercial paper retirement	5,691,791	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
Interest and fiscal charges	2,881,849	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
Total expenditures	**182,163,593**	**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**
Excess (deficiency) of revenues over (under) expenditures	(9,911,106)	(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
Other financing sources (uses)										
General obligation bonds and commercial paper issued	9,040,500	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
Revenue bonds issued	—	—	97,635	—	—	—	—	—	—	—
Refunding/remarketing debt issued	9,098,376	1,798,685	—	4,176,050	—	4,300,555	4,634,365	2,077,330	5,086,100	5,220,320
Payment to refund/remarket long-term debt	(7,840,621)	(1,844,006)	—	(4,221,604)	—	(4,508,834)	(3,174,613)	(328,024)	(3,865,093)	(4,378,328)
Premium on bonds issued [3]	—	295,439	126,107	267,980	32,607	667,931	964,211	505,026	1,116,811	1,037,920
Proceeds from loans	—	—	—	1,996,737	35,538	—	—	—	—	—
Capital leases [4]	178,936	268,686	364,813	811,816	204,631	528,804	710,440	1,486,204	625,282	1,148,774
Transfers in	9,311,462	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
Transfers out	(9,242,771)	(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)
Total other financing sources	**10,545,882**	**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**
Total change in fund balance	**$ 634,776**	**$ (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**
Debt service as a percentage of noncapital expenditures	4.7%	6.3%	4.5%	3.9%	3.8%	4.6%	4.8%	5.2%	5.2%	4.3%

[1] Motor vehicle excise taxes, reported separately in fiscal year 2012 due to material increases, were included with "other taxes" in prior years.

[2] Tax relief program expenditures reported separately prior to fiscal year 2009 are now included with general government.

[3] Prior to fiscal year 2008, premiums on bonds issued were netted against debt service interest and fiscal charges.

[4] In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.

This page intentionally left blank

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 Industry/Income Level

Schedule of Personal Income Tax Rates

Schedule of Revenue Base

For the Past Ten Calendar Years
(amounts in thousands)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Personal Income by Industry										
(all items restated as footnoted) [1]										
Farm earnings	$ 10,502,902	$ 12,862,117	$ 10,766,257	$ 11,973,440	$ 12,433,312	$ 14,373,226	$ 15,953,332	$ 18,381,388	$ 17,495,977	$ 17,605,974
Forestry, fishing, and other natural resources	5,833,348	6,094,846	6,089,767	6,147,847	6,566,707	6,854,997	7,638,250	8,068,569	8,522,241	9,203,366
Mining	5,211,109	5,194,458	7,140,140	4,119,811	4,514,175	5,106,115	6,001,577	6,428,622	6,651,227	5,608,197
Construction and utilities	96,033,933	89,077,633	75,328,934	65,061,973	62,660,496	61,873,357	66,556,171	73,683,266	78,847,459	87,898,106
Manufacturing	122,827,189	125,304,412	123,299,811	113,518,283	115,688,797	120,111,759	124,899,276	126,311,618	133,530,187	139,691,173
Wholesale trade	54,764,594	58,385,776	57,972,229	52,454,196	53,682,251	57,472,618	60,035,740	62,295,590	65,623,042	68,608,235
Retail trade	81,580,803	80,873,164	73,042,916	68,818,022	70,039,926	73,130,362	77,231,735	79,105,234	82,313,799	86,231,777
Transportation and warehousing	31,793,178	33,337,952	32,451,085	30,688,997	31,303,667	34,174,605	35,593,342	37,370,800	39,795,961	43,261,714
Information, finance, and insurance	126,375,035	127,946,372	118,123,454	120,213,222	130,736,844	135,518,145	143,425,308	154,787,569	159,689,475	175,851,729
Real estate and rental and leasing	31,859,819	25,073,627	32,287,873	33,903,893	36,358,312	45,843,400	52,588,792	50,457,768	48,428,630	49,896,044
Services	395,786,577	416,568,707	436,006,483	419,074,508	430,851,698	458,596,036	496,398,719	500,793,929	538,770,068	579,603,097
Federal, civilian	20,978,437	21,578,358	22,347,584	23,426,267	25,978,417	26,293,383	26,445,830	26,044,538	26,690,415	27,752,861
Military	12,812,404	13,447,304	14,560,197	15,558,704	16,264,215	16,059,376	15,919,310	15,351,742	15,063,581	14,701,712
State and local government	164,416,341	176,638,739	185,038,204	184,143,378	185,265,970	189,759,590	189,141,123	194,484,812	204,595,848	215,902,598
Other [2]	364,143,953	391,468,081	422,075,503	411,546,787	434,789,463	482,266,610	520,738,657	508,391,069	551,905,830	581,852,890
Total personal income	**$ 1,524,919,622**	**$ 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**	**$ 1,977,923,740**	**$ 2,103,669,473**
Average effective rate [3]	5.1%	5.0%	5.7%	5.2%	4.7%	5.3%	5.0%	6.1%	5.6%	6.1%

Source: Bureau of Economic Analysis, U.S. Department of Commerce

[1] 2006-2014 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)

	2006	2007	2008
Taxable Sales by Industry [1]			
Retail			
Apparel	$ 19,829,416	$ 20,855,890	$ 22,120,094
General merchandise	59,264,894	59,897,350	56,425,472
Specialty	54,695,680	34,122,471	27,380,740
Food	21,864,179	22,461,059	21,504,308
Restaurant and bars	49,229,418	51,658,575	52,051,404
Household	17,383,449	16,720,852	17,199,187
Building materials	36,163,326	32,656,324	26,647,007
Automotive	115,154,535	117,864,918	106,555,420
Other	15,481,675	30,787,663	27,434,795
Business and personal service	23,650,322	23,355,672	22,045,958
All other	146,935,543	150,669,375	152,289,155
Total taxable sales	**$ 559,652,437**	**$ 561,050,149**	**$ 531,653,540**
Direct sales tax rate [2]	5.25%	5.25%	5.25%

	2009 [1]	2010	2011	2012	2013	2014	2015
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	$ 79,563,170
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
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
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
Food and beverage	22,546,285	22,787,407	23,606,132	24,511,714	25,289,203	26,298,414	27,939,656
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
Gasoline stations	39,077,835	45,226,491	55,210,076	58,006,168	56,860,585	55,733,384	47,397,553
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
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
General merchandise stores	44,921,639	46,323,804	48,219,018	49,996,451	51,431,094	52,013,855	48,371,010
Miscellaneous store retailers	16,385,169	16,569,690	17,187,402	17,880,765	18,382,224	19,024,905	19,852,685
Nonstore retailers	2,849,864	2,830,615	3,081,188	4,375,432	7,296,839	8,292,788	9,531,606
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
All other outlets	145,278,339	150,570,269	165,050,017	177,014,427	184,399,899	195,985,698	202,290,021
Total taxable sales	**$ 456,492,945**	**$ 477,347,985**	**$ 520,568,055**	**$ 558,387,249**	**$ 586,839,617**	**$ 615,821,875**	**$ 633,158,526**
Direct sales tax rate [2]	6.25% [3]	6.25%	6.25%	6.25%	6.50% [4]	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, so 2009 was the first year 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 and debt service 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] Rate change was effective on January 1, 2013.

Schedule of Revenue Payers by Income Level/ Industry

For Calendar Years 2006 and 2014

Personal Income Tax Filers and Liability by Income Level [1]

	2006			
	Number of Filers	Percent of Total	Tax Liability [2]	Percent of Total
Under $ 50,000	9,154,344	63.6 %	$ 1,735,639	3.8 %
50,000 to 99,999	3,124,860	21.7	5,485,178	12.0
100,000 to 149,999	1,120,321	7.8	5,213,440	11.4
150,000 to 199,999	401,419	2.8	3,418,630	7.5
200,000 to 299,999	293,496	2.1	4,200,513	9.2
300,000 to 399,999	102,006	0.7	2,395,258	5.2
400,000 to 499,999	52,115	0.4	1,710,759	3.7
500,000 to 599,999	29,757	0.2	1,242,962	2.7
600,000 to 699,999	21,085	0.1	1,066,599	2.3
700,000 to 799,999	13,970	0.1	826,564	1.8
800,000 to 899,999	10,176	0.1	686,372	1.5
900,000 to 999,999	8,076	0.1	625,027	1.4
1,000,000 to 1,999,999	30,387	0.2	3,521,137	7.7
2,000,000 to 2,999,999	8,320	0.1	1,798,113	3.9
3,000,000 to 3,999,999	3,683	0.0	1,155,898	2.5
4,000,000 to 4,999,999	2,097	0.0	871,004	1.9
$ 5,000,000 and over	6,563	0.0	9,762,812	21.5
Total	**14,382,675**	**100.0 %**	**$ 45,715,905**	**100.0 %**

	2014			
	Number of Filers	Percent of Total	Tax Liability [2]	Percent of Total
Under $ 50,000	9,618,850	60.6 %	$ 1,426,734	2.2 %
50,000 to 99,999	3,344,856	21.1	5,754,882	8.8
100,000 to 149,999	1,344,009	8.5	6,527,053	10.0
150,000 to 199,999	636,172	4.0	5,566,060	8.5
200,000 to 299,999	473,588	3.0	6,834,617	10.4
300,000 to 399,999	170,913	1.1	4,015,091	6.1
400,000 to 499,999	81,703	0.5	2,706,437	4.1
500,000 to 599,999	46,780	0.3	1,985,825	3.0
600,000 to 699,999	28,648	0.2	1,497,823	2.3
700,000 to 799,999	19,264	0.1	1,219,536	1.9
800,000 to 899,999	14,760	0.1	1,090,658	1.7
900,000 to 999,999	10,783	0.1	914,837	1.4
1,000,000 to 1,999,999	41,086	0.3	5,517,828	8.4
2,000,000 to 2,999,999	10,160	0.1	2,673,193	4.1
3,000,000 to 3,999,999	4,489	0.0	1,749,934	2.7
4,000,000 to 4,999,999	2,531	0.0	1,296,972	2.0
$ 5,000,000 and over	7,429	0.0	14,681,417	22.4
Total	**15,856,021**	**100.0 %**	**$ 65,458,897**	**100.0 %**

Source: California Franchise Tax Board

[1] For California resident tax returns. Calendar year 2014 is the most recent year for which data is available.

[2] Amounts are in thousands.

For Calendar Years 2006 and 2015

Sales Tax Permits and Tax Liability by Industry

	2006 (Using Business Codes) [1]			
	Number of Permits [2]	Percent of Total	Tax Liability [3]	Percent of Total
Retail:				
Apparel	45,053	4.3 %	$ 1,041,044	3.5 %
General merchandise	17,897	1.7	3,111,407	10.4
Specialty	207,230	19.8	2,871,523	9.7
Food	24,975	2.4	1,147,869	3.7
Restaurant and bars	88,021	8.4	2,584,544	8.7
Household	34,168	3.3	912,631	3.1
Building materials	11,760	1.1	1,898,575	6.5
Automotive	37,649	3.6	6,045,613	21.1
Other	23,245	2.2	812,788	2.8
Business and personal service	103,343	9.9	1,241,642	4.2
All other	455,017	43.3	7,714,116	26.3
Total	**1,048,358**	**100.0 %**	**$ 29,381,752**	**100.0 %**

	2015 (Using NAICS Codes) [1]			
	Number of Permits [2]	Percent of Total	Tax Liability [3]	Percent of Total
Retail and Food Services:				
Motor vehicle and parts dealers	36,153	3.2 %	$ 4,773,790	12.6 %
Furniture and home furnishings stores	21,267	1.9	730,193	1.9
Electronics and appliance stores	26,931	2.4	980,973	2.6
Building materials, garden equipment & supplies	18,774	1.7	2,019,584	5.3
Food and beverage	35,056	3.1	1,676,379	4.4
Health and personal care stores	35,149	3.1	741,874	2.0
Gasoline stations	9,917	0.9	2,843,853	7.5
Clothing and clothing accessories stores	106,337	9.7	2,306,284	6.1
Sporting goods, hobby, book & music stores	37,274	3.3	680,480	1.8
General merchandise stores	26,744	2.4	2,902,261	7.6
Miscellaneous store retailers	192,293	17.2	1,191,161	3.1
Nonstore retailers	50,043	4.5	571,896	1.5
Food services and drinking places	107,690	9.6	4,433,383	11.7
All other outlets	412,959	37.0	12,137,401	31.9
Total	**1,116,587**	**100.0 %**	**$ 37,989,512**	**100.0 %**

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, so 2009 was the first year 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 258 and 259 by the direct sales tax rate. Amounts are in thousands.

Schedule of Personal Income Tax Rates

For Calendar Years 2006-2015

Married Filing Jointly and Surviving Spouse

Tax Rate [1]	2006 Income Level	2007 Income Level	2008 Income Level	2009 Income Level	2010 Income Level	2011 Income Level	2012 Income Level	2013 Income Level	2014 Income Level	2015 Income Level
1.0	Up to $13,244	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
2.0	13,245 – 31,396	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
4.0	31,397 – 49,552	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
6.0	49,553 – 68,788	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
8.0	68,789 – 86,934	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
9.3	86,935 – 1,000,000	89,629 – 999,999	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	103061 – 526,444
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	$1,000,001 and over	500,001 – 600,000	508,501 – 610,200	519,689 – 623,624	526445 – 631,732
11.3	—	—	—	—	—	—	600,001 – 1,000,000	610,201 – 1,000,000	623,625 – 1,000,000	631,733 – 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
13.3	—	—	—	—	—	—	—	$1,017,001 and over	$1,039,375 and over	$1,052,887 and over

Single and Married Filing Separately

Tax Rate [1]	2006 Income Level	2007 Income Level	2008 Income Level	2009 Income Level	2010 Income Level	2011 Income Level	2012 Income Level	2013 Income Level	2014 Income Level	2015 Income Level
1.0	Up to $6,622	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
2.0	6,623 – 15,698	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
4.0	15,699 – 24,776	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
6.0	24,777 – 34,394	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
8.0	34,395 – 43,467	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
9.3	43,468 – 1,000,000	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
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	$1,000,001 and over	250,001 – 300,000	254,251 – 305,100	259,845 – 311,812	263,223 – 315,866
11.3	—	—	—	—	—	—	300,001 – 500,000	305,101 – 508,500	311,813 – 519,687	315,867 – 526,443
12.3	—	—	—	—	—	—	500,001 – 1,000,000	508,501 – 1,000,000	519,688 – 1,000,000	526,444 – 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

Head of Household

Tax Rate [1]	2006 Income Level	2007 Income Level	2008 Income Level	2009 Income Level	2010 Income Level	2011 Income Level	2012 Income Level	2013 Income Level	2014 Income Level	2015 Income Level
1.0	Up to $13,251	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
2.0	13,252 – 31,397	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
4.0	31,398 – 40,473	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
6.0	40,474 – 50,090	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	47983 – 59,383
8.0	50,091 – 59,166	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
9.3	59,167 – 1,000,000	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
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	$1,000,001 and over	340,001 – 408,000	345,781 – 414,936	353,388 – 424,065	357,982 – 429,578
11.3	—	—	—	—	—	—	408,001 – 680,000	414,937 – 691,560	424,066 – 706,774	429,579 – 715,962
12.3	—	—	—	—	—	—	680,001 – 1,000,000	691,561 – 1,000,000	706,775 – 1,000,000	715,963 – 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

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)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Personal income tax revenue [1]	$ 50,798,418	$ 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
Adjusted gross income [2]	$ 990,695,484	$ 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
Average effective rate [3]	5.1%	5.0%	5.7%	5.2%	4.7%	5.3%	5.0%	6.1%	5.6%	6.1%

[1] Personal income tax revenue is reported on a fiscal year basis.

[2] Source: California Franchise Tax Board. Fiscal year 2015 information reflects returns processed as of November 2016.

[3] The average effective rate equals personal income tax revenue divided by adjusted gross income.

This page intentionally left blank

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.

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)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities										
General obligation bonds [1]	$ 50,269,442	$ 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
Revenue bonds [2]	8,009,784	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
Certificates of participation and commercial paper [3]	1,358,051	1,736,089	1,407,908	1,342,119	1,335,340	46,098	538,593	598,094	493,770	771,215
Capital lease obligations [4]	4,346,179	4,376,410	4,456,039	4,967,290	4,882,233	5,176,341	5,319,487	260,088	274,760	370,182
Total governmental activities	**63,983,456**	**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**
Business-type activities										
General obligation bonds [1]	1,954,220	1,907,243	1,702,377	1,477,663	1,218,639	1,118,634	887,053	674,394	650,133	794,369
Revenue bonds [2]	22,934,094	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
Commercial paper	179,782	67,204	51,307	64,518	139,974	67,325	77,560	204,647	237,186	47,416
Capital lease obligations	—	—	—	—	791,489	817,687	909,871	1,250,274	1,210,409	389,385
Total business-type activities	**25,068,096**	**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**
Total primary government	**$ 89,051,552**	**$ 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**
Debt as a percentage of personal income [5, 7]	5.8%	6.0%	6.6%	7.5%	7.3%	7.0%	6.7%	6.3%	5.8%	5.4%
Amount of debt per capita [6, 7]	$ 2,472	$ 2,630	$ 2,926	$ 3,186	$ 3,178	$ 3,196	$ 3,242	$ 3,076	$ 2,951	$ 2,875

Note: Details regarding the State's outstanding debt can be found in Notes 9, 12, 13, 15, and 16 of the financial statements.

[1] Prior to fiscal year 2008, net unamortized bond premiums and refunding gains/losses were not included. 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 obligtion 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 276 and 277 for the prior calendar year.
[6] Amount calculated using population data shown on pages 276 and 277 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)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net general bonded debt										
General obligation bonds [1]	$ 43,234,702	$ 47,828,805	$ 61,724,439	$ 71,284,447	$ 73,516,674	$ 75,791,795	$ 78,001,049	$ 79,368,794	$ 80,215,650	$ 79,837,664
Economic Recovery bonds	8,988,960	10,502,970	8,631,445	7,939,005	7,171,050	6,386,950	5,232,215	4,581,745	944,285	—
Less: restricted debt service fund	792,841	552,326	894	113,172	143,777	330,297	278,425	318,171	818,321	—
Net Economic Recovery bonds [2]	**8,196,119**	**9,950,644**	**8,630,551**	**7,825,833**	**7,027,273**	**6,056,653**	**4,953,790**	**4,263,574**	**125,964**	—
Net general bonded debt	**$ 51,430,821**	**$ 57,779,449**	**$ 70,354,990**	**$ 79,110,280**	**$ 80,543,947**	**$ 81,848,448**	**$ 82,954,839**	**$ 83,632,368**	**$ 80,341,614**	**$ 79,837,664**
Net general bonded debt as a percentage of personal income [3]	3.4%	3.6%	4.4%	5.1%	5.1%	4.8%	4.6%	4.5%	4.1%	3.8%
Amount of net general bonded debt per capita [4]	$ 1,428	$ 1,594	$ 1,922	$ 2,140	$ 2,157	$ 2,171	$ 2,179	$ 2,176	$ 2,071	$ 2,040

Note: Details regarding the State's general bonded debt outstanding can be found in Note 15 of the financial statements.

[1] Prior to fiscal year 2008, net unamortized bond premiums and refunding gains/losses were not included. 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 were defeased and the balance in the restricted debt service fund was transferrred out.
[3] Ratio calculated using personal income data shown on pages 276 and 277 for the prior calendar year.
[4] Amount calculated using population data shown on pages 276 and 277 for the prior calendar year.

Schedule of General Obligation Bonds Outstanding

June 30, 2016

(amounts in thousands)

Governmental activity		
California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection	$	2,014,645
California Library Construction and Renovation		248,510
California Park and Recreational Facilities		11,125
California Parklands		2,340
California Safe Drinking Water		50,760
California Stem Cell Research and Cures		1,237,730
California Wildlife, Coastal, and Park Land Conservation		103,865
Children's Hospital		1,295,415
Class Size Reduction Public Education Facilities		5,292,785
Clean Air and Transportation Improvement		707,065
Clean Water		8,835
Clean Water and Water Conservation		3,990
Clean Water and Water Reclamation		18,795
Community Parklands		2,455
County Correctional Facility Capital Expenditure		13,595
County Correctional Facility Capital Expenditure and Youth Facility		62,810
Disaster Preparedness and Flood Prevention		2,228,850
Earthquake Safety and Public Building Rehabilitation		62,785
Fish and Wildlife Habitat Enhancement		4,760
Higher Education Facilities		344,435
Highway Safety, Traffic Reduction, Air Quality, and Port Security		16,375,915
Housing Emergency Shelter		1,716,540
Housing and Homeless		1,330
Kindergarten-University Public Education Facilities		30,242,130
Lake Tahoe Acquisitions		100
New Prison Construction		26,935
Passenger Rail and Clean Air		33,980
Public Education Facilities		1,276,995
Safe, Clean, Reliable Water Supply		510,025
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection		1,329,560
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection		2,748,930
Safe Neighborhood Parks		1,379,620
Safe, Reliable High-Speed Passenger Train		758,975
School Building and Earthquake		13,300
School Facilities		957,705
Seismic Retrofit		1,094,480
State, Urban, and Coastal Park		3,555
Veterans' Homes		34,495
Veterans Housing and Homeless Prevention		1,725
Voting Modernization		11,755
Water Conservation		20,965
Water Conservation and Water Quality		25,095
Water Quality, Supply, & Infrastructure		20,500
Water Security, Clean Drinking Water, Coastal and Beach Protection		2,641,595
Total governmental activity		**74,941,755**
Business-type activity		
California Water Resources Development		135,045
Veterans Farm and Home Building		657,215
Total business-type activity		**792,260**
Total outstanding general obligation bonds		**75,734,015**
Unamortized bond premiums/discounts		4,103,649
Total general obligation bonds payable	**$**	**79,837,664**

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	2007	$ 130,128	$ 19,062	$ 111,066	$ 292,461	$ 33,959	$ 326,420	0.34
	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
Water Resources	2007	$ 951,590	$ 694,060	$ 257,530	$ 70,860	$ 123,376	$ 194,236	1.33
	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
Water Pollution Control	2007	$ 78,564	$ 3,387	$ 75,177	$ 22,850	$ 9,178	$ 32,028	2.35
	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

(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. 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.

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	2007	$ 5,865,000	$ 4,843,000	$ 1,022,000	$ 447,000	$ 448,000	$ 895,000	1.14
	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
Public Buildings Construction	2007	$ 396,895	$ 3,699	$ 393,196	$ 365,953	$ 324,246	$ 690,199	0.57
	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
High Technology Education [4]	2007	$ 22,966	$ 1,514	$ 21,452	$ 25,624	$ 21,062	$ 46,686	0.46
	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]	2007	$ 554,851	$ 689,223	$ (134,372)	$ 99,598	$ 31,149	$ 130,747	(1.03)
	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)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
CSU Channel Islands Financing Authority [4]	2007	7,397	8	7,389	—	6,951	6,951	1.06
	2008	245	13	232	—	556	556	0.42
Building Authorities	2007	$ 81,342	$ 68	$ 81,274	$ 45,437	$ 29,228	$ 74,665	1.09
	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
Golden State Tobacco Securitization Corporation	2007	$ 413,246	$ —	$ 413,246	$ 133,555	$ 276,965	$ 410,520	1.01
	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	—	414,992	133,900	292,173	426,073	0.97
	2016	365,300	—	365,300	70,535	299,935	370,470	0.99
Grant Anticipation Revenue Vehicles [6]	2007	$ 72,149	$ —	$ 72,149	$ 49,190	$ 22,959	$ 72,149	1.00
	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

(concluded)

This page intentionally left blank

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

For the Past Ten Calendar Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Population (in thousands) [1]										
California	36,021	36,250	36,604	36,961	37,334	37,700	38,056	38,414	38,792	39,145
% Change	0.5%	0.6%	1.0%	1.0%	1.0%	1.0%	0.9%	0.9%	1.0%	0.9%
United States	298,380	301,231	304,094	306,772	309,347	311,719	314,103	316,427	318,907	321,419
% Change	1.0%	1.0%	1.0%	0.9%	0.8%	0.8%	0.8%	0.7%	0.8%	0.8%
Total personal income (in millions) [1]										
California	$ 1,524,920	$ 1,583,852	$ 1,616,530	$ 1,560,649	$ 1,617,134	$ 1,727,434	$ 1,838,567	$ 1,861,957	$ 1,977,924	$ 2,103,669
% Change	7.4%	3.9%	2.1%	-3.5%	3.6%	6.8%	6.4%	1.3%	6.2%	6.4%
United States	$ 11,381,350	$ 11,995,419	$ 12,492,705	$ 12,079,444	$ 12,459,613	$ 13,233,436	$ 13,904,485	$ 14,068,960	$ 14,801,624	$ 15,463,981
% Change	7.3%	5.4%	4.1%	-3.3%	3.1%	6.2%	5.1%	1.2%	5.2%	4.5%
Per capita personal income [2]										
California	$ 42,334	$ 43,692	$ 44,162	$ 42,224	$ 43,315	$ 45,820	$ 48,312	$ 48,471	$ 50,988	$ 53,741
% Change	6.8%	3.2%	1.1%	-4.4%	2.6%	5.8%	5.4%	0.3%	5.2%	5.4%
United States	$ 38,144	$ 39,821	$ 41,082	$ 39,376	$ 40,277	$ 42,453	$ 44,267	$ 44,462	$ 46,414	$ 48,112
% Change	6.2%	4.4%	3.2%	-4.2%	2.3%	5.4%	4.3%	0.4%	4.4%	3.7%
Labor force and employment (in thousands)										
California										
Civilian labor force	17,687	17,921	18,203	18,208	18,316	18,385	18,511	18,573	18,941	18,996
Employed	16,821	16,961	16,890	16,145	16,052	16,227	16,740	17,044	17,600	17,894
Unemployed	865	960	1,313	2,064	2,265	2,158	1,771	1,530	1,341	1,102
Unemployment rate	4.9%	5.4%	7.2%	11.3%	12.4%	11.7%	9.6%	8.2%	7.1%	5.8%
United States employment rate	4.6%	4.6%	5.8%	9.3%	9.6%	8.9%	8.1%	7.4%	6.2%	5.3%

Source: Economic Research Unit, California Department of Finance; Bureau of Economic Analysis, United States Department of Commerce; Labor Market Information Division, California Employment Development Department; Bureau of Labor Statistics, United States Department of Labor.

[1] Some prior years were updated based on more current infomation.
[2] Calculated by dividing total personal income by population.

Schedule of Employment by Industry

For Calendar Years 2006 and 2015

	2006		2015	
	Employees	Percent of Total State Employment	Employees	Percent of Total State Employment
Industry				
Services	6,153,800	39.1 %	7,325,700	44.3 %
Government				
Federal	248,600	1.6	244,300	1.5
Military	53,900	0.3	59,100	0.4
State and Local	2,203,600	14.0	2,214,600	13.4
Retail trade	1,680,100	10.6	1,663,100	10.1
Manufacturing	1,490,900	9.5	1,291,900	7.8
Information, finance, and insurance	1,105,000	7.0	1,008,900	6.0
Construction and utilities	990,000	6.3	785,300	4.7
Wholesale trade	700,300	4.4	721,200	4.4
Transportation and warehousing	439,800	2.8	496,100	3.0
Farming	375,200	2.4	423,300	2.6
Real estate	288,500	1.8	271,500	1.6
Natural resources and mining	25,100	0.2	29,100	0.2
Total	**15,754,800**	**100.0 %**	**16,534,100**	**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
2007	21,035	134,974	49,533	19,677	15,530	41,314	53,321	335,384
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 [2]	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

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.

[2] Some prior years were updated based on more current information.

This page intentionally left blank

Schedule of Operating Indicators by Function

For the Past Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Government										
State Lottery										
Total revenue [1]	$ 3,318	$ 3,050	$ 2,955	$ 3,041	$ 3,439	$ 4,371	$ 4,446	$ 5,035	$ 5,525	$ 6,276
Allocation to Education Fund [1]	$ 1,177	$ 1,069	$ 1,028	$ 1,072	$ 1,103	$ 1,300	$ 1,262	$ 1,328	$ 1,364	$ 1,563
Judicial Council of California										
Supreme Court [2, 9]										
Cases filed	9,198	10,752	9,486	9,759	10,328	9,232	8,027	7,913	7,868	N/A
Cases disposed	9,324	10,593	9,689	9,537	10,200	9,724	8,493	7,775	7,560	N/A
Courts of Appeal										
Notices of appeal filed [3, 9]										
Civil	6,116	5,913	5,958	6,122	6,258	6,505	6,052	5,983	6,062	N/A
Criminal	6,508	6,681	6,819	6,857	6,877	6,387	6,004	6,373	7,113	N/A
Juvenile	2,880	2,900	2,858	2,759	2,106	2,830	2,713	2,857	3,036	N/A
Trial Courts										
Total civil cases [4, 9]										
Filings	1,462,820	1,582,092	1,729,648	1,647,817	1,574,569	1,454,810	1,355,345	1,264,123	1,142,937	N/A
Dispositions	1,286,736	1,280,184	1,537,243	1,530,502	1,599,388	1,432,231	1,321,710	1,215,974	1,115,831	N/A
Department of Food and Agriculture										
Milk production (million lbs.) [5, 9]	40,683	41,203	39,512	40,385	41,462	41,801	41,256	42,339	40,898	N/A
Farm land (thousand acres) [5, 9]	25,400	25,400	25,500	25,500	25,600	25,600	25,500	25,500	25,500	N/A
Education										
Public Colleges and Universities										
Fall enrollment [9]										
Community Colleges [9]	1,723,781	1,823,729	1,822,836	1,747,233	1,655,074	1,582,303	1,582,456	1,578,785	1,588,554	N/A
California State University	433,017	437,008	433,054	412,372	426,534	436,560	446,530	460,200	474,571	N/A
University of California [9]	220,034	226,040	231,853	234,464	236,691	238,617	244,126	252,263	257,438	270,112
K-12 Schools										
Fall enrollment										
Public	6,286,943	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
Private	583,794	564,734	536,393	531,111	515,143	497,019	516,119	511,286	503,295	500,543

(continued)

Source: 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 2016 is projected.

N/A = Not available

Schedule of Operating Indicators by Function (continued)

For the Past Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Health and Human Services										
Department of Public Health										
Vital statistics										
Live births [5, 9, 10]	566,137	551,567	526,774	509,974	502,023	503,788	494,390	502,973	491,781	507,917
Department of Social Services										
Calfresh programs households (avg. per month)	823,335	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
Employment Development Department										
Number of employed [5, 6, 9]	15,691,100	15,142,000	14,326,300	14,476,400	14,614,600	15,240,400	16,109,200	16,062,300	16,474,800	N/A
Resources										
Department of Fish and Wildlife										
Sport fishing licenses sold [9]	3,003,783	2,857,236	2,838,776	2,410,008	2,483,680	2,580,762	2,539,244	2,490,383	2,484,124	2,505,078
Hunting licenses sold [9]	1,718,657	1,670,190	1,679,864	1,677,864	1,863,202	1,988,422	2,032,788	1,979,809	2,041,670	2,114,679
California Energy Commission										
Electrical energy generation plus net imports (gigawatt hours) [9]	304,909	307,450	298,449	291,184	293,779	302,320	296,250	297,062	295,405	N/A
Business Consumer Services, and Housing										
Franchise Tax Board										
Personal Income Tax [5, 9]										
Number of tax returns filed	15,016,273	14,806,335	14,638,204	14,814,427	15,042,359	15,152,800	15,487,100	15,877,000	16,257,600	N/A
Taxable income [1]	$ 872,869	$ 799,490	$ 729,658	$ 794,758	$ 838,347	$ 948,523	$ 949,655	$ 1,064,347	$ 1,107,474	N/A
Total tax liability [1]	$ 49,693	$ 41,676	$ 38,870	$ 44,472	$ 43,921	$ 58,652	$ 55,679	$ 66,583	$ 68,498	N/A
Corporation Tax [5]										
Number of tax returns filed	709,937	722,358	727,675	738,224	754,315	784,086	801,045	828,080	N/A	N/A
Income reported for taxation [1]	$ 121,843	$ 67,921	$ 55,367	$ 96,965	$ 93,456	$ 96,772	$ 101,913	$ 122,976	N/A	N/A
Total tax liability [1]	$ 9,414	$ 9,106	$ 7,858	$ 8,604	$ 7,808	$ 6,921	$ 7,166	$ 8,593	N/A	N/A
Transportation										
Department of Motor Vehicles										
Motor vehicle registration [5]	32,047,124	31,920,649	31,799,398	31,987,821	31,802,483	31,946,422	32,903,847	33,550,486	34,346,325	N/A
License issued by age [5, 7]										
Under age 18	262,415	244,481	229,545	218,997	227,069	224,809	221,385	223,024	221,250	N/A
Between 18-80	22,804,927	22,922,361	22,910,011	23,001,119	23,150,222	23,462,971	23,824,697	24,195,705	25,089,910	N/A
Over age 80	562,518	552,150	560,491	579,397	579,207	602,508	597,350	595,739	603,691	N/A
California Highway Patrol										
Total number of DUI arrests [5, 9]	92,270	97,019	95,135	89,814	86,901	79,993	76,860	73,425	65,016	55,150
Department of Transportation										
Highway center-line miles – rural [5, 8]	10,830	10,811	10,808	10,785	10,780	10,784	10,315	10,312	10,407	N/A
Highway center-line miles – urban [5, 8]	4,439	4,393	4,384	4,375	4,353	4,363	4,789	4,787	4,685	N/A
Correctional Programs										
Department of Corrections and Rehabilitation										
Division of Adult Institutions										
Institution population at December 31 each year	170,452	170,283	167,922	162,200	147,181	132,768	134,333	134,431	127,815	129,415
Division of Juvenile Justice[9]										
Institution population at June 30 each year	2,531	1,877	1,589	1,474	1,263	922	712	675	681	690

(concluded)

Schedule of Capital Asset Statistics by Function

For the Past Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Government										
Department of Food and Agriculture										
Vehicles and mobile equipment [1]	915	818	803	746	809	804	792	747	747	752
Square footage of structures (in thousands)	453	453	466	466	466	466	455	455	455	455
Department of Justice										
Vehicles and mobile equipment	966	826	870	816	677	531	527	520	520	484
Department of Military										
Vehicles and mobile equipment	182	206	182	208	249	233	211	211	211	217
Square footage of structures (in thousands)	3,388	3,387	3,383	3,154	3,530	3,511	3,623	4,019	3,977	3,965
Department of Veterans Affairs										
Veterans homes	3	3	5	6	6	6	8	8	8	8
Vehicles and mobile equipment	248	251	120	113	132	143	267	285	285	235
Square footage of structures (in thousands)	1,598	1,598	1,683	1,600	2,086	2,086	2,488	2,543	2,541	2,541
Education										
California State University										
Vehicles and mobile equipment [1]	3,343	3,994	4,015	4,338	4,415	4,415	4,466	4,619	4,619	4,558
Campuses	23	23	23	23	23	23	23	23	23	23
Square footage of structures (in thousands)	62,198	63,971	66,686	69,049	71,287	73,785	73,866	73,316	73,988	75,292
Health and Human Services										
Department of Developmental Services										
Vehicles and mobile equipment	829	839	701	569	818	789	632	424	571	640
Developmental centers	7	7	7	5	5	5	4	4	3	3
Square footage of structures (in thousands)	5,181	5,186	5,187	5,185	5,294	5,294	5,279	5,308	4,699	3,664
Department of State Hospitals [2]										
Vehicles and mobile equipment	629	638	658	665	709	718	699	886	752	678
State hospitals	5	5	5	5	5	5	7	7	7	8
Square footage of structures (in thousands)	6,359	6,364	6,348	6,331	6,331	6,336	6,457	6,460	6,445	6,445

(continued)

Sources: 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.
[3] In fiscal year 2008, California Highway Patrol purchased numerous vehicles, and in their physical count also included motorcycles, which had not been reported for previous years.

Schedule of Capital Asset Statistics by Function (continued)

For the Past Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Resources										
Department of Fish and Wildlife										
Vehicles and mobile equipment	3,311	2,868	3,640	2,630	3,180	3,012	2,896	2,954	2,954	3,104
Square footage of structures (in thousands)	1,120	1,192	1,269	1,301	1,313	1,317	1,317	1,311	1,311	1,297
Department of Forestry and Fire										
Vehicles and mobile equipment	2,945	3,043	3,067	2,598	2,804	2,810	2,845	2,748	2,748	3,151
Square footage of structures (in thousands)	3,883	3,869	3,851	3,947	3,943	3,935	3,641	3,632	3,664	3,666
Department of Parks and Recreation										
Vehicles and mobile equipment	2,988	3,023	3,220	3,102	3,715	4,200	3,311	3,489	3,489	3,538
State Parks	276	279	278	278	279	280	280	279	280	280
Acres of state park land (in thousands)	1,235	1,248	1,331	1,365	1,334	1,333	1,590	1,590	1,605	1,605
Square footage of structures (in thousands)	6,350	6,350	6,350	6,350	6,433	6,623	6,598	6,751	6,761	6,790
State Lands Commission										
Vehicles and mobile equipment	51	49	57	47	50	42	42	41	41	41
Acres of land (in thousands)	4,492	4,491	4,491	4,491	4,491	4,491	4,489	4,489	4,482	4,480
Business Consumer Services, and Housing										
Department of Consumer Affairs										
Vehicles and mobile equipment	640	726	718	574	578	574	518	554	554	588
Department of General Services										
Vehicles and mobile equipment	7,330	7,558	6,736	5,761	5,670	4,991	5,226	5,053	5,053	4,697
Square footage of structures (in thousands)	18,084	18,084	18,084	18,394	18,602	19,180	19,098	19,367	19,448	19,311
Transportation										
California Highway Patrol										
Vehicles and mobile equipment [3]	4,655	5,228	5,914	5,422	5,337	5,013	5,341	5,170	5,170	5,167
Square footage of structures (in thousands)	1,110	1,118	1,118	1,135	1,135	1,149	1,149	1,166	1,169	1,211
Department of Motor Vehicles										
Vehicles and mobile equipment	458	434	417	366	366	366	294	295	295	287
Square footage of structures (in thousands)	1,866	1,848	1,855	1,855	1,842	1,842	1,842	1,845	1,786	1,780
Department of Transportation										
Vehicles and mobile equipment	11,130	11,098	13,346	11,302	12,759	12,690	11,767	11,596	11,596	11,776
Square footage of structures (in thousands)	6,618	6,229	6,434	6,444	6,519	8,131	8,170	7,960	7,965	7,968
Correctional Programs										
Department of Corrections and Rehabilitation										
Vehicles and mobile equipment [1]	6,657	7,908	7,778	5,787	5,985	5,952	5,156	5,137	5,968	5,291
Prisons and juvenile facilities	41	41	39	39	39	39	37	37	39	39
Square footage of structures (in thousands)	40,777	40,831	40,852	41,228	41,399	41,399	40,606	40,726	40,590	40,485

(concluded)

STATE OF CALIFORNIA
Office of the State Controller

BETTY T. YEE
California State Controller

Executive Office

Karen Greene-Ross
Chief of Staff

George Lolas
Chief Operating Officer

State Accounting and Reporting Division

Casandra Moore-Hudnall, CPA
Division Chief

Liz Cornell, CPA
Assistant Division Chief

State Government Reporting

Bureau Chief

Technical Advisor
Julianne Talbot

Managers

Renee Davenport
Emmanuel Lasu
Yi-Wen Tsai

Supervisors

May Lam
Janti Tam

Staff

Janet Delorey
Judy Eng
Marla Garske
Jim Graham
Yolanda Green
Meredith Hatai
Robert Holpuch, CPA
Lilian Le
Edlene Leathers
Grace Lee
Will LeMarQuand
Bing Leng
TuongKhanh Nguyen
Allen Nunley
Alex Olson
Marissa Parris
Randy Phan
April Ramos, CPA
Kao Saephan
Samprit Shergill, CPA
Corrie Smithers
Scott Taylor, CPA
Perry Tseng-Liu

Special Thanks

Rupinder Atwal
Judy Lee
Dana Parker

Financial Information Systems and Technology

Bureau Chief
Steven Taketa

Supervisor
Larry Butler

Technical Advisor
Rod Renteria

Staff

Ross Boyer
Matthew Cardoza
Marcelino Hernandez
Jason Kronemeyer
Andy Leung
Miguel Quistian
Cesar Vigil Fuentes
Carl Walker
Thomas Wong

Editors

Estelle Manticas
Teresa Moraga

BETTY T. YEE
Office of California State Controller
State Accounting and Reporting Division
P.O. Box 942850
Sacramento, CA 94250
(916) 445-2636
www.sco.ca.gov

[THIS PAGE INTENTIONALLY LEFT BLANK]

STATE OF CALIFORNIA • VARIOUS PURPOSE GENERAL OBLIGATION BONDS AND GENERAL OBLIGATION REFUNDING BONDS

Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

Printed by: ImageMaster, LLC
www.imagemaster.com