PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 28, 2020

NEW ISSUE – BOOK ENTRY ONLY

Ratings: Moody's: Aa2
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."

$2,200,000,000*
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS

$1,000,000,000*
VARIOUS PURPOSE
GENERAL OBLIGATION BONDS

$1,200,000,000*
VARIOUS PURPOSE
GENERAL OBLIGATION REFUNDING BONDS

Dated: Date of Delivery

Due: See "SUMMARY OF THE OFFERING"

The State of California (the "State") is issuing $1,000,000,000* Various Purpose General Obligation Bonds (the "Construction Bonds") and $1,200,000,000* 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 March 1 and September 1 of each year, commencing September 1, 2020, 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 maturity dates 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 19, 2020.

HONORABLE FIONA MA
Treasurer of the State of California

Citigroup
(Joint Senior Manager)

RBC Capital Markets
(Joint Senior Manager)

Ramirez & Co., Inc.
(Co-Senior Manager)

280 Securities LLC
Barclays
BofA Securities
Goldman Sachs & Co. LLC
Jefferies
Mischler Financial Group, Inc.
Raymond James
Stifel

Alamo Capital
Blaylock Van, LLC
Cabrera Capital Markets, LLC
HilltopSecurities
Loop Capital Markets
Morgan Stanley
Rice Financial Products Company
UBS
Wells Fargo Securities

Backstrom McCarley Berry & Co., LLC
BNY Mellon Capital Markets, LLC
D.A. Davidson & Co.
J.P. Morgan
Mesirow Financial, Inc.
Piper Sandler & Co.
Siebert Williams Shank & Co., LLC
Wedbush Securities Inc.

Official Statement Dated: March __, 2020

* Preliminary, subject to change.

SUMMARY OF THE OFFERING

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

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

Base CUSIP†:

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

$__________-___% Term Bonds due March 1, 20__, priced to yield ____%, CUSIP† Suffix:____

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* 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.

$1,200,000,000*
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS
Base CUSIP†:

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

$__________-___% Term Bonds due March 1, 20__, priced to yield ____%, CUSIP† Suffix:____

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* Preliminary, subject to change.

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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.

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OFFICIAL STATEMENT

$2,200,000,000*
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS

$1,000,000,000*	**$1,200,000,000***
VARIOUS PURPOSE GENERAL OBLIGATION BONDS	**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 $2,200,000,000* aggregate principal amount of (i) various purpose general obligation bonds to be issued by the State in the aggregate principal amount of $1,000,000,000* (the "Construction Bonds") and (ii) various purpose general obligation refunding bonds to be issued by the State in the aggregate principal amount of $1,200,000,000* (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 to this Official Statement ("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.

Plan of Finance

Proceeds of the Construction Bonds will be used to: (i) fund projects under certain of the Bond Acts identified in Exhibit 1, (ii) pay certain of the State's outstanding general obligation

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* Preliminary, subject to change.

commercial paper notes ("CP Notes") that were issued to fund 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 additional general obligation bonds (the "Additional GO Bonds") prior to May 1, 2020. Issuance of Additional GO Bonds, the date and principal amount of any such issuance, and refunding of any outstanding general obligation bonds are all subject to change based upon legal, market and other factors. For 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

Information about the financial condition of the General Fund, and other information concerning the State, is provided in APPENDIX A—"THE STATE OF CALIFORNIA." Investors should review the entire APPENDIX A.

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 or the Underwriters 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, 2020, containing fiscal year 2018-19 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 March 1 and September 1 in each year, commencing on September 1, 2020, 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 (as defined in APPENDIX B) in DTC for disbursement by the Direct Participants or Indirect Participants (as defined in APPENDIX B) (collectively, "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 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" regarding DTC and its book-entry 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 projects under certain of the Bond Acts identified in Exhibit 1, (ii) pay certain CP Notes that were issued to fund 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. The 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 projects or costs related to the public purpose of the applicable Bond Act. The public purpose of such 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 separate 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 certain of the State's outstanding general obligation bonds (the "Refunded Bonds") that were issued to finance or refinance capital facilities or other voter approved projects or costs related to the public purpose of the applicable Bond Act. 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 separate accounts (collectively, 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 the Refunded Bonds in an aggregate principal amount of $_____________ and to redeem the Refunded Bonds on the redemption date as set forth in Exhibit 2 to this Official Statement ("Exhibit 2"). 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 on the redemption date 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 details the principal amounts, maturity dates, interest rates, expected redemption date and redemption prices of the bonds that may be refunded.

Redemption

*Optional Redemption.** The Bonds maturing on or before March 1, 20___ are not subject to optional redemption prior to their respective stated maturity dates. The Bonds maturing on or after March 1, 20__ 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 March 1, 20__, at a redemption price equal

* Preliminary, subject to change.

to 100% of the principal amount thereof to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

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

Mandatory Sinking Fund Payment Date (March 1)	Principal Amount Redeemed

† Maturity

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

Mandatory Sinking Fund Payment Date (March 1)	Principal Amount Redeemed

† Maturity

Adjustment of Mandatory Sinking Fund Payments Upon Partial Optional Redemption. If one or more maturities of the Bonds subject to mandatory sinking fund redemption (the "Term Bonds") are called for optional redemption in part (see "Redemption—*Optional Redemption*" above), the remaining mandatory sinking fund installments for the Term Bonds of such series and 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

* Preliminary, subject to change.

(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 the date of such notice, 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 to be redeemed, the date fixed for redemption, the maturities of the Bonds to be redeemed, the redemption price, the place of redemption, the principal amount, the CUSIP numbers (if any) of the Bonds to be redeemed and, if less than all of the Bonds are to be redeemed and no CUSIP numbers are thereon, the distinctive certificate numbers of the Bonds to be redeemed. 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. Notice of redemption shall be provided to the EMMA website or any successor thereto. The notice of optional redemption may be cancelled in whole or in part by the State Treasurer upon written notice no later than five Business Days prior to the date fixed for redemption given in the same manner and to the same persons as notice of redemption.

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 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.

Future 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.

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ANNUAL DEBT SERVICE REQUIREMENTS

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

Fiscal Year Ended June 30*	Principal	Interest	Fiscal Year Total Debt Service
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			
2049			
2050			
Total	**$**	**$**	**$**

* Preliminary, subject to change.

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

Fiscal Year Ended June 30[*]	Principal	Interest	Fiscal Year Total Debt Service
2021	$	$	$
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
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

[*] Preliminary, subject to change.

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 and 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"). Citigroup Global Markets Inc. and RBC Capital Markets, LLC 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, 2018 (the "2018 CAFR") is included as Appendix F to this Official Statement. The 2018 CAFR has been examined by the State Auditor to the extent indicated in the Independent Auditor's

Report contained therein. Generally, the State's Comprehensive Annual Financial Report for each fiscal year is released on or before March 31 of the succeeding fiscal year, however, the State Controller's Office currently expects the State's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019 (the "2019 CAFR") to be released in June of 2020. See APPENDIX A—"THE STATE OF CALIFORNIA—FINANCIAL STATEMENTS." The State Controller expects to prepare unaudited financial statements for fiscal year 2018-19 by April 1, 2020, if it receives sufficient financial information from State departments. The State expects that it will file such unaudited financial statements, if available, on EMMA not later than April 1, 2020, to satisfy certain of the State's continuing disclosure obligations. When the 2019 CAFR is released it will be available on the website of the State Controller and filed by the State Treasurer on EMMA.

The State Controller's unaudited reports of the General Fund cash receipts and disbursements for the period from July 1, 2018 through June 30, 2019 and July 1, 2019 through January 31, 2020 are included as Exhibit 2 to Appendix A to this Official Statement. See APPENDIX A— "THE STATE OF CALIFORNIA—FINANCIAL STATEMENTS." The State Controller's unaudited report for the General Fund cash receipts and disbursements for the period from July 1, 2019 through February 29, 2020 is expected to be released on or about March 10, 2020 and, if available, will be included in the Official Statement.

RATINGS

The Bonds have received ratings of "Aa2" by Moody's Investors Service, "AA-" by S&P and "AA" by Fitch Ratings. An explanation of the significance and status of such credit ratings may be obtained from the rating agencies furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised 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, Precision Analytics Inc./Samuel Klein and Company, Certified Public Accountants, will deliver a report that the firm has verified the mathematical accuracy of (a) certain computations relating to the adequacy of the deposits to be made to the Refunding Escrow Fund to pay, on the redemption date, the maturing principal of and interest on the Refunded Bonds as described under "THE BONDS — Plan of Refunding" and (b) the computations of yield of the Bonds and of the amounts in the Refunding Escrow Fund with respect to the Refunded Bonds.

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 Fiona Ma, Treasurer of the State of California, 915 Capitol Mall, Room 110, Sacramento, California 95814, telephone (800) 900-3873.

STATE OF CALIFORNIA
FIONA MA
Treasurer of the State of California

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EXHIBIT 1

BOND ACTS, PURPOSES AND SERIES

CONSTRUCTION BONDS*

The Construction Bonds will be issued in the amounts and series, and under some or all of the Bond Acts as set forth below. Proceeds of the Construction Bonds will be used to finance or refinance capital facilities or other voter approved projects or 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 ($)
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 Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access For All Act of 2018	California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access For All Finance Committee	Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access		
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 2006	Housing Finance Committee	Housing and Emergency Shelter		
Kindergarten-University Public Education Facilities Bond Act of 2004	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 Through Community College Public Education Facilities Bond Act of 2016	Higher Education Facilities Finance Committee	Public Higher Education Facilities		
Kindergarten Through Community College Public Education Facilities Bond Act of 2016	State School Building Finance Committee	K-12 Public 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		
Voting Modernization Bond Act of 2002 (Shelley-Hertzberg Act)	Voting Modernization Finance Committee	Voting Modernization		
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 some or all of 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 projects or 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 ($)
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 Safe Drinking Water Bond Law of 1988	California Safe Drinking Water Finance Committee	Safe Drinking Water		
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		
Clean Air and Transportation Improvement Bond Act of 1990	Transportation Improvement Finance Committee	Clean Air & Transportation Improvement		
Disaster Preparedness and Flood Prevention Bond Act of 2006	Disaster Preparedness and Flood Prevention Bond Finance Committee	Disaster Preparedness and Flood Prevention		
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		
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		

* Preliminary, subject to change.

Bond Act	**Finance Committee**	**Public Purpose of the Bond Act**	**Series Designation**	**Amount ($)**
Housing and Emergency Shelter Trust Fund Act of 2006	Housing Finance Committee	Housing and Emergency Shelter		
Kindergarten-University Public Education Facilities Bond Act of 2002	State School Building Finance Committee	K-12 Public Education Facilities		
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		
Safe, Clean, Reliable Water Supply Act	Safe, Clean, Reliable Water Supply Finance Committee	Safe, Clean and Reliable Water Supply		
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		
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		

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.

The amounts in the column "Principal Amount of Refunded Bonds" represent the respective amounts of such bonds that constitute the Refunded Bonds. The difference between the amounts in the column "Aggregate Principal Amount Outstanding" and the column "Principal Amount of Refunded Bonds" represents bonds not selected by the State Treasurer to be refunded with proceeds of the Refunding Bonds, which amount of 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	CUSIP† (13063)	Aggregate Principal Amount Outstanding ($)	Principal Amount of Refunded Bonds ($)	Maturity Date	Interest Rate (%)	Expected Redemption Date	Redemption Price (%)
3/18/2010	BEE8	63,455,000		03/01/2021	4.500%	04/13/2020	100.00
3/18/2010	BFA5	70,515,000		03/01/2021	5.000%	04/13/2020	100.00
3/18/2010	BEF5	37,340,000		03/01/2022	4.625%	04/13/2020	100.00
3/18/2010	BFB3	45,290,000		03/01/2022	5.000%	04/13/2020	100.00
3/18/2010	BFJ6	22,910,000		03/01/2022	5.250%	04/13/2020	100.00
3/18/2010	BFC1	10,635,000		03/01/2023	5.000%	04/13/2020	100.00
3/18/2010	BFF4	13,150,000		03/01/2023	5.250%	04/13/2020	100.00
3/18/2010	BFD9	18,220,000		03/01/2024	5.000%	04/13/2020	100.00
3/18/2010	BFG2	6,100,000		03/01/2024	5.250%	04/13/2020	100.00
3/18/2010	BEJ7	40,070,000		03/01/2025	5.000%	04/13/2020	100.00
3/18/2010	BFH0	1,650,000		03/01/2025	5.250%	04/13/2020	100.00
3/18/2010	BEK4	92,250,000		03/01/2026	5.000%	04/13/2020	100.00
3/18/2010	BEL2	56,445,000		03/01/2027	5.000%	04/13/2020	100.00
3/18/2010	BEM0	31,500,000		03/01/2028	5.250%	04/13/2020	100.00
3/18/2010	BEN8	25,185,000		03/01/2029	5.300%	04/13/2020	100.00
3/18/2010	BEQ1	321,940,000		03/01/2030	5.250%	04/13/2020	100.00
3/18/2010	BEP3	91,610,000		03/01/2030	5.375%	04/13/2020	100.00
3/18/2010	BER9	352,265,000		03/01/2033	6.000%	04/13/2020	100.00
3/18/2010	BFE7	258,225,000		03/01/2036	5.600%	04/13/2020	100.00
3/18/2010	BES7	500,000,000		03/01/2040	5.500%	04/13/2020	100.00
4/1/2010	BFV9‡	1,000,000,000		03/01/2036	7.950%	04/13/2020	100.00

* 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. The State is not 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.

‡ These bonds were issued as Build America Bonds. See APPENDIX A—"THE STATE OF CALIFORNIA—STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—*Build America Bonds*."

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APPENDIX A

THE STATE OF CALIFORNIA

February 28, 2020

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TABLES

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 2020-21 Governor's Budget, including the latest multi-year budget projection, and identification of certain recent developments that have occurred since the state's last public disclosure (i.e., Official Statement of November 2019). 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 Governor's budget proposal in January, and again following enactment of the annual state budget act. 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 semi-annual 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 information will be clearly identified within PART II, such as by use of italics.

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

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

PART I

OVERVIEW

Population and Economy of the State

California is by far the most populous state in the nation, with an estimated 39.96 million residents as of 2019. Its population is nearly 40 percent larger than that of the second most populous state and it contains 12 percent of the total U.S. population. The state's population is projected to continue to grow over the long term and reach 45 million residents by 2060.

California's economy accounted for 14.6 percent of the U.S. Gross Domestic Product ("GDP") in the first three quarters of 2019 and is currently the fifth largest in the world (in terms of GDP). The state has a diverse economy with major components in high technology, trade, entertainment, manufacturing, government, tourism, construction and services.

Demographic and economic statistical information and a discussion of economic assumptions are included in APPENDIX A under "GOVERNOR'S PROPOSED FISCAL YEAR 2020-21 BUDGET—Economic Assumptions Underlying the 2020-21 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 ended each fiscal year with a surplus since fiscal year 2012-13 and is projected to be structurally balanced through 2023-24, the end of the multi-year budget projection in the 2020-21 Governor's Budget, while building historic levels of reserves. See "GOVERNOR'S PROPOSED FISCAL YEAR 2020-21 BUDGET" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

Since the Great Recession ended, the state has paid off billions of dollars of budgetary borrowings, debts, and deferrals that were accumulated to balance budgets during the Great Recession and years prior. Under the Proposition 2 requirements, the 2020-21 Governor's Budget includes $2.0 billion dedicated to continuing to pay down the state's unfunded retirement liabilities in fiscal year 2020-21. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2."

Despite significant budgetary improvements during the last several years, there remain a number of budget risks that threaten the financial condition of the state's General Fund. These risks include the threat of recession, potentially unfavorable changes to federal policies, the still uncertain impact of changes in federal tax law and trade policy, and significant unfunded liabilities of the two main retirement systems managed by state entities, the California Public Employees' Retirement System ("CalPERS") and the California State Teachers' Retirement System ("CalSTRS"). See "ECONOMIC AND BUDGET RISKS."

The state is committed to further reduce unfunded pension liabilities and retiree health care cost liabilities (also called other postemployment benefits or "OPEB"). The 2020-21

Governor's Budget proposes additional contributions to further reduce the amounts of these liabilities. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2" and EXHIBIT 1—"PENSION SYSTEMS—CalPERS—Member and State Contributions" and "CalSTRS—Funding for the SBMA," and "STATE FINANCES—OTHER ELEMENTS—Pension Systems" and "—Retiree Health Care Costs."

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

General Fund Revenues, Expenditures and Cash Management

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

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

For fiscal years 2019-20 and 2020-21, the 2020-21 Governor's Budget projects $155.0 billion and $156.9 billion in resources for the General Fund, respectively, and $149.7 billion and $153.1 billion in expenditures from the General Fund, respectively. The fiscal year 2019-20 resources are comprised of $146.5 billion of revenues and transfers, and an $8.5 billion fund balance carried over from fiscal year 2018-19. The fiscal year 2020-21 resources are comprised of $151.7 billion of revenues and transfers, and a $5.2 billion fund balance carried over from fiscal year 2019-20. Based on projections included in the 2020-21 Governor's Budget, by the end of fiscal year 2020-21 the Budget Stabilization Account ("BSA"), also called the state's "rainy day fund," will have a balance of $18.0 billion, the Special Fund for Economic Uncertainties ("SFEU") will have a balance of $1.6 billion, the Safety Net Reserve Fund will have a balance of $900 million, and the Public School System Stabilization Account ("PSSSA") will have a balance of $487 million. See Table 2 below and "GOVERNOR'S PROPOSED FISCAL YEAR 2020-21 BUDGET" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

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

The state manages its cash flow requirements during the fiscal year primarily with internal borrowing by the General Fund from over 700 special funds, and, if necessary or otherwise advisable, the state may also utilize external borrowing. The state ended fiscal year 2018-19 with a cash balance of $5.5 billion. Similar to all the fiscal years since fiscal year 2015-16, the 2020-21 Governor's Budget once again projects the state will not need to use external cash flow borrowing in fiscal year 2020-21. See "CASH MANAGEMENT—Traditional Cash Management Tools—External Borrowing" for a description of the priority of payment of the state's obligations, including the repayment of external and internal borrowing and see also "CASH MANAGEMENT—Inter-Fund Borrowings."

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

State Indebtedness and Other Obligations

As of January 1, 2020, the state had approximately $80.3 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 January 1, 2020, there were approximately $33.6 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 $7.2 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 2019-20, the actuarially determined General Fund pension contributions to CalPERS and CalSTRS are approximately $3.8 billion and $3.3 billion, respectively. For fiscal year 2020-21, the actuarially determined General Fund pension contributions to CalPERS and CalSTRS are estimated to be approximately $4.0 billion and $3.6 billion, respectively. Through the enactment of Chapter 33, Statutes of 2019 (SB 90) and subsequent enactment of Chapter 859, Statutes of 2019 (AB 118), the 2019-20 Budget includes discretionary pension payments from the General Fund in the aggregate amount of $9.03 billion to be made to CalPERS and CalSTRS over a multi-year period. The table below summarizes these payments. The 2020-21 Governor's Budget proposes to accelerate the payments to CalPERS currently scheduled over fiscal years 2020-21 through 2022-23 into a single $500 million payment in fiscal year 2019-20. The state has made the payments scheduled for fiscal year 2018-19, as well as the payment to CalSTRS on behalf of the state scheduled for fiscal year 2019-20. Payments scheduled in the 2019-20 Budget after fiscal year 2019-20 are discretionary and subject to change in future state budgets. See EXHIBIT 1—"PENSION SYSTEMS" for more information with respect to these payments.

TABLE 1
Discretionary General Fund Pension Payments in the 2019-20 Budget
(Dollars in Millions)

Fiscal Year	To CalPERS State Plans[(a)]	To CalPERS Schools Pool	To CalSTRS, Employer Share	To CalSTRS, State Share[(b)]
2018-19	$2,500	$904	$2,246	--
2019-20	--	--	--	$1,117
2020-21	265	--	--	802
2021-22	200	--	--	615
2022-23	35	--	--	345
Total	**$3,000**	**$904**	**$2,246**	**$2,879**

(a) The 2020-21 Governor's Budget proposes to accelerate the payments to CalPERS currently scheduled over fiscal years 2020-21 through 2022-23 into a single $500 million payment in fiscal year 2019-20.

(b) These amounts for fiscal years 2020-21 through 2022-23 are estimated based on available Proposition 2 debt repayment funding projected as of the 2020-21 Governor's Budget.

Additionally, AB 118 authorized a $100 million supplemental pension payment from the Motor Vehicle Account towards the unfunded liability of the CalPERS CHP Plan, to be paid in four equal installments over fiscal years 2019-20 through 2022-23.

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 and thereafter under GASB Statement No. 75. The state's latest OPEB actuarial valuation report as of June 30, 2018, was prepared in compliance with the 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 standards, the total OPEB liability ("TOL") is estimated to be $86.47 billion as of June 30, 2018 (virtually all unfunded) as compared to a TOL of $91.51 billion estimated as of June 30, 2017. For details regarding the changes in this liability, see "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs."

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

Financial Statements

The State of California Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018 (the "2018 CAFR"), is included as an appendix to this Official Statement and incorporated into APPENDIX A. The 2018 CAFR includes a Financial Section that consists of an Independent Auditor's Report, Management's Discussion and Analysis, and Basic Financial Statements of the state for the Year Ended June 30, 2018. The 2018 CAFR also contains required supplementary information and combining financial statements and schedules. See "FINANCIAL STATEMENTS."

In addition, EXHIBIT 2 to APPENDIX A contains the State Controller's unaudited report of General Fund cash receipts and disbursements for the period from July 1, 2018 through June 30, 2019 and July 1, 2019 through January 31, 2020. Information which may appear in APPENDIX A from the Department of Finance concerning monthly receipts of "agency cash" may differ from the State Controller's report of cash receipts for the same period generally because of timing differences. Agency cash represents cash received by agencies. The State Controller's report represents cash received by agencies as reported to and recorded by the State Controller, which may be a day or so later than when cash is received by agencies.

Certain Defined Terms

The following terms and abbreviations are used in APPENDIX A:

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

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

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

"EXHIBIT 2" means the State Controller's Unaudited Statement of General Fund Cash Receipts and Disbursements for the period from July 1, 2018 through June 30, 2019 and July 1, 2019 through January 31, 2020 as attached to APPENDIX A as EXHIBIT 2.

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

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

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

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

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

"PSSSA" or "Public School System Stabilization Account" means the special fund created by Proposition 2, that serves as a Proposition 98 reserve, and requires a deposit into the fund under specified conditions.

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

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

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

"2019-20 Budget" means the 2019 Budget Act plus related legislation to implement the budget.

"2019 Budget Act" means the Budget Act for fiscal year 2019-20, enacted on June 27, 2019.

"2020-21 Governor's Budget" means the proposed Governor's Budget for fiscal year 2020-21, released on January 10, 2020.

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 2020-21 Governor's Budget

On January 10, 2020, the Governor released his proposed budget for fiscal year 2020-21. The proposed budget continues to build reserves and makes strategic investments promoting educational opportunity, addressing housing affordability, and strengthening the state's natural disaster response readiness and emergency capabilities. The 2020-21 Governor's Budget projects structurally balanced General Fund budgets through fiscal-year 2023-24. See "GOVERNOR'S PROPOSED FISCAL YEAR 2020-21 BUDGET."

Recent Cash Receipts

In February 2020, the Department of Finance reported that, based on agency cash receipts, tax receipts for January 2020 were $1.017 billion (5.1 percent) above the 2020-21 Governor's Budget forecast of $19.832 billion. Fiscal year 2019-20 cash receipts, including revisions to prior months, were $1.066 billion (1.3 percent) above the 2020-21 Governor's Budget forecast of $81.614 billion.

General Obligation Bond Measure

A bond measure to authorize $15.0 billion of general obligation bonds has been placed on the March 3, 2020 ballot and will become operative if approved by a majority of voters during this statewide primary election. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—*General Obligation Bonds*."

GOVERNOR'S PROPOSED FISCAL YEAR 2020-21 BUDGET

The 2020-21 Governor's Budget, released on January 10, 2020, proposes a multi-year plan that is projected to result in balanced General Fund budgets with a positive operating reserve throughout the entire forecast period (through fiscal year 2023-24), includes significant reserves, and continues to pay down debts and long-term liabilities.

General Fund revenues and transfers for fiscal year 2020-21 are projected at $151.6 billion; an increase of $5.1 billion, or 3.5 percent, compared with a revised estimate of $146.5 billion for fiscal year 2019-20. These estimates reflect transfers to the BSA of $2.0 billion in fiscal year 2020-21 and $2.1 billion in fiscal year 2019-20. The transfers have the effect of lowering the total reported levels of General Fund revenues and transfers for such 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 2020-21 are projected at $153.1 billion; an increase of $3.4 billion, or 2.3 percent, compared with a revised estimate of $149.7 billion for fiscal year 2019-20. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures."

The 2020-21 Governor's Budget assumes continued expansion of the economy during the multiyear forecast period and includes:

- <u>Proposition 98</u> – proposes $84.0 billion guaranteed total funding for fiscal year 2020-21, of which $57.6 billion is from the General Fund and the remainder is from local property taxes. See "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES – State Expenditures – K-14 Education Under Proposition 98."

- <u>Higher Education</u> – proposes total state funding of $18.1 billion for all major segments of Higher Education, including $17.5 billion from the General Fund (both Non-Proposition 98 and Proposition 98). The remaining funds include special and bond funds. "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES – State Expenditures – Higher Education."

- <u>Health and Human Services</u> – proposes $71.2 billion, including $47.4 billion from the General Fund and $23.8 billion from special funds, for these programs. See "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES – State Expenditures - Health and Human Services."

- <u>Public Safety</u> – proposes total state funding of $16.5 billion, including $13.4 billion from the General Fund and $3.1 billion from special funds, for Corrections and Rehabilitation. See "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES – State Expenditures – Public Safety."

The following table summarizes the General Fund budget in the 2020-21 Governor's Budget and compares it to the General Fund budget for the current fiscal year as of the 2019 Budget Act:

TABLE 2
General Fund Budget Summary
(Dollars in Millions)

	As of 2019 Budget Act	As of 2020-21 Governor's Budget	
Fiscal Year	**2019-20**	**2019-20**	**2020-21**
Prior Year Balance	$ 6,772	$ 8,497	$ 5,234
Revenues and Transfers[(a)]	143,805	146,486	151,635
Total Resources Available	**$ 150,577**	**$ 154,983**	**$ 156,869**
Non-Proposition 98 Expenditures	91,890	93,344	95,510
Proposition 98 Expenditures	55,891	56,405	57,573
Total Expenditures	**$ 147,781**	**$ 149,749**	**$ 153,083**
Fund Balance	$ 2,796	$ 5,234	$ 3,786
Reserve for Liquidation of Encumbrances	1,385	2,145	2,145
Special Fund for Economic Uncertainties	1,412	3,089	1,641
Safety Net Reserve Fund	900	900	900
Budget Stabilization Account/ "Rainy Day Fund"	$ 16,516	$ 16,018	$ 17,977

(a) Net of transfers to BSA and Safety Net Reserve Fund. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."
Source: State of California, Department of Finance.
Note: Numbers may not add due to rounding.

Development of Revenue Estimates

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

After finalizing the forecasts of major national and California economic indicators, revenue estimates are generated using revenue forecasting models developed and maintained by the Department of Finance. With each forecast, adjustments are made for any legislative, judicial, or administrative changes, as well as for recent cash flow results.

The forecast is updated twice a year and released with the proposed Governor's Budget by January 10 and the May Revision by May 14. The 2020-21 Governor's Budget includes an analysis of the projected effects of the federal Tax Cuts and Jobs Act enacted in December 2017 on the state's General Fund. The state anticipates that the impact of this federal tax reform on the state economy and General Fund revenues resulting from any actions taken by businesses or wealthy individuals, including changes in behavior in response to this reform, will continue to emerge over time. Therefore, the projected effects of this federal tax reform legislation on the state's General Fund revenues may change significantly over time. The economic forecast for the 2020-21 Governor's Budget projects continued but slowing growth in both the national and state economies. Certain significant elements of the forecast are set forth in Table 3.

National Economy. In 2019, real GDP grew by 2.3 percent, down from 2.9 percent in 2018, due largely to slowing gross private domestic investment and consumption despite slight increases in government expenditures and net exports. Growth is expected to continue in the short term with real GDP growth gradually slowing to 1.5 percent by 2023. In 2019, the labor force expanded by 1.45 million while nonfarm employment increased by 2.3 million, or 1.6 percent. The national unemployment rate fell to 3.5 percent in September 2019, the lowest it has been since December 1969, and stayed at approximately that level through December 2019. The unemployment rate for the nation averaged 3.7 percent in 2019. With real GDP growth projected to be approximately 2 percent and labor force growth approximately 1 percent through 2021, the unemployment rate for the nation is expected to stay at approximately 3.5 percent through 2020 before slowly increasing to 4.3 percent by 2023. Job creation is expected to slow to less than 1 percent annually by 2021. U.S. overall inflation was 2.4 percent in 2018 and decelerated to 1.8 percent in 2019. The Federal Reserve cut their benchmark rates by 25 basis points three consecutive times between July 2019 and October 2019, bringing the target range to between 1.50 percent and 1.75 percent, due to slowing global economic growth and escalating trade tensions. The forecast assumes that benchmark rates will remain at the current range of 1.50 percent and 1.75 percent through 2020 before gradually increasing to a range of 2.50 percent and 2.75 percent by the end of 2023.

California Economy. California remained the 5th largest economy in the world in 2018, with a GDP of $3.0 trillion in current terms. In real terms, California's GDP growth was 3.5 percent in 2018. California's unemployment rate fell to a new record low of 3.9 percent in October 2019, where it remained through December 2019. In 2018, average wage growth in the state was 4.2 percent compared to over 9 percent in December 2000, when California's unemployment rate fell to the then-lowest recorded unemployment rate of 5.0 percent. The 2020-21 Governor's Budget forecast assumes continued but slowing job growth through 2023 and an increase in payroll jobs in 2020 and 2021 associated with reclassification of some independent contractors as employees. The forecast projects wage increases across all income groups, and especially among lower-wage workers, a necessary condition to support consumption and economic growth. California total personal income grew by 6.1 percent in 2018 and is projected to slow to approximately 4.2 percent by 2023.

Inflation in California since 2014 remained concentrated most notably in housing due to supply and demand imbalances. California's overall inflation averaged 3.0 percent in 2019 and is expected to increase to 3.2 percent in 2020 before easing to 3.1 percent through 2023. In comparison, U.S. inflation rose 1.8 percent in 2019 and is expected to increase to 2.0 percent in 2020 and return to 1.8 percent in 2021 before settling at a 2.3 percent annual increase through 2023. Inflation in California is expected to remain higher than U.S. inflation due to housing pressures in the state and higher energy prices.

After a decrease from 117,000 permits issued in 2018 to a projected 115,000 permits issued in 2019, home building permit issuance is assumed to grow at approximately 10 percent annually on average starting in 2020 to reach 165,000 permits issued in 2023.

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

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Economic Assumptions Underlying the 2020-21 Governor's Budget

The revenue and expenditure estimates and projections incorporated into the 2020-21 Governor's Budget are based upon certain assumptions concerning the performance of the California, national, and global economies in 2020 and 2021. These economic assumptions are set forth below. Additional information on the state's economy is provided in the section "ECONOMY AND POPULATION."

TABLE 3
Selected National and California Economic Data

	2019	2020	2021
United States of America			
Real gross domestic product (percent change)	2.3	2.1	2.0
Personal income (percent change)	4.8	3.9	4.1
Nonfarm wage and salary employment (millions)	151.4	153.3	154.4
(percent change)	1.6	1.2	0.8
Housing starts (thousands)	1,255	1,268	1,256
(percent change)	0.4	1.1	(1.0)
State of California			
Personal income ($ billions)	2,633.9	2,757.0	2,874.3
(percent change)	4.8	4.7	4.3
Nonfarm wage and salary employment (thousands)	17,456.5	17,867.8	18,036.7
(percent change)	1.7	2.4	0.9
Unemployment rate (percent)	4.2	4.4	4.4
Housing units authorized (thousands)	115.0	128.4	141.7
(percent change)	(2.0)	11.7	10.4
Total taxable sales ($ billions)	735.9	771.1	787.7
(percent change)	3.7	4.8	2.1

Note: Percentage changes calculated from unrounded data.
Source: State of California, Department of Finance.

Multi-Year Budget Projection

As required by Proposition 2, in connection with the 2020-21 Governor's Budget, the Department of Finance prepared a multi-year budget projection, as set forth below. The projection is based on current law as of January 2020 when the projection was finalized, and policies included in the 2020-21 Governor's Budget. The projection reflects a variety of assumptions, including assumptions concerning state revenues and expenditures and future economic conditions (but does not assume that a recession will occur during the projection timeframe). While the multi-year budget projection takes into account current federal tax law, no major changes to the filing behavior of Californians are assumed.

Actual conditions may differ materially from the assumptions and there can be no assurances the projection will be achieved. For example, a moderate recession could lead to revenue reductions of around $25 billion to $30 billion per year for two years, with reductions over $10 billion per year for multiple additional years. Also, even in the absence of a recession, a significant and sustained stock market correction could lead to a several billion-dollar reduction in revenue for multiple years.

The year-to-year changes in revenues and transfers, excluding transfers to the BSA, are driven, in general, by expected continued moderate economic growth. In addition, very strong capital gains growth in 2017 and 2018 contributed to unusually strong growth in fiscal years 2017-18 and 2018-19. Growth rates are expected to moderate in subsequent fiscal years due to the expectation that capital gains realizations will grow by only 1.2 percent in 2019 and then decline in subsequent years, consistent with the expectation that the stock market will grow at a very low rate after the first calendar quarter of 2020. General Fund revenue from the major tax sources grew by 9.9 percent from fiscal year 2016-17 to fiscal year 2017-18, and is expected to grow by 5.4 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 percent from fiscal year 2019-20 to fiscal year 2020-21, and 2.5 percent from fiscal year 2020-21 to fiscal year 2021-22.

The majority of the projected new spending in fiscal year 2020-21 is devoted to one-time spending. The 2019 Budget Act was projected to be structurally balanced in each fiscal year through fiscal year 2022-23. This was accomplished in part with statutory provisions to suspend certain programmatic expansions on December 31, 2021 under specified conditions. To maintain structural balance through fiscal year 2023-24, the 2020-21 Governor's Budget proposes to keep the suspension of these programmatic expansions (approximately $2.0 billion in aggregate projected expenditures), however it delays this suspension until July 1, 2023.

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

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TABLE 4
General Fund Multi-Year Budget Projection
(Dollars in Millions)

Fiscal Year:	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**
Prior Year Balance	$ 8,497	$ 5,234	$ 3,785	$ 3,864	$ 3,911
Revenues and Transfers[(a)]	148,536	153,594	157,983	161,244	164,440
Transfer to BSA[(b)]	(2,050)	(1,959)	(728)	(341)	(352)
Total Resources Available	$ 154,983	$ 156,869	$ 161,040	$ 164,767	$ 167,999
Proposition 98 Expenditures	56,405	57,573	59,334	60,641	61,988
Non-Proposition 98 Expenditures	93,344	95,510	96,814	98,975	100,566
Prop 2 infrastructure deferred maintenance[(c)]	--	--	1,028	1,240	1,146
Total Expenditures	$ 149,749	$ 153,083	$ 157,176	$ 160,856	$ 163,700
Fund Balance:	$ 5,234	$ 3,785	$ 3,864	$ 3,911	$ 4,299
Reserve for Encumbrances	$ 2,145	$ 2,145	$ 2,145	$ 2,145	$ 2,145
Reserves (SFEU, Safety Net, and PSSSA) [(d)]	$ 4,513	$ 3,027	$ 3,106	$ 3,153	$ 3,541
Budget Stabilization Account/ ("Rainy Day Fund")	$ 16,018	$ 17,977	$ 18,705	$ 19,046	$ 19,398
Operating Surplus/(Deficit) with BSA Transfer	$ (3,263)	$ (1,449)	$ 79	$ 47	$ 388

(a) The Proposition 30 and Proposition 55 revenue amounts projected in the 2020-21 Governor's Budget are shown below (in millions):

	2019-20	2020-21	2021-22	2022-23	2023-24
Prop 30/55 – Income Tax	$8,539	$8,474	$8,519	$8,580	$8,784

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

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

(d) The decrease from fiscal year 2019-20 to fiscal year 2020-21 is due to higher than expected revenues for fiscal year 2019-20 being held in the SFEU and the application of unexpected revenue to certain one-time expenditures in fiscal year 2020-21.

Source: State of California, Department of Finance.

CURRENT STATE BUDGET

The 2019 Budget Act, enacted on June 27, 2019, continued to build reserves and pay down budgetary debt. In addition to the mandatory deposit to the BSA, the 2019-20 Budget included a supplemental deposit to the Safety Net Reserve Fund and a deposit required by Proposition 2 into the PSSSA, to further increase state reserves to mitigate the negative impact of a future economic recession on the state budget and certain state programs. The 2019-20 Budget included \$4.5 billion to eliminate debts and reverse deferrals, \$5.5 billion to build reserves, and \$4.3 billion to pay down unfunded retirement liabilities. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2," "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves" and EXHIBIT 1—"PENSION SYSTEMS."

At the time of enactment of the 2019 Budget Act, General Fund revenues and transfers for fiscal year 2019-20 were \$143.8 billion, an increase of \$5.8 billion, or 4.2 percent, compared with the revised estimate of \$138.0 billion for fiscal year 2018-19. Those estimates reflected transfers to the BSA of \$3.6 billion in fiscal year 2018-19 and \$2.2 billion in fiscal year 2019-20, which had the effect of lowering projected General Fund revenues and transfers by the amounts of the transfers.

In the 2019 Budget Act, General Fund expenditures for fiscal year 2019-20 were projected to be \$147.8 billion, an increase of \$5.1 billion, or 3.6 percent, compared with the revised estimate of \$142.7 billion for fiscal year 2018-19. The main components of the \$5.1 billion increase were:

- \$5.8 billion increase for Health and Human Services;
- \$4.0 billion decrease in Government Operations;
- \$1.1 billion increase for Higher Education;
- \$1.0 billion increase in Business, Consumer Services and Housing; and
- \$0.8 billion increase in K-12 Education.

The 2019 Budget Act assumed continued expansion of the economy during fiscal year 2019-20 and included the following major components:

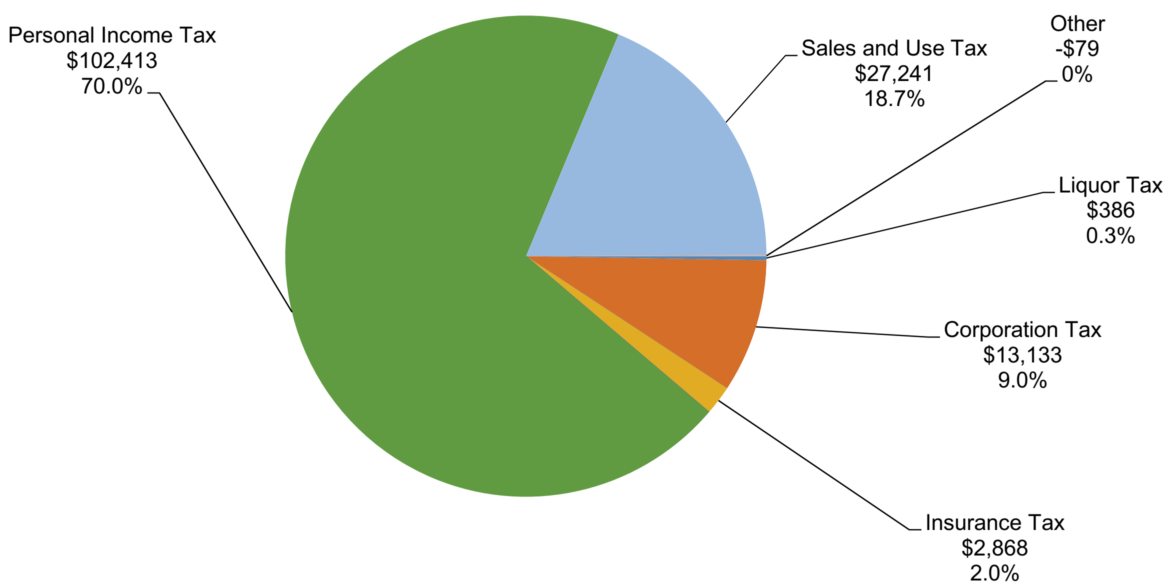
- <u>K-14 Education under Proposition 98</u> — \$81.1 billion guaranteed total funding, of which \$55.9 billion is from the General Fund and the remainder is from local property taxes;
- <u>Higher Education</u> — total state funding of \$18.5 billion for all major segments of higher education, including \$17.5 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 for these programs of $67.1 billion, of which $41.9 billion is from the General Fund and $25.2 billion is from special funds; and

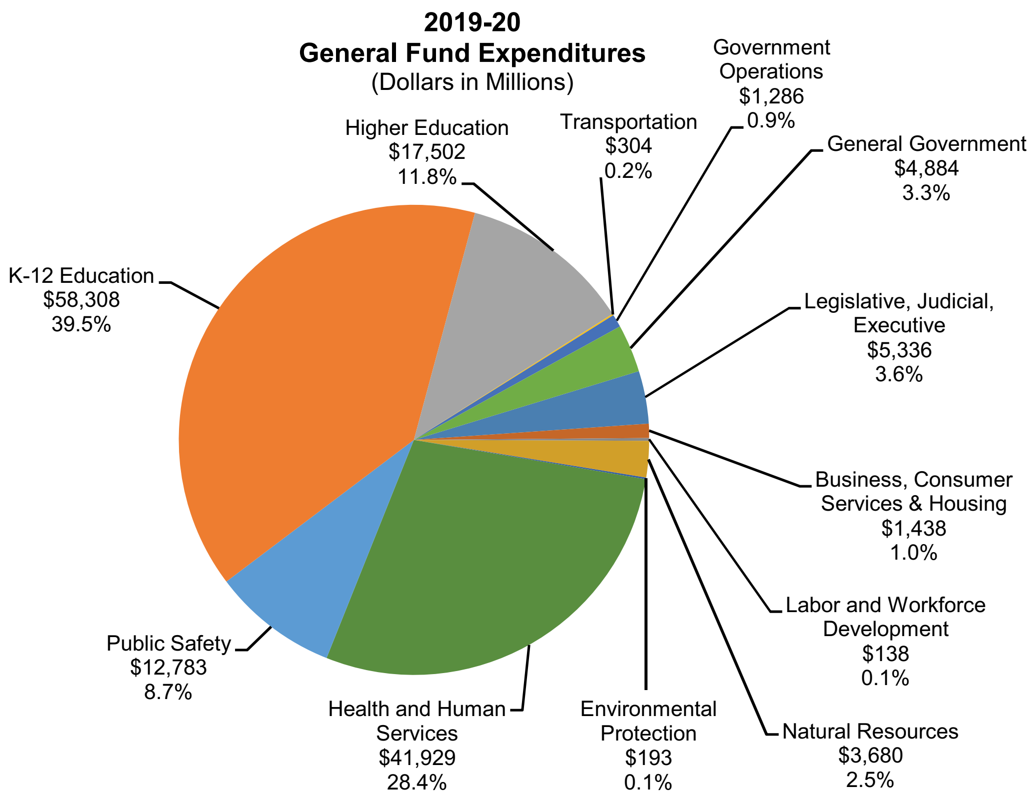
- Public Safety — total state funding of $15.8 billion, of which $12.8 billion is from the General Fund and $3.0 billion is from special funds, for Corrections and Rehabilitation.

The following charts summarize the General Fund budget estimates in the 2019 Budget Act. For information on revised fiscal year 2019-20 estimates, see "—Fiscal Year 2019-20 Revised General Fund Estimates in the 2020-21 Governor's Budget."

2019-20
General Fund Revenues and Transfers
(Dollars in Millions)



Note: Total amount reflected in chart is $146.0 billion and does not net out $2.158 billion of General Fund revenues transferred to the BSA.



Note: Total amount reflected in chart is $147.8 billion and includes agency costs for pension and debt service expenditures.

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Fiscal Year 2019-20 Revised General Fund Estimates in the 2020-21 Governor's Budget

The 2020-21 Governor's Budget makes various revisions to General Fund estimates for fiscal year 2019-20 involving the beginning fund balance; revenues, transfers, and loans; expenditures; and the ending reserve balances. These revised estimates are still preliminary and subject to further adjustment after receipt of more information on fiscal year 2019-20. The revised General Fund revenue and expenditure estimates are set forth in Table 6 below.

In the 2020-21 Governor's Budget, the beginning General Fund balance for fiscal year 2019-20 is estimated to be $1.7 billion higher than was estimated in the 2019 Budget Act ($8.5 billion compared to $6.8 billion). This $1.7 billion increase in fund balance is mainly due to prior year adjustments related to the following:

- $0.9 billion decrease in Non-Proposition 98 spending in fiscal year 2018-19.

- $1.3 billion increase in fiscal year 2018-19 revenues and transfers.

- $0.4 billion decrease in prior year revenue and expenditures.

As shown in Table 6, the estimate of fiscal year 2019-20 General Fund revenues and transfers increased by $2.7 billion since the 2019 Budget Act forecast, primarily due to higher than projected tax revenues with corporation tax revenue higher by $2.2 billion. The transfer into the BSA decreased by $0.1 billion which has the effect of increasing overall total revenues and transfers by the same amount. Another major revenue source, personal income tax revenue decreased by $0.7 billion. Also shown in Table 6, estimated General Fund expenditures for fiscal year 2019-20 increased from the 2019 Budget Act estimate by $2.0 billion, the main components of which are the following:

- $0.6 billion increase in Legislative, Judicial, and Executive Agency expenditures, including the $0.3 billion transfer ordered in *National Asian American Coalition v. Newsom* (regarding the National Mortgage Settlement).

- $0.6 billion increase in Governmental Operations Agency expenditures, including $0.5 billion supplemental contribution to the CalPERS pension fund.

The 2019 Budget Act projected an ending balance in the SFEU of $1.4 billion for fiscal year 2019-20. After taking account of the latest revised estimates related to fiscal year 2019-20, the 2020-21 Governor's Budget projects an SFEU balance at June 30, 2020 of $3.1 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 2016-17 through 2017-18 provided by the State Controller's Office and estimated results for fiscal years 2018-19 through 2020-21 provided by the Department of Finance based on the 2020-21 Governor's Budget.

In addition to a positive operating reserve (SFEU) of $1.6 billion, the 2020-21 Governor's Budget projects a positive cumulative balance of $18.0 billion in the rainy day fund

(BSA), $900 million in the Safety Net Reserve Fund, and $487 million in the PSSSA at June 30, 2021. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves—Special Fund for Economic Uncertainties" and "— Budget Stabilization Account."

Consistent with historical practice, the estimated beginning General Fund balance of any given fiscal year may be updated from time to time to reflect revisions in preceding fiscal years' activity and estimates.

TABLE 5
General Fund Revenues, Expenditures, and Fund Balance
(Budgetary Basis[a]-Dollars in Millions)

	Fiscal Year				
	2016-17	2017-18	Estimated 2018-19	Estimated 2019-20	Projected 2020-21
Fund Balance–Beginning of Period	$ 6,281	$ 5,931	$ 13,993	$ 8,497	$ 5,234
Restatements					
Prior Year Adjustment	391	272	(3,014)	–	–
Fund Balance–Beginning of Period, as Restated	**$ 6,672**	**$ 6,203**	**$ 10,979**	**$ 8,497**	**$ 5,234**
Revenues	$ 123,135	$ 136,198	$ 143,823	$ 150,399	$ 153,403
Other Financing Sources					
Transfers from Other Funds[b]	406	414	(4,444)	(3,913)	(1,768)
Other Additions	61	175	–	–	–
Total Revenues and Other Sources	**$ 123,602**	**$ 136,787**	**$ 139,379**	**$ 146,486**	**$ 151,635**
Expenditures					
State Operations[c]	$ 30,899	$ 32,578	$ 45,181	$ 40,517	$ 40,373
Local Assistance[d]	88,710	92,052	96,529	108,739	112,360
Capital Outlay	264	105	911	493	351
Unclassified	–	–	(760)	–	–
Other Uses	–	–	–	–	–
Transfer to Other Funds[b]	4,470	4,262	–	–	–
Total Expenditures and Other Uses	**$ 124,343**	**$ 128,997**	**$ 141,861**	**$ 149,749**	**$ 153,083**
Revenues and Other Sources Over or (Under)					
Expenditures and Other Uses	$ (741)	$ 7,790	$ (2,482)	$ (3,263)	$ (1,448)
Fund Balance					
Deferred Payroll[e]	1,147	945	–	–	–
Reserve for Encumbrances	1,180	1,399	2,144	2,144	2,144
Reserve for Unencumbered Balances of Continuing Appropriations[f]	1,670	2,418	–	–	–
Special Fund for Economic Uncertainty (SFEU)[g]		1,205	6,353	3,089	1,641
Unreserved–Undesignated[g]	1,934	8,026	–	–	–
Fund Balance–End of Period	**$ 5,931**	**$ 13,993**	**$ 8,497**	**$ 5,234**	**$ 3,785**

General Note: Totals may not add due to rounding.

(Footnotes Continued on Following Page)

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(a) These statements have been prepared on a budgetary basis in accordance with state law and some modifications would be necessary to comply with generally accepted accounting principles ("GAAP"). The Supplementary Information contained in the state's Audited Basic Financial Statements for the year ended June 30, 2018, attached as an appendix to this Official Statement, contains a description of the differences between the budgetary basis and the GAAP basis of accounting and a reconciliation of the June 30, 2018 fund balance between the two methods. See "FINANCIAL STATEMENTS."

(b) For the State Controller's Office accounting purposes, the actuals reflect transfers to the BSA as an expenditure transfer within Transfer to Other Funds. For budgeting purposes, the Transfers to Other Funds line is netted with Transfers from Other Funds for fiscal years 2018-19 through 2020-21. For those years, transfers to the BSA and the Safety Net Reserve Fund 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 $4.6 billion for fiscal year 2019-20 and projected to be $4.7 billion in fiscal year 2020-21. These estimated costs are net of various offsets, including a federal Build America Bonds subsidy, various reimbursements to the General Fund from other funds, and amounts included in UC and CSU support budgets for debt service on UC and CSU debt; with all offsets together totaling approximately $2.4 billion in fiscal year 2019-20 and $2.5 billion in fiscal year 2020-21 and which offset the General Fund debt service costs of certain General Obligation bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—*Build America Bonds*." Debt service amounts for earlier years are set forth in the table titled "Outstanding State Debt Fiscal Years 2014-15 through 2018-19" under "STATE DEBT TABLES."

(d) Beginning in fiscal year 2019-20, includes transfer to the PSSSA.

(e) Deferred Payroll, which began with the June 2010 payroll, represents the amount of June payroll expenses deferred to July of the following fiscal year, for all state departments paid through the uniform payroll system. The Department of Finance, pursuant to Government Code Sections 12472.5 and 13302, implemented the deferrals of June payroll expenditures for various governmental and nongovernmental cost funds. The 2019 Budget Act eliminated the payroll deferral in fiscal year 2018-19.

(f) 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 Office Budgetary/Legal Basis Annual Report reflects a specific reserve for the encumbered balance for continuing appropriations.

(g) For fiscal year 2016-17, Unreserved-Undesignated amount reported included the amount in the SFEU. Beginning with fiscal year 2017-18, the SFEU and Unreserved-Undesignated amounts are reported separately in the State Controller's Office Budgetary/Legal Basis Annual Report. The Department of Finance generally includes in its budget estimates of the SFEU the items reported as actual amounts in the State Controller's Office Budgetary/Legal Basis Annual Report under "Unreserved-Undesignated," and does not include Reserved for Encumbrances in the End of Period Fund Balance total.

Source: Actual amounts for fiscal years 2016-17 through 2017-18: State of California, Office of the State Controller. Estimated amounts for fiscal years 2018-19 through 2020-21: State of California, Department of Finance.

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General Fund Revenue and Expenditure Assumptions

The table below presents the Department of Finance's budget basis statements of General Fund revenue sources and expenditures by function for fiscal years 2019-20 and 2020-21, as set forth in the 2020-21 Governor's Budget.

TABLE 6
General Fund Revenues by Source and Expenditures by Agency
(Dollars in Millions)

	Fiscal Year		
General Fund Revenue Source	**2019-20 Enacted June 2019**	**2019-20 Revised January 2020**	**2020-21 Proposed January 2020**
Personal Income Tax	$ 102,413	$ 101,682	$ 102,878
Sales and Use Tax	27,241	27,185	28,243
Corporation Tax	13,133	15,305	16,007
Insurance Tax	2,868	3,023	3,117
Alcoholic Beverage Taxes and Fees	386	383	389
Cigarette Tax	62	60	58
Motor Vehicle Fees	33	35	38
Other[(a)]	-174	863	2,864
Subtotal	**$ 145,962**	**$ 148,536**	**$ 153,594**
Transfer to the Budget Stabilization Account "Rainy Day Fund"	-2,158	-2,050	-1,959
Total General Fund Revenues and Transfers	**$ 143,804**	**$ 146,486**	**$ 151,635**
General Fund Expenditures by Agency	**2019-20 Enacted June 2019**	**2019-20 Revised January 2020**	**2020-21 Proposed January 2020**
Legislative, Judicial and Executive	$ 5,336	$ 5,909	$ 4,520
Business, Consumer Services & Housing	1,438	1,465	348
Transportation	304	287	240
Natural Resources	3,680	3,812	3,812
Environmental Protection	193	672	140
Health and Human Services	41,929	41,893	47,454
Public Safety (includes Corrections and Rehabilitation)	12,783	13,432	13,387
K-12 Education	58,308	58,675	59,639
Higher Education	17,502	17,490	17,509
Labor and Workforce Development	138	186	159
Government Operations	1,286	1,839	1,413
General Government			
Non-Agency Departments	967	1,025	987
Tax Relief/Local Government	504	505	432
Statewide Expenditures[(b)]	3,413	2,558	3,043
Total General Fund Expenditures	**$ 147,781**	**$ 149,749**	**$ 153,083**

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

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

Source: State of California, Department of Finance.

Note: Numbers may not add due to rounding.

ECONOMIC AND BUDGET RISKS

The 2020-21 Governor's Budget is based on a variety of estimates and assumptions. If actual results differ from those assumptions, the state's financial condition could be adversely or positively affected. There can be no assurance that the financial condition of the state will not be materially and adversely affected by actual conditions or circumstances in fiscal year 2020-21 and beyond.

While the state projects a balanced budget through fiscal year 2023-24 (the end of the multi-year projection period), several economic and budget risks still exist. Risks with potentially significant General Fund impact include, but may not be limited to, the following:

- Threat of Recession. The national economy is currently enjoying its longest economic expansion in history, however, the risk of a U.S. recession remains. Both the nation and California are at historic low rates of unemployment (3.5 percent and 3.9 percent, respectively, in December 2019). It is difficult to maintain continued economic growth with such low levels of unemployment, as low unemployment may lead to upward pressure on wages, which in turn may result in increased inflation.

  For economic growth to continue, businesses need to be able to hire and retain qualified and productive workers and invest while consumers must continue making real gains. Corporate tax savings from the federal tax bill enacted in December 2017 mostly were used for stock buybacks, allowing corporations to keep more profits, and led to little growth in investment and workers' average wage. This raises concerns of sustained inequality and low consumer purchasing power.

  The Federal Reserve cut interest rates three times between July 2019 and October 2019, due to concerns about slowing global growth and trade uncertainties. Changes in interest rates have been associated with stock market volatility and might also impact business and consumer confidence. Low interest rates also allowed many corporations to take on levels of debt that may become less sustainable when interest rates increase.

  The stock market has been highly volatile, and recently entered correction territory after an all-time high. A sudden fall in stock prices may adversely affect investment and hiring decisions for California companies, even in the absence of a full recession.

- Capital Gains Volatility. Capital gains tax revenues are the state's most volatile revenue source, and even absent a recession, a stock market correction or extended decline could significantly reduce the state's revenues. Proposition 2 mitigates some of the capital gains volatility by requiring spikes in capital gains tax revenue be used to repay the state's debts and liabilities, and to be deposited in the BSA. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue—*Personal Income Tax*" and "—Budget Reserves."

- Potential Impact of Coronavirus. There can be no assurances that the spread of a novel strain of coronavirus called COVID-19 will not materially impact the state and national economies and, accordingly, materially adversely impact the General Fund. While the effects of COVID-19 on the state may be temporary, it appears to be altering the behavior of businesses and people in a manner that may have negative impacts on global and local economies. In addition, stock markets in the U.S. and globally have seen significant recent declines that have been attributed to coronavirus concerns. While any impact on the state and the General Fund is currently uncertain, the Administration is monitoring the impact of COVID-19 and will incorporate it into the assumptions used in the 2020 May Revision as necessary.

- Global Tensions. Given increased globalization and interconnectedness of financial world markets, disruptions in large markets due to economic slowdowns in other countries or regions (such as the slowdown in many European countries or economic crises in emerging markets) or due to geopolitical tensions and deteriorating international trade relations (for example, Brexit) could have significant negative impacts on the nation's economy, potentially triggering a U.S. slowdown, which would affect California.

- Federal Health Care Policy. The federal government provides tens of billions of dollars for state health and human services. The state's compliance with various federal laws and regulations is a condition to receipt of this funding. Recently, the federal government has modified its interpretation of, and proposed changes to, existing law and regulations that may have significant programmatic and fiscal impacts on the state. Specifically, the federal government has recently denied the state's proposed Managed Care Organization Provider tax, proposed significant modifications to Medicaid financing mechanisms through the draft Medicaid Fiscal Accountability Regulation, and modified its interpretation of the Weldon Amendment, in each case, in a manner that could materially impact federal funding received by the state. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—Health and Human Services."

- Other Federal Policy. The federal government has also made changes to trade and immigration policy, which could have detrimental effects on the state's budget. Additional federal policy shifts, such as expenditure reductions and changes in interest rates, may cause businesses and individuals to pull back on investment or consumption. Federal policies and/or other circumstances that lead to increasing federal deficits could make it more difficult for the federal government to take action to address an economic slowdown or recession.

- Federal Tax Law Changes. The Tax Cuts and Jobs Act (Public Law 115-97) ("TCJA") enacted in December 2017 made significant and, in many cases, complex changes to federal tax laws beginning in 2018 that are expected to induce changes in taxpayer behavior that are not yet fully understood. It is possible that the $10,000 limit on the state and local tax deductions for the federal individual income tax could cause an increase in out-migration of high-income taxpayers. Tax return data for 2018, the first year the TCJA was in effect, will become available in March and April of 2020. The current forecast assumes no significant increase in out-migration of high-income taxpayers. Subsequent forecasts will incorporate changes induced by the federal law changes as revenue and tax data becomes available.

- Trade Policy. The material change or imposition of tariffs by the federal government on the state's trading partners could directly and indirectly cause an adverse effect on the state's economy. In 2019, the U.S. imposed tariffs of up to 25 percent on $250 billion worth of Chinese products, equivalent to half of the nation's imports from China, triggering Chinese retaliatory tariffs of 25 percent on over $50 billion worth of U.S. exports. Because California is a transport hub, and China is the state's third largest trading partner by total trade value after Mexico and Japan, a trade war could have negative effects on the state's economy. In 2018, imports from China entering through California totaled $161 billion, or 37 percent of the state's total imports, while exports to China totaled $16.3 billion, accounting for 9.2 percent of the state's total exports.

  More trade barriers would increase the costs of inputs purchased from abroad, leading to decreased companies' revenues, potentially impacting wages and employment in the short run and triggering a change in the business model of companies that until now have made significant investment decisions based on a system of free global trade.

- Federal Census. An undercount in the 2020 Census could particularly disadvantage the state when federal funds and legislative seats are apportioned. California has a significant share of the population designated "hard-to-count" by the Census Bureau including the foreign-born, children under 5, the non-white population, and renters. While California accounts for 12 percent of the U.S. population, the state has nearly 22 percent of the hard-to-count national population. California plans a proactive campaign to mitigate the risk of a population undercount, which if realized could affect future planning and funding formulas.

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

- Housing Constraints. California housing growth continues to lag population growth, raising housing costs and potentially limiting the number of jobs that companies can add. In 2018, approximately 120,000 home building permits were issued in California and the forecast assumes a faster rate of annual permit issuance reaching approximately 165,000 by 2023. While the forecast assumes increasing numbers of permits will be issued by local authorities, if permits were to remain low, it would reduce the number of available workers.

- Debts and Liabilities. The state's past budget challenges were often addressed by use of unprecedented levels of debts, deferrals, and budgetary obligations accumulated during periods of economic recession in the prior two decades. Since the end of the last economic recession, the state has repaid all budgetary debts and implemented plans to pay down the remaining unfunded portions of all major state pension and retiree healthcare liabilities over the next three decades (See "DEBTS AND LIABILITIES UNDER PROPOSITION 2"). In spite of this, the state still faces hundreds of billions of dollars in long-term pension and retiree healthcare cost pressures. See "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs" and EXHIBIT 1—"PENSION SYSTEMS."

- Climate Change. The state has historically been susceptible to wildfires and hydrologic variability. However, as greenhouse gas emissions continue to accumulate, climate change will intensify and increase the frequency of extreme weather events, such as coastal storm surges, drought, wildfires, floods and heat waves, and raise sea levels along the coast. Over the past several years, the state has already experienced the impacts of climate change through unprecedented wildfires and a multi-year drought. The future fiscal impact of climate change on the state budget is difficult to predict, but it could be significant. However, the state is in the process of implementing various resilience measures to reduce the impacts of climate change, including significant investments in fire prevention and water infrastructure projects.

- Cybersecurity Risks. The state, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations. As a recipient and provider of personal, private, or sensitive information, the state is subject to multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computer and other sensitive digital networks and systems.

  Entities or individuals may attempt to gain unauthorized access to the state's digital systems for the purposes of misappropriating assets or information or causing operational disruption and damage. In 2017, the state established a statewide security operations center to protect against malicious activity targeting critical technology infrastructure. No assurances can be given that the state's efforts to manage cyber threats and attacks will be successful or that any such attack will not materially impact the operations or finances of the state.

DEBTS AND LIABILITIES UNDER PROPOSITION 2

Voters approved Proposition 2 in November 2014, which revised the state's method of funding the BSA, the state's "rainy day fund." For fifteen years starting in fiscal year 2015-16, 1.5 percent of annual General Fund revenues, plus the excess of capital gains tax receipts above a certain level not necessary to fund Proposition 98, is applied equally to funding the BSA (to its constitutional maximum limit) 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 7 displays the categories of debts and liabilities the Administration considers eligible for accelerated payments under Proposition 2. Although previously included as an eligible use of Proposition 2 funds, the state is not legally responsible for the pension and retiree health care costs of the University of California, an independent corporate entity under state law. As a result, these costs are no longer displayed on Table 7.

The 2020-21 Governor's Budget proposes to prefund state retiree health care benefits ($340 million), make another installment payment towards repayment of the $6 billion loan used to fund the supplemental pension payment made to CalPERS in fiscal year 2017-18, as further described below ($817 million), and pay down the state's portion of the unfunded liability for teachers' pensions ($802 million).

The 2017-18 Budget included a $6 billion supplemental pension payment to CalPERS from proceeds of a loan from the Surplus Money Investment Fund (a state fund managed by the State Treasurer's Office as part of the Pooled Money Investment Account to invest surplus cash from funds held by state departments) that is expected to reduce unfunded liabilities and stabilize state contribution rates. As of the 2020-21 Governor's Budget, the Department of Finance projects the supplemental pension payment will save an estimated $6.0 billion (net of principal and interest on the loan) in state contributions to CalPERS from all state funded sources over the next two decades. The amount of estimated savings allocable to each such fund will generally be proportionate to its share of the payments on the loan. Approximately half of the total loan payments are expected to come from the General Fund. The state will realize savings if the supplemental pension payment invested by CalPERS earns a higher return than the interest required to be paid on the loan. The projected savings are based on CalPERS achieving its assumed rate of return, which exceeds the projected interest rate on the loan. There is a risk that the difference between CalPERS returns and the interest rate on the loan (as described below) will be less, perhaps significantly, than projected in a given year. This occurrence, if not otherwise offset by a difference between CalPERS returns and the interest rate on the loan greater than estimated for the 20-year period, could result in a lower than anticipated benefit to the state as compared to the estimate. The loan will be repaid at a variable interest rate, equal to the quarter-to-date yield at the two-year constant maturity U.S. Treasury rate (the "Two-year Treasury Rate").

The loan is required to be repaid from the General Fund and other funds no later than June 30, 2030. The first General Fund repayment of this loan, $294 million (interest and principal), was made with a fiscal year 2017-18 appropriation. The second General Fund repayment of this loan, $723 million (interest and principal), was made with a fiscal year 2018-19 appropriation. The third General Fund repayment of this loan, $390 million (interest and principal), will be made with a fiscal year 2019-20 appropriation. Changes made to these repayment amounts from what was reported as of the 2018 Budget Act are due to updates in estimated available Proposition 2 funding in each respective fiscal year. The General Fund's share of the repayment of the loan over the expected term of the loan is eligible under Proposition 2's debt repayment requirements, as reflected in Table 7 (approximately $2.5 billion in estimated payments remain as of the 2020-21 Governor's Budget). The remaining balance is to be repaid from other funds that contribute to CalPERS and are expected to benefit from the supplemental pension payment.

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

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TABLE 7
Debts and Liabilities under Proposition 2
2020-21 Governor's Budget
(Dollars in Millions)

	Fiscal Year				
	Outstanding Amount as of January 10, 2020[a]	**2020-21 Pay Down**	**Proposed 2021-22 Pay Down**	**Proposed 2022-23 Pay Down**	**Proposed 2023-24 Pay Down**
State Retirement Liabilities (Unfunded Actuarial Estimate)					
State Retiree Health	$85,595	$340	$350	$365	$375
State Employee Pensions [b][c]	59,714[d][e]	817	791	871	1,123
Teachers' Pensions	101,992[f]	802	615	345	0
Judges' Pensions	3,299	0	0	0	0
Total	**$ 250,600**	**$ 1,959**	**$ 1,756**	**$ 1,581**	**$ 1,498**

(a) These amounts reflect unfunded actuarial liabilities measured as of June 30, 2018. The unfunded actuarial liabilities measured as of June 30, 2019, are expected to be published during calendar year 2020.

(b) The estimated pay down amounts for fiscal years 2020-21 through 2022-23 include both interest and principal on the $6 billion supplemental pension loan authorized in the 2017-18 Budget. Actual payments will be determined annually based on availability of Proposition 2 debt repayment funds. Payments from other funds are not shown in this table.

(c) The estimated $1,123 million for fiscal year 2023-24 is a proposed direct supplemental payment to CalPERS towards the state's unfunded pension liability.

(d) This value includes the unfunded liability for the 1959 Survivor Benefit Program, which is an estimated $39 million as of June 30, 2018.

(e) The liability does not reflect the reduction in the outstanding amount as a result of the supplemental pension payments. The effect of the supplemental pension payments on the liability will be amortized by CalPERS according to its policy and will be incorporated in the next actuarial report.

(f) The amount does not reflect the reduction in the outstanding amount as a result of the supplemental pension payments. The state portion of the unfunded liability for teachers' pensions is $33.4 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

There are approximately 35 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 the Oroville Dam. 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 of the Oroville Dam. Because of successive severe storms (caused by atmospheric rivers) impacting Northern California, 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. Ten lawsuits filed on behalf of individuals, businesses and public agencies are pending against the Department. The suits claim damages arising out of these events, including alleged damage to real and personal property, business losses, and relocation expenses. All the lawsuits have been coordinated.

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

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

Tax Cases

Two pending class action cases challenge the fee imposed by former Revenue and Taxation Code Section 17942 on 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 and *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 a 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. If plaintiffs ultimately prevail on the merits on behalf of the classes, the potential refunds could total $1.2 billion.

A pending case challenges the validity of California Code of Regulations, title 18, Section 1585, which requires the sales tax on mobile telephones to be based on the full "unbundled" price of the telephone rather than any discounted price that is contingent on a service plan commitment. In *Bekkerman et al. v. California Department of Tax and Fee Administration* (Sacramento County Superior Court, Case No. 34-2015-80002242), petitioners seek to invalidate the regulation insofar as it relates to sales in carrier-operated stores. Petitioners filed a second action, a class action lawsuit seeking refunds of any excess sales tax paid, *Bekkerman et al. v. California Department of Tax and Fee Administration, et al.* (Sacramento County Superior Court, Case No. 34-2016-80002287). The trial court dismissed the state defendants from the second action on the basis that the class action claim for sales tax refunds was premature. Plaintiffs appealed that ruling. Plaintiffs also amended the complaint in the first action to add a claim for sales tax refunds to be paid to the class, but the court granted a motion to strike the sales tax refund relief from the first action. If plaintiffs are successful in reviving their refund claims in either action, that could result in an order requiring sales tax refunds potentially exceeding $1 billion. Even if plaintiffs are unsuccessful in reviving the refund claims in the current actions, they may be able to refile the class action claim against the state at a later date, if they are able to prove in the first action that excess sales tax was paid and other conditions are met.

Action Regarding Special Education

Plaintiffs in *Morgan Hill Concerned Parents Assoc. v. California Department of Education* (U.S. District Court, Northern District of California, Case No. 3:18-cv-03367-VC), challenge the oversight and operation by the California Department of Education ("CDE") of the federal Individuals with Disabilities Education Act ("IDEA"). The complaint alleges that CDE, as the designated State Education Agency, has failed to monitor, investigate, and enforce the IDEA statewide. Under the IDEA, local school districts are the Local Educational Agencies responsible for delivering special education directly to eligible students. The complaint seeks injunctive and declaratory relief, and asks the court to retain jurisdiction to monitor the operation of the IDEA by the state. The court has issued a stay of this matter, and plaintiffs have appealed the imposition of the stay. (U.S. Court of Appeal, Ninth Circuit, No. 18-16939).

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. C01-1351 JST) is a class action regarding the adequacy of medical health care, and *Coleman v. Brown* (U.S. District Court, Eastern District, Case No. 2:90-cv-00520 KJM-DB (PC)) is a class action regarding mental health care. A third case, *Armstrong v. Brown* (U.S. District Court, Northern District, Case No. C 94-02307 CW), is a class action on behalf of inmates with physical disabilities alleging violations of the Americans with Disabilities Act and Section 504 of the Rehabilitation Act. In *Plata* the district court appointed a Receiver, who took office in April 2006, to run and operate the medical health care portion of the health care delivery system. The *Plata* Receiver and the Special Master appointed by the *Coleman* court, joined by the court representative appointed by the *Armstrong* court, meet routinely to coordinate efforts in these cases. To date, ongoing costs of remedial activities have been incorporated into the state's budget process. However, at this time, it is unknown what future financial impact this litigation may have on the state's General Fund. In March 2015, the *Plata* court modified its order to update and clarify the process to transition responsibility for inmate medical care back to the state. This transition process is ongoing.

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

High-Speed Rail Litigation

In *Tos, et al. v. California High-Speed Rail Authority, et al*. (Sacramento County Superior Court, Case No. 34-2016-00204740), plaintiffs seek a declaration that a state law enacted in 2016 is an unconstitutional amendment of the high-speed rail bond act and to prevent the California High-Speed Rail Authority from expending bond proceeds in reliance on the challenged state law. The trial court denied plaintiffs' requests for a temporary restraining order and a preliminary injunction. Plaintiffs filed an amended complaint adding a claim challenging the approval of the Authority's plans for expenditure of bond proceeds by the Director of the Department of Finance. The trial court denied plaintiff's motion for judgment on the pleadings on the constitutional claim. Plaintiff's agreed that the court's ruling was determinative of their claims, and stipulated to a judgment in favor of the Authority. Plaintiffs appealed the judgment. (Court of Appeal, Third Appellate District, Case No. C089466.)

The federal government authorized \$3.5 billion in grants (of which \$2.6 billion has been expended) for the Central Valley segment of the high-speed rail project. In the event the state does not meet the requirement of the grant agreements, such as because a final decision in this matter prevents the use of bond proceeds, and the state is unable to complete the Central Valley segment with other funds or provide other matching funds consistent with the grant agreements, the state may be required to repay the federal grant moneys. As of December 2019, approximately \$832 million of state expenditures were pending review by the federal government. If those expenditures are approved in full, the amount of unmatched federal spending will be approximately $1.5 billion.

In a February 19, 2019 letter, the Federal Railroad Administration ("FRA") stated its preliminary intention to terminate the grant agreement providing $930 million in unexpended funds for the project, listing various purported failures to satisfy obligations under the agreement. In the letter, the FRA states it will consider any timely-provided information showing that those obligations were satisfied before the FRA actually terminates the agreement. The letter also states that the FRA reserves the rights it might have under the grant agreements, including any right it might have to recovery of any federal funds expended. The Authority responded to the FRA's letter on March 4, 2019. By letter dated May 16, 2019, the FRA issued a final decision terminating the grant agreement. On May 21, 2019, the state and the Authority filed an action against FRA challenging the termination decision. (*State of California v. United States Department of Transportation*, U.S. District Court, Northern District, Case No. 3:19-cv-02754-JD.) A settlement conference has been scheduled in March 2020.

Action Regarding State Mandates

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

Action Regarding Medi-Cal Reimbursements

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

FINANCIAL STATEMENTS

The State of California Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018 (the "2018 CAFR"), is included as an appendix to this Official Statement and incorporated into APPENDIX A. The 2018 CAFR includes a Financial Section that consists of an Independent Auditor's Report, Management's Discussion and Analysis, and Basic Financial Statements of the state for the Year Ended June 30, 2018 ("Basic Financial Statements"). The 2018 CAFR also contains required supplementary information and combining financial statements and schedules. 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.

In accordance with state law, each year the State Auditor's Office releases an audit report concerning its review of the state's basic financial statements. Generally, the state's basic financial statements for a fiscal year are released on or before March 31 of the subsequent fiscal year and the audit report of the State Auditor's Office is released contemporaneously with the related basic financial statements. The 2018 CAFR was released by the State Controller on June 5, 2019. On July 19, 2019, the State Auditor's Office issued its report titled "State of California Internal Control and Compliance Audit Report for the Fiscal Year Ended June 30, 2018" (the "Auditor's Fiscal Year 2017-18 Report"). The Auditor's Fiscal Year 2017-18 Report includes conclusions of the State Auditor's Office regarding factors in the delay in the release of the 2018 CAFR, responses to those conclusions by the State Controller's Office and commentary from the State Auditor's Office to such responses. The Auditor's Fiscal Year 2017-18 Report is available on the website of the State Auditor at https://www.bsa.ca.gov. This report is not part of or incorporated into APPENDIX A.

According to the State Controller, there is a delay by a significant number of state departments in providing financial information to the State Controller necessary for the preparation of the State of California Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019 (the "2019 CAFR"). As a result, the release of the 2019 CAFR is expected to be delayed beyond March 31, 2020, the target date for release of the state's basic financial statements each fiscal year. The state currently expects the 2019 CAFR to be released in June of 2020. The State Controller expects to prepare unaudited financial statements for fiscal year 2018-19 by April 1, 2020, if it receives sufficient financial information from state departments. The state expects that it will file such unaudited financial statements, if available, on EMMA not later than April 1, 2020, to satisfy certain of the state's continuing disclosure obligations. When the 2019 CAFR is released it will be available on the website of the State Controller and filed by the State Treasurer on EMMA.

The process of transitioning a large number of state departments from several separate legacy accounting systems to a statewide accounting, budget, cash management and procurement information technology system called the Financial Information System for California ("FI$Cal"), has, in part, contributed to the currently expected delay in the delivery of the 2019 CAFR until June 2020. Staff at departments that recently transitioned to FI$Cal (most in one of the last two fiscal years) are adjusting to changes in processes required when transitioning to this new system, including, for example, changes in the informational input process, changes in the level of detail required and adapting to new functionality, policies and business requirements. The State Auditor's Office released a report in January 2020 that identifies the transition to FI$Cal as an issue of risk to the State with respect to its ability to deliver a timely and accurate Comprehensive Annual Financial Report of the State. While the State Controller's Office does not concur with the entirety of the report of the State Auditor's Office, the delay in the delivery of the 2019 CAFR can be attributed in part to completing internal processes intended to ensure the state's CAFRs provide materially accurate financial information.

The State Controller issues a monthly report on General Fund cash receipts and disbursements. These reports are available on the State Controller's website and are normally released by the 10th day of every calendar month for the period ended on the last day of the prior month. The State Controller's unaudited report of General Fund cash receipts and disbursements for the period from July 1, 2018 through June 30, 2019 and July 1, 2019 through January 31, 2020 are included as EXHIBIT 2 to APPENDIX A. If the State Controller issues such a monthly report between the date on which a preliminary offering document for the securities offered in connection with this Appendix A is delivered and the date on which the related final offering document is delivered, such monthly report will be included in such final offering document.

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 and any other information on such websites or on any other websites referenced in this Appendix A, 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 State Controller's report represents cash received by agencies as reported to and recorded by the State Controller, which may be a day or so later than when cash is received by agencies.

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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. 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 legislative special session to address the shortfall. The use of general obligation bonds, revenue bonds, and certain other forms of borrowing are prohibited to cover fiscal year end budget deficits. The restriction does not apply to certain other types of borrowing, such as: (i) short-term borrowing to cover cash shortfalls in the General Fund (including RANs or RAWs as described in "CASH MANAGEMENT—Traditional Cash Management Tools"), or (ii) inter-fund borrowings.

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

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

The General Fund

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

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

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

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

Restrictions on Raising or Using General Fund Revenues

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

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

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

Proposition 98, enacted in 1988, requires a minimum portion of General Fund tax revenues to support K-12 schools and community colleges. Proposition 49, approved by the voters in 2002, requires additional funding for before and after school programs in the state's public elementary, middle and junior high schools. These expenditures are part of the

Proposition 98 minimum funding guarantee for K-14 education and cannot be reduced, except in certain low revenue years. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—*K-14 Education under Proposition 98*."

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

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

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

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

Proposition 2, approved by the voters in 2014, directs the transfer of specified amounts of General Fund revenues to the BSA and to pay down specified debts and liabilities. It also requires spending on infrastructure including deferred maintenance once the BSA reaches the constitutional maximum balance for a fiscal year of 10 percent of General Fund tax revenues. Proposition 2 also created the "PSSSA" or "Public School System Stabilization Account" that serves as a Proposition 98 reserve and requires a deposit into the fund under specified conditions. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves—*Budget Stabilization Account*."

The 2018-19 Budget created two additional reserves, the BDSA and the Safety Net Reserve Fund. Based on the updated calculation of the fiscal year 2018-19 supplemental BSA transfer, all funds in the BDSA were applied towards prior year BSA True-Up transfers in September 2019. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves—*Budget Deficit Savings Account and the Safety Net Reserve Fund*."

The Safety Net Reserve Fund included an initial deposit of $200 million in fiscal year 2018-19 from the 2018 Budget Act to maintain existing benefits and services for Medi-Cal and CalWORKs during economic downturns. The 2019 Budget Act included an additional

$700 million deposit in fiscal year 2018-19 to the Safety Net Reserve Fund. The 2020-21 Governor's Budget continues to project a balance of $900 million in the Safety Net Reserve Fund through fiscal year 2023-24. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves—*Budget Deficit Savings Account and the Safety Net Reserve Fund*."

Sources of Tax Revenue

While the impact of the significant federal tax law changes of 2017 will continue to emerge over time, there are two explicit assumptions related to those changes that are included in the 2020-21 Governor's Budget. First, due to the reduction in the federal corporate tax rate from 35 percent to 21 percent and other tax law changes, the 2020-21 Governor's Budget assumes that there will be a significant shift from personal income tax revenue to corporate tax revenue as more business entities choose to operate as a corporation rather than a pass-through entity such as an S-corporation, LLC, or partnership. Second, the state's cash flows from the personal income tax reflect a shift in receipts from December to January and April as the new $10,000 limit for the State and Local Tax Deduction reduces or eliminates the incentive for taxpayers to make their payments that are due in January and April prior to the end of the calendar year. Neither of these assumptions is projected to have a material impact on overall General Fund revenue within any fiscal year through fiscal year 2022-23.

The following is a summary of the state's major tax revenues and tax laws. In fiscal years 2019-20 and 2020-21, as in most years, the vast majority of the state's General Fund revenues and transfers are projected to be derived from three sources: personal income taxes, sales and use taxes, and corporation taxes. For a ten-year period, the bar chart and table below show total General Fund revenues and transfers by the three major revenue sources, and all other revenues and transfers, including transfers to the BSA beginning in fiscal year 2014-15, and a one-time transfer in fiscal year 2018-19 to the Safety Net Reserve Fund, that are represented as reductions in the total amount of other General Fund revenues and transfers. Transfers represented as a reduction in the total amount of other General Fund revenues and transfers can result in a negative amount.

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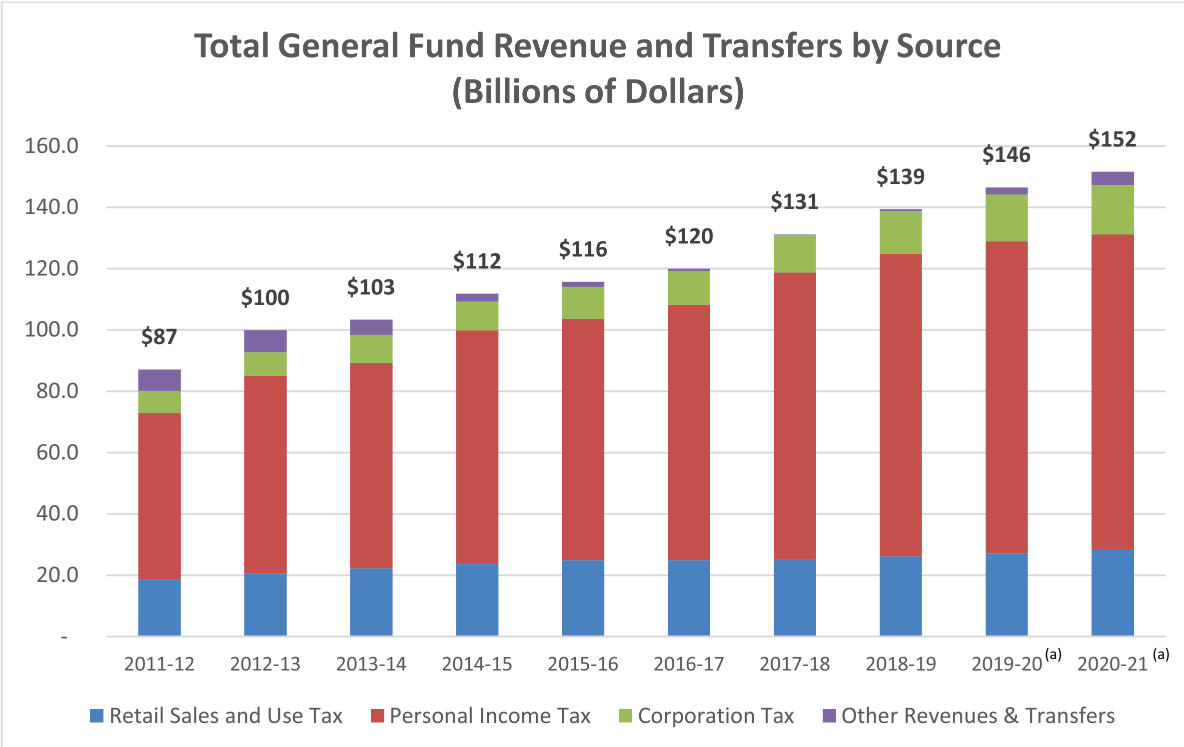

(a) Projected.

Note: Chart reflects yearly transfers from the General Fund to the BSA of $1.6 billion in fiscal year 2014-15, $2.1 billion in fiscal year 2015-16, $3.0 billion in fiscal year 2016-17, $4.1 billion in fiscal year 2017-18, $3.2 billion in fiscal year 2018-19, $2.1 billion in fiscal year 2019-20, and $2.0 billion in fiscal year 2020-21. The chart also reflects a one-time transfer of $900 million to the Safety Net Reserve Fund in fiscal year 2018-19. These transfers reduce General Fund revenues and transfers by the amounts of the transfers.

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TABLE 8
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
2011-12	$ 54,261[(b)]	62.3%	$18,658[()]	21.4%	$ 7,233	8.3%	$6,919	7.9%	$ 87,071
2012-13	64,484[(b)]	64.5	20,482[(b)]	20.5	7,783[(c)]	7.8	7,166	7.2	99,915
2013-14	67,025[(b)]	64.8	22,263[(b)]	21.5	9,093[(c)]	8.8	4,994	4.8	103,375
2014-15	76,169[(b)]	68.1	23,682[(b)]	21.2	9,417[(c)]	8.4	2,521	2.3	111,789
2015-16	78,735[(b)]	68.1	24,871[(b)]	21.5	10,460[(c)]	9.0	1,595[(d)]	1.4	115,661
2016-17	83,264[(b)]	69.4	24,874[(b)]	20.7	11,020[(c)]	9.2	823[(d)]	0.7	119,982
2017-18	93,776[(b)]	71.5	24,974	19.0	12,313[(c)]	9.4	53[(d)]	0.0	131,116
2018-19[(a)]	98,599 [(b)]	70.7	26,128	18.7	14,063[(c)]	10.1	589[(d)]	0.4	139,379
2019-20[(a)]	101,682[(b)]	69.4	27,185	18.6	15,305[(c)]	10.4	2,314[(d)]	1.6	146,486
2020-21[(a)]	102,878[(b)]	67.8	28,243	18.6	16,007[(c)]	10.6	4,507[(d)]	3.0	151,635

(a) Projected.

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

(c) 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*."

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

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

Source: State of California, Department of Finance.

1. Personal Income Tax

California personal income tax ("PIT") is imposed on net taxable income; that is, gross income less exclusions and deductions, with rates ranging from 1 percent to 12.3 percent. In addition, the state imposes a 1 percent surcharge on taxable income above $1 million and dedicates the proceeds from this surcharge to the state's Mental Health Services Fund. The PIT brackets, along with other tax law parameters, are adjusted annually for inflation. Personal, dependent, and other credits are allowed against the gross tax liability. Taxpayers may be subject to the state's alternative minimum tax ("AMT"). California's PIT structure is highly progressive. For example, the state's Franchise Tax Board indicates that the top 1 percent of state income taxpayers paid 47.2 percent of the state's total PIT in tax year 2017.

The 2020-21 Governor's Budget revenue projections include the revenue expected from Proposition 30 and Proposition 55. These measures, passed in 2012 and 2016, provided for a one-percent increase in the PIT rate for joint filing taxpayers with income above $500,000 and equal to or below $600,000; a 2 percent increase for incomes above $600,000 and equal to or below $1,000,000; and a 3 percent increase for incomes above $1,000,000 in calendar years 2012 to 2030. For single filers these tax rate increases start at incomes one-half those for joint filers. The brackets for these higher rates are indexed for inflation each year. The Administration projects the revenue from these additional tax brackets to be $8.7 billion in fiscal year 2018-19 and $8.5 billion in fiscal years 2019-20 and 2020-21.

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The next table shows actual and projected PIT revenues for ten fiscal years, including a breakout of capital gains income tax revenue:

TABLE 9
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	
2011-12[(a)]	$ 6,020	6.9%	$48,241	55.4%	$ 54,261	62.3%
2012-13[(a)]	9,552	9.6	54,932	55.0	64,484	64.5
2013-14[(a)]	8,711	8.4	58,314	56.4	67,025	64.8
2014-15[(a)]	11,469	10.3	64,700	57.9	76,169	68.1
2015-16[(a)(c)]	11,713	10.1	67,022	57.9	78,735	68.1
2016-17[(a)(c)]	12,255	10.2	71,010	59.2	83,264	69.4
2017-18[(a)(b)(c)]	14,416	11.0	79,360	60.5	93,776	71.5
2018-19[(a)(b)(c)]	15,246	10.9	83,353	59.8	98,599	70.7
2019-20[(a)(b)(c)(d)]	15,148	10.3	86,534	59.1	101,682	69.4
2020-21[(a)(b)(c)(d)]	14,727	9.7	88,151	58.1	102,878	67.8

(a) Includes revenue from the higher rates imposed by Proposition 30 and Proposition 55 that are dedicated to the Education Protection Account. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—*K-14 Education under Proposition 98*."

(b) Estimated. For fiscal year 2017-18, only the portion of total PIT attributable to capital gains remains subject to possible further revision.

(c) Reflects a reduction of revenues due to the Earned Income Tax Credit of $200 million in fiscal year 2015-16, $205 million in fiscal year 2016-17, $348 million in fiscal year 2017-18, $394 million in fiscal year 2018-19, and $1 billion in fiscal years 2019-20 and 2020-21.

(d) Reflects an increase in revenues of $1.3 billion in 2019-20 and about $900 million in 2020-21 due to state conformity to certain federal tax law changes enacted as part of the Tax Cuts and Jobs Act enacted in December 2017.

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

Source: State of California, Franchise Tax Board provided calendar year estimates based on actual capital gains realizations through 2011. From 2012 onward, State of California, Department of Finance estimated calendar year capital gains revenues based on actual capital gains realizations for 2012 through 2017, and the forecasted realizations for 2018 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. Though it is not shown in the above table, during the Great Recession capital gains tax receipts dropped from nearly $9 billion in fiscal year 2007-08 to just under $3 billion in fiscal year 2009-10, a 67 percent decline. The 2020-21 Governor's Budget projects that capital gains will account for approximately 11 percent of General Fund revenues and transfers in fiscal year 2018-19, declining to 10.3 percent in fiscal year 2019-20 and to 9.7 percent of General Fund revenues and transfers in fiscal year 2020-21. 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*

California imposes a sales tax on retailers for the privilege of selling tangible personal property in the state. 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.

California imposes a use tax at the same rates as the regular sales tax on consumers of tangible personal property that is used, consumed, or stored in this state. Use tax applies to purchases from out-of-state vendors that did not collect tax on their sales. Use tax also applies to most leases of tangible personal property.

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 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 $7.5 billion in fiscal year 2019-20 and $7.8 billion in fiscal year 2020-21.

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 the Department of Finance that specified conditions exist. There are two sets of tests, each with two conditions. The first set of tests examines 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 fiscal 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 observes 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 calendar year equal or exceed the May Revision forecast. If both conditions in either set of tests are met as certified by the Director of the Department 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 2020. See "GOVERNOR'S PROPOSED FISCAL-YEAR 2020-21 BUDGET" for a projection of the SFEU balance for each of the fiscal years 2019-20 and 2020-21.

On June 21, 2018, the Supreme Court ruled 5-4 in favor of South Dakota in *South Dakota v. Wayfair, Inc.*, overruling previous decisions (*Quill* & *Bellas Hess*) which significantly limited states' legal authority to require that out-of-state retailers collect and remit use tax. *Quill & Bellas Hess* had resulted in large use tax gaps as e-commerce has grown to account for about 10 percent of overall U.S. retail sales. In April 2019, the Legislature passed Chapter 5, Statutes of 2019 (AB 147) which made changes to sales tax law in the wake of the *Wayfair* decision, including requiring that businesses remit sales tax to California if they met a threshold of $500,000 sales into California per year. It also mandated that any business acting as a marketplace facilitator had to remit California sales tax for sales into California that took place on their website. The $500,000 threshold requirement went into effect on April 25, 2019 and the marketplace facilitator requirement went into effect on October 1, 2019. The *Wayfair* decision and AB 147 are expected to lead to increased tax compliance resulting in an additional $554 million in General Fund tax revenue in fiscal year 2019-20 and $664 million in fiscal year 2020-21.

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 ("LPs"), limited liability partnerships ("LLPs"), and LLCs are also subject to the $800 minimum franchise tax. New corporations are exempted from the minimum franchise tax for the first year of incorporation. The 2020-21 Governor's Budget proposes to exempt LPs, LLPs, and LLCs from the minimum franchise tax for their first year of operation.

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

- Fees and taxes paid by LLCs, which accounted for 7.6 percent of corporation tax revenue in fiscal year 2018-19.

Legislation enacted in the Budget Acts of 2008, 2009, and 2010 significantly reduced corporation tax revenues beginning in fiscal year 2011-12. However, the passage of Proposition 39 in 2012 reversed a portion of the reduction in revenue due to those tax changes. Proposition 39 amended a provision giving corporations an option on how to calculate the portion of worldwide income attributable to California. By requiring corporations to base their state tax liability on sales in California, it is estimated that state revenues are currently about $1 billion higher than they would be if Proposition 39 had not passed.

The repatriation provisions of the federal TCJA require a one-time deemed repatriation of corporations' foreign earnings accumulated prior to 2018. While California does not conform to the Internal Revenue Code section modified by TCJA, the federal law change is expected to result in some California taxpayers and their unitary U.S. corporations increasing their repatriation dividends, which will have tax effects under California law. The Franchise Tax Board estimated a revenue increase of $54 million in fiscal year 2017-18, $161 million in fiscal year 2018-19, $118 million in fiscal year 2019-20, and $43 million in fiscal year 2020-21, which was included in the 2020-21 Budget forecast for corporation tax revenues.

4. Insurance Tax

The majority of insurance written in California is subject to a 2.35 percent gross premium tax. For insurers, this premium tax takes the place of all other state and local taxes except those on real property and motor vehicles. Exceptions to the 2.35 percent rate are certain pension and profit-sharing plans which are taxed at the lesser rate of 0.5 percent, surplus lines and non-admitted insurance at 3 percent and ocean marine insurers at 5 percent of underwriting profits. The insurance tax is expected to generate General Fund revenues of $3.0 billion in fiscal year 2019-20 and $3.1 billion in fiscal year 2020-21.

5. Special Fund Revenues

The state Constitution and statutes specify the uses of certain revenues. Such receipts are accounted for in various special funds. While these funds are not directly available to repay state general obligation bonds, the General Fund may, when needed to meet cash flow needs, temporarily borrow from certain special funds. See "CASH MANAGEMENT—Inter-Fund Borrowings." In general, special fund revenues comprise three categories of income:

- Receipts from tax levies, which are allocated to specified functions, such as motor vehicle taxes and fees and certain taxes on tobacco products.

- Charges for certain services provided by the state government to individuals, businesses, or organizations, such as fees for the provision of business and professional licenses.

- Rental royalties and other receipts designated for particular purposes (e.g., oil and gas royalties).

Motor vehicle-related taxes and other fees are projected to account for approximately 32 percent of all special fund revenues in fiscal year 2020-21. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees, and vehicle license fees. In fiscal year 2020-21, $18.9 billion of special fund revenues are projected to come from the ownership or operation of motor vehicles, which includes an increase to existing taxes and new fees from the Road Repair and Accountability Act of 2017, Chapter 5, Statutes of 2017 (SB 1), which began collection in fiscal year 2017-18. For a discussion of Proposition 1A of 2004, which replaced a portion of vehicle license fees with increased property tax revenues, see "STATE FINANCES—OTHER ELEMENTS—Local Government Impacts on State Finances."

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The following table displays major special fund revenues (actual and estimated).

TABLE 10
Comparative Yield of State Taxes – Special Funds
(Modified Accrual Basis)
(Dollars in Millions)

Fiscal Year	Sales and Use[b]	Personal Income[c]	Tobacco[d]	Cannabis	Motor Vehicle Fuel[e]	Motor Vehicle Fees[f]	Managed Care Organization Tax
2011-12	$17,962	$1,064	$ 801	--	$5,545	$ 5,817	--
2012-13	19,161	1,684	779	--	5,493	5,839	--
2013-14	20,168	1,282	747	--	6,063	6,205	$828
2014-15	21,025	1,831	746	--	5,711	6,489	1,464
2015-16	20,775	1,870	755	--	4,957	6,809	1,656
2016-17	21,346	1,757	1,155	--	4,843	7,166	2,578
2017-18	23,349	2,119	2,080	$84	6,352	8,549	2,469
2018-19	24,402	2,359	1,990	299	7,558	9,843	2,456
2019-20[a]	25,552	2,400	1,945	479	8,379	10,203	641
2020-21[a]	26,489	2,376	1,938	550	8,794	10,521	0

(a) Estimated for fiscal years 2019-20 and 2020-21.

(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 percent surcharge on taxpayers with taxable income over $1 million, with the proceeds funding mental health programs pursuant to Proposition 63.

(d) Figures include allocations to the California Children and Families First Trust Fund, Breast Cancer Fund, and the Cigarette and Tobacco Products Surtax Fund, and starting in fiscal year 2016-17, the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund.

(e) Beginning in fiscal year 2017-18, amounts include an additional 4 percent sales tax on diesel and an additional 20 cent per gallon excise tax on diesel, and an additional 12 cent per gallon excise tax on gasoline, starting November 1, 2017. The excise taxes are indexed for inflation beginning in fiscal year 2020-21.

(f) Registration and weight fees, motor vehicle license fees and other fees. Includes $800 million in fiscal year 2017-18, $1.67 billion in fiscal year 2018-19, $1.73 billion in fiscal year 2019-20, and $1.77 billion in fiscal year 2020-21 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. *Taxes on Tobacco Products*

Cigarette and tobacco taxes primarily affect special funds, with $65.3 million going to General Fund and $2.1 billion going to special funds in fiscal year 2017-18. Proposition 56 increased the excise tax rate on cigarettes, tobacco products, and electronic cigarettes, effective April 1, 2017. The excise tax increased by $2 from 87 cents to $2.87 per pack of cigarettes. The equivalent excise tax on the distribution of other tobacco products such as cigars, chewing tobacco, pipe tobacco, and snuff also increased by $2 from a $1.37-equivalent to a $3.37-equivalent tax, effective July 1, 2017. Proposition 56 also imposed the $3.37-equivalent tobacco products tax on electronic cigarettes, which had previously not been subject to a tobacco products tax. All of the new money from Proposition 56 goes to special funds.

To address the rapidly increasing youth use of nicotine products with a vaping device, the 2020-21 Governor's Budget proposes a statewide ban of all flavored nicotine products and a new nicotine content-based electronic cigarette tax. The new tax, if adopted, will begin on January 1, 2021, and will be $1 for each 20 milligrams of nicotine in the product. The new tax will be in addition to all existing taxes on electronic cigarettes, and revenues from the new tax are expected to be $34 million in fiscal year 2020-21.

7. *Taxes on Cannabis Products*

Proposition 64, The California Legal Marijuana Initiative, approved by the voters in November 2016, legalized the recreational use of cannabis within California for persons age 21 and over, effective November 9, 2016. The measure also levied new state excise taxes on the cultivation and retail sale of both recreational and medical cannabis as of January 1, 2018, to be spent for specified purposes. The cultivation tax had been $9.25 per ounce of flower, $2.75 per ounce of leaves, or $1.29 per ounce of fresh whole plant, but was indexed for inflation beginning in 2020. There is an additional state retail excise tax equal to 15 percent of the average market price for cannabis products. Recreational cannabis is also subject to state and local sales taxes. Medical cannabis, on the other hand, is exempted from existing state and local sales taxes if the purchaser presents a valid medical marijuana identification card. However, taxes on both medical and recreational cannabis can be levied by local governments. Revenue estimates for cannabis reflect a number of assumptions and actual revenues could be substantially lower or higher over time. Proposition 64 specified that resources in the Cannabis Tax Fund are not subject to appropriation by the Legislature. Resources are dispersed to agencies according to a set of priorities identified in statute beginning with those tasked with administering the regulation of cannabis and followed by research, law enforcement, and education programs related to cannabis.

State Expenditures

The four biggest categories of state expenditures, comprising approximately 90 percent of the annual budget each year, are K-14 Education, Higher Education, Health and Human Services and Public Safety (including Corrections and Rehabilitation). Other expenditure categories are shown in Table 18 below.

Expenditure estimates are updated three times a year after the Department of Finance has reviewed and considered data, budget requests, and other information from entities across state government. The estimates are included in the proposed balanced budgets released in the Governor's Budget by January 10 and the May Revision by May 14, with final expenditure estimates included in the enacted Budget Act. Actual expenditures may differ materially from these preliminary estimates, and there can be no assurances that the projected amounts will be spent.

1. K-14 Education under Proposition 98

General. California provides instruction and support services to roughly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. K-12 education programs are primarily funded under Proposition 98, and will receive funding of $59.6 billion from the General Fund for fiscal year 2020-21 (both Non-Proposition 98 and Proposition 98). The state also provides instruction and support services for approximately 2.1 million students based on enrollment (or approximately 1.1 million full-time equivalent students) at 115 community colleges.

Proposition 98 Funding for K-12 and Community Colleges. State funding for K-12 schools and community colleges (referred to collectively as "K-14 education") is determined largely by Proposition 98, a voter-approved constitutional amendment passed in 1988. Proposition 98, as amended by Proposition 111 in 1990, is mainly comprised of a set of three formulas, or three tests, that guarantee schools and community colleges a minimum level of funding from the state General Fund and local property taxes, commonly referred to as the minimum guarantee. Which test applies in a particular year is determined by multiple factors including the level of funding in fiscal year 1986-87, local property tax revenues, changes in school attendance, growth in per capita personal income, and growth in per capita General Fund revenues. The applicable test, as determined by these factors, sets the minimum funding level. Most of the factors are adjusted frequently and some may not be final for several years after the close of the fiscal year. Therefore, additional appropriations—referred to as settle-up funds—may be required to fully satisfy the minimum guarantee for prior years. Final settle-up payments are determined as part of the Proposition 98 certification process, which occurs the fiscal year after the close of the related fiscal year; any outstanding settle-up balance owed to schools must be paid or scheduled to be paid as part of the state's multi-year budgeting process.

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 factor obligation created is the difference between the funded level and the operative minimum guarantee. The maintenance factor obligation 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 extended the additional income tax rates established by Proposition 30 through tax year 2030. See "Proposition 98 Funding for Fiscal Years 2019-20 and 2020-21" 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. As these conditions are met for fiscal year 2019-20, a one-time $524 million deposit into the PSSSA is required. The 2020-21 Governor's Budget reflects a balance of $487 million in the PSSSA at the end of fiscal year 2020-21. Balances in the PSSSA must be spent on education in fiscal years in which the minimum Proposition 98 funding level is not sufficient to fund the prior year funded level adjusted for growth and inflation. Current estimates at the 2020-21 Governor's Budget indicate that a withdrawal of $37.6 million from the account will be allocated to schools and community colleges in fiscal year 2020-21.

<u>Proposition 98 Funding for Fiscal Years 2019-20 and 2020-21</u>. As shown in Table 11, the funding provided K-12 schools and community colleges is estimated to grow moderately in fiscal years 2019-20 and 2020-21. The 2020-21 Governor's Budget estimates the Proposition 98 minimum guarantee to be $84 billion in fiscal year 2020-21, an increase of $3 billion over the amount assumed for fiscal year 2019-20 in the 2019 Budget Act, primarily due to an increase in projected revenues and local property tax. The General Fund share is $57.6 billion, which includes approximately $7.6 billion in EPA General Fund revenues.

The 2020-21 Governor's Budget estimates a revised funding level for K-12 schools and community colleges in fiscal year 2019-20 of $81.6 billion, which is $517 million higher than the level assumed for fiscal year 2019-20 in the 2019 Budget Act, primarily due to an increase in fiscal year 2019-20 General Fund revenue projections. The General Fund share of Proposition 98 in fiscal year 2019-20 is $56.4 billion, which includes approximately $8.7 billion in EPA General Fund revenues and $524 million deposited into the PSSSA.

Property taxes are estimated to continue increasing, mostly due to shifts of local property tax revenues back to schools and community colleges, and increases in base property tax revenues.

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The 2020-21 Governor's Budget reflects Proposition 98 General Fund expenditures in fiscal years 2018-19 through 2020-21, as outlined in the table below.

TABLE 11
Proposition 98 Funding
(Dollars in Millions)

	2018-19		2019-20 (Fiscal Year)		2020-21	Change From Revised 2019-20 to Proposed 2020-21	
	Enacted[a]	**Revised[c]**	**Enacted[b]**	**Revised[c]**	**Proposed[c]**	**Amount**	**Percent**
K-12 Proposition 98							
State General Fund	$ 41,529	$ 40,691	$ 41,285	$ 41,952	$ 44,448	$ 2,496	5.9%
Education Protection Account	7,278	7,697	8,036	7,706	6,791	(915)	(11.9%)
Local property tax revenue[d]	20,413	20,866	21,921	21,914	23,040	1,126	5.1%
Subtotals[e]	$ 69,220	$ 69,254	$ 71,242	$ 71,572	$ 74,279	$ 2,707	3.8%
Community College Proposition 98							
State General Fund	$ 5,163	$ 5,166	$ 5,200	$ 5,271	$ 5,533	$ 262	5.0%
Education Protection Account	900	951	993	952	839	(113)	(11.9%)
Local property tax revenue[d]	3,110	3,077	3,244	3,254	3,435	181	5.6%
Subtotals[e]	$ 9,173	$ 9,194	$ 9,437	$ 9,477	$ 9,807	$ 330	3.5%
Total Proposition 98							
State General Fund	$ 46,692	$ 45,857	$ 46,485	$ 47,223	$ 49,981	$ 2,758	5.8%
Public School System Stabilization Account			377	$524	(38)		
Education Protection Account	8,178	8,648	9,029	8,658	7,630	(1,028)	(11.9%)
Local property tax revenue[d]	23,523	23,943	25,165	25,168	26,475	1,307	5.2%
Totals[f]	**$ 78,393**	**$ 78,448**	**$ 81,056**	**$ 81,573**	**$ 84,048**	**$ 3,037**	**3.7%**

(a) As of the 2018 Budget Act, enacted on June 27, 2018.

(b) As of the 2019 Budget Act, enacted on June 27, 2019.

(c) As of the 2020-21 Governor's Budget, proposed January 10, 2020.

(d) Beginning in fiscal year 2011-12, local property tax revenues include amounts shifted to schools as a result of the elimination of redevelopment agencies. Fiscal years 2018-19, 2019-20 and 2020-21 include the one-time distribution of cash assets held by redevelopment agencies.

(e) Beginning in fiscal year 2015-16, community college funding includes between approximately $500 to $556 million for the K-14 Adult Education Block Grant, and beginning in fiscal year 2018-19, $164 million for the K-12 Strong Workforce Program.

(f) Totals may not add due to rounding.

Source: State of California, Department of Finance.

Future Obligations. As explained above, there are two forms of future obligations for the state General Fund which may be created under Proposition 98: a maintenance factor and settle-up payments. Both of these obligations have been created in years leading up to fiscal year 2018-19. The following table shows the estimated balances of Proposition 98 future obligations as of the 2020-21 Governor's Budget:

TABLE 12
Proposition 98 Obligations
(Dollars in Millions)

	Estimated Fiscal Year-End Balances[(a)]				
Obligation	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Maintenance Factor[(b)]	$ 1,160	$ 0	$ 0	$ 0	$ 0
Other Settle-Up[(b)]	1,390	787	687[(c)]	0	0

(a) Proposition 98 factors and appropriations have been certified through fiscal year 2017-18. The final certified factors and appropriations are displayed in Statewide Financial Information, Schedule 13.

(b) Settle-up and maintenance factor balances were adjusted to reflect the Proposition 98 certified values mentioned above.

(c) $391 million included in "Underfunding of Proposition 98-Settle-Up" in Table 7, with remaining $296 million a discretionary payment under the 2019 Budget Act.

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 2020-21 Governor's Budget provides $9.8 billion Proposition 98 funds for community colleges (consisting of $6.4 billion from the General Fund and Education Protection Account and $3.4 billion from local property taxes). Of the $9.8 billion, approximately $7.6 billion is provided as core general purpose funding for the CCC districts.

There are currently 115 community colleges operated by 73 community college districts. These colleges provide associate degrees and certificates to students. Additionally, students may attend CCCs to acquire basic skills or complete general education requirements prior to transferring to a four-year undergraduate institution. The CCCs awarded approximately 285,000 associate degrees, certificates, and other awards in the 2018-19 school year. For the 2018-19 school year, about 1.1 million full-time equivalent students were enrolled at CCCs.

The CCC Board of Governors is authorized to approve baccalaureate degree pilot programs at a maximum of 15 CCC districts, with one baccalaureate degree program offered in each selected district. Ten districts launched a baccalaureate degree pilot program in the fall of

2016, and five others began operation in the fall of 2017. CCC baccalaureate degree pilot programs are authorized to operate until the end of fiscal year 2025-26. There were 633 students enrolled in these programs in the fall of 2018.

CSU provides undergraduate and graduate programs, awarding about 127,400 degrees in the 2018-19 school year. The CSU enrolled 408,322 full-time equivalent students at 23 campuses in the 2018-19 school year.

UC provides a range of undergraduate, graduate and professional programs, awarding about 77,700 degrees in the 2018-19 school year. The ten UC campuses and the Hastings College of Law enrolled 280,109 full-time equivalent students in the 2018-19 school year.

The following table summarizes the direct General Fund support for the three segments of state public higher education:

TABLE 13
Higher Education
General Fund Expenditures
(Dollars in Billions)

Fiscal Year	CSU[(a)(b)]	UC[(b)]	CCCs[(c)(d)]
2016-17	$3.6	$3.5	$5.5
2017-18	3.8	3.6	5.8
2018-19	4.1	3.7	6.1
2019-20	4.7	3.9	6.2
2020-21	4.6	4.0	6.4

(a) Includes health benefit costs for CSU retirees.
(b) Includes general obligation bond debt service costs.
(c) Includes Proposition 98 General Fund expenditures for Adult Education beginning in fiscal year 2015-16 and the K-12 Strong Workforce Program expenditures beginning in fiscal year 2018-19.
(d) Includes Education Protection Account expenditures.

3. *Health and Human Services*

Medi-Cal. Medi-Cal, California's Medicaid program, is a health care entitlement program for qualified low-income individuals and families who receive public assistance or otherwise lack health care coverage. Medi-Cal serves approximately one-third of all Californians.

Medi-Cal caseload and expenditures increased starting in fiscal year 2014-15 largely due to implementation of federal health care reform. Caseload reached a peak of 13.5 million in fiscal year 2016-17 and has since been slowly declining. Average monthly caseload for fiscal year 2019-20 is estimated to be 12.8 million, and the Administration projects a slight increase to 12.9 million in fiscal year 2020-21. The increase is attributable to continued growth in the senior population that is partially offset by decreases in the families and children population. Senior caseload has continued to grow at a moderate rate and is projected to grow by approximately 2.38 percent annually.

The 2020-21 Governor's Budget projects an expenditure decrease of $91.7 million General Fund in the Medi-Cal program in fiscal year 2019-20 compared to the 2019 Budget Act appropriation due to: (1) decreased caseload primarily in families and children and the Affordable Care Act optional expansion population, presumably driven by increases in the state minimum wage and low unemployment; and (2) delayed implementation and updated estimates of 2019 Budget Act investments which include modified eligibility criteria for the Aged, Blind, and Disabled program, restoration of optional benefits, and expansion of postpartum care benefits.

The Medi-Cal budget estimate may significantly change over time, including within a single fiscal year, due to its size, financial complexity, federal requirements and the fact that Medi-Cal operates on a cash, rather than an accrual, basis of accounting, which means that the timing of transactions can significantly disrupt fiscal year budgetary estimates.

The following table shows Medi-Cal expenditures.

TABLE 14
Medi-Cal Expenditures
(Dollars in Billions)

Fiscal Year	General Fund	Other State Funds	Federal Funds	Total
2016-17	$ 18.9	$ 11.5	$ 59.0	$ 89.4
2017-18	20.0	13.8	56.1	90.0
2018-19	19.4	12.9[(a)]	58.7	91.0
2019-20[(b)]	23.0	12.8	65.3	101.1
2020-21[(b)]	25.9	10.9	66.7	103.5

(a) Other state funds are estimated pending completion of fund reconciliation.

(b) Estimated expenditures.

Note: Totals may not add due to rounding.

Projected increases in General Fund spending between fiscal year 2018-19 and fiscal year 2019-20 are largely attributable to decreased revenue from the Managed Care Organization ("MCO") tax, increased Affordable Care Act optional expansion costs, and not using Proposition 56 tobacco tax revenue funds to offset General Fund growth in the Medi-Cal budget.

Projected increases in General Fund spending between fiscal year 2019-20 and fiscal year 2020-21 are largely attributable to the expiration of the existing MCO tax, new investments in the Medi-Cal Healthier California for All initiative, adjustments to the share of federal funding participation for the Children's Health Insurance Program, full scope expansion to undocumented adults ages 19 through 25 and 65 and over, and general caseload and utilization growth in the Medi-Cal program.

Projected decreases in other state fund spending between fiscal years 2019-20 and 2020-21 are largely attributable to the end of the Medi-Cal 2020 waiver ($1.2 billion) and the absence of MCO tax revenues ($640.7 million).

Federal Medicaid regulations allow states to impose certain health care-related taxes on plans or providers as long as certain conditions are met. The revenue from these taxes serve as the non-federal share of spending for health care services in a state's Medicaid program, which allows the state to draw down additional federal funding and reduce General Fund expenditures. Effective July 1, 2016, Chapter 2, Statutes of 2016, authorized a tax on the enrollment of Medi-Cal managed care plans and commercial health plans until June 30, 2019. The 2020-21 Governor's Budget assumes net General Fund savings of $582.3 million in fiscal year 2019-20 from the existing MCO tax. The fiscal year 2019-20 savings are due to a one-quarter lag resulting from Medi-Cal's cash basis budgeting.

<u>Federal Health Care Policy</u>. The federal government provides a significant share of funding for state health care programs. Contingent upon receipt of these funds, the state must comply with various federal laws and regulations. Recently, the federal government has modified its interpretation, and proposed changes to, existing law and regulations that may have state fiscal impacts of tens of billions of dollars.

As noted above, federal Medicaid regulations allow states to impose certain health care-related taxes on plans or providers as long as certain conditions are met. The state's most recently federally approved MCO tax expired on June 30, 2019. Chapter 348, Statutes of 2019 (AB 115) established a new, three-and-a-half-year MCO tax, effective July 1, 2019, and contingent upon federal approval. On January 30, 2020, the federal government notified the state Department of Health Care Services that they are not approving the state's request to implement the proposed tax in its current form. The Administration submitted a modified request to the federal government on February 10, 2020, and is awaiting a response. Revenues from this tax are not assumed in the 2020-21 Governor's Budget, but are assumed starting in fiscal year 2021-22.

In November 2019, the federal Centers for Medicare & Medicaid Services issued a proposed rule titled the Medicaid Fiscal Accountability Regulation ("MFAR"). This rule would implement new criteria surrounding health care-related taxes, including the MCO tax, provider taxes and supplemental payments. Specifically, if the draft were adopted in its current form, the rule would impose new limitations on the sources of the non-federal share of the program by limiting state funding to "state general funds." If finalized as proposed, MFAR likely would limit California's ability to receive federal matching funds for many of its existing funding structures, as well as limit the ability to use state funds other than the General Fund for supplemental payments to providers. Some of these funding structures include, but are not limited to, existing provider taxes (MCO tax, hospital quality assurance fee, skilled nursing facility quality assurance fee), intergovernmental transfer programs (including specified managed care rate increases), and certified public expenditure programs (school-based medical activities and state veterans homes supplemental payments). Based on a rough preliminary analysis, absent changes in Medi-Cal eligibility, rates, benefits or funding structures, these changes may result in an increase in General Fund expenditures of at least several billion dollars.

The so-called "Weldon Amendment" prohibits states from discriminating against health care entities that do not provide coverage for abortions. On January 24, 2020, the federal Department of Health and Human Services issued a Notice of Violation finding that state law violates the federal Weldon Amendment. The notice gives the state 30 days to cure its alleged violation of the Weldon Amendment. Potential federal action may result in reduced federal funding of tens of billions for certain health and human services programs. On February 21, 2020, the State Attorney General sent a letter responding to the Notice of Violation, stating in part that, contrary to the allegations raised in the Notice of Violation, the state is in compliance with the Weldon Amendment. If the federal government were to seek to rescind federal funding described above, its expected that an administrative process and litigation would follow. As recently as 2016 the U.S. Department of Health and Human services affirmed the state's compliance with the Weldon Amendment. Although state law generally requires health plans to cover abortion, state law also allows health plans to apply for exemptions from an abortion-coverage requirement.

Health Care Reform. California's implementation of the Affordable Care Act included the mandatory and optional Medi-Cal expansions. The mandatory Medi-Cal expansion simplified eligibility, enrollment, and retention rules that make it easier to get and stay on Medi-Cal. The optional expansion of Medi-Cal extended eligibility to adults without children, and to parent and caretaker relatives with incomes up to 138 percent of the federal poverty level.

The 2020 Governor's Budget estimates that in fiscal year 2020-21, approximately 3.8 million Californians will have health insurance through the optional expansion of Medi-Cal, and 1.4 million through the state's insurance exchange (Covered California). The 2020 Governor's Budget includes costs of $20.3 billion ($2.2 billion from the General Fund) in fiscal year 2020-21 for the optional expansion population. The federal government paid nearly 100 percent of the costs of this expansion for fiscal years 2013-14 through 2015-16. As of January 1, 2020, California is responsible for 10 percent of these costs.

Individual Mandate and Subsidies Program. The 2019 Budget Act included a statewide requirement for California residents to obtain comprehensive health care coverage or pay a penalty consistent with the federal penalties and mandate exemptions originally outlined under the Affordable Care Act beginning January 1, 2020. The 2019 Budget Act also included advanced premium assistance subsidies to individuals with household incomes below 138 percent and between 200 and 600 percent of the Federal Poverty Level beginning January 1, 2020. The 2020 Governor's Budget includes $381.2 million in fiscal year 2019-20 and $439.2 million in fiscal year 2020-21 for these subsidies.

Funding for subsidies is not contingent on penalty revenues. The appropriation for the subsidy program in the 2020 Governor's Budget is made available for coverage year 2021 (beginning January 1, 2021 and ending December 31, 2021) and a similar methodology is intended to be used in future years. The 2020-21 Governor's Budget provides a process by which the Department of Finance may augment the appropriation to pay all subsidies provided for in the annual program design for each coverage year. The program is not an entitlement and is set to sunset on January 1, 2023.

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 15
IHSS Expenditures
(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2016-17[(a)]	492,542	$3.2
2017-18[(b)]	516,377	3.2
2018-19[(d)]	536,628	3.7
2019-20[(c)(e)]	561,283	4.5
2020-21[(c)(f)]	586,390	5.2

(a) Fiscal year 2016-17 General Fund expenditures reflect (1) the full-year impact of federal Department of Labor overtime regulations for IHSS; and (2) the implementation of the state hourly minimum wage increase from $10.00 to $10.50, effective January 1, 2017.

(b) Fiscal year 2017-18 General Fund expenditures reflect (1) a revised county IHSS maintenance-of-effort structure which includes increased costs of $366.2 million to mitigate the increase in counties' costs associated with the end of the Coordinated Care Initiative; (2) implementation of the state hourly minimum wage increase from $10.50 to $11.00, effective January 1, 2018; and (3) growth in caseload and average service hours per case.

(c) Estimated.

(d) Fiscal year 2018-19 General Fund expenditures reflect (1) $318.7 million to mitigate the increase in counties' costs associated with the end of the Coordinated Care Initiative; (2) implementation of the state hourly minimum wage increase from $11 to $12, effective January 1, 2019; and (3) growth in caseload and average service hours per case.

(e) Fiscal year 2019-20 General Fund expenditures reflect (1) an increase of $241.7 million to rebase the county IHSS maintenance-of-effort; (2) implementation of the state hourly minimum wage increase from $12 to $13, effective January 1, 2020; (3) restoration of the 7-percent across-the-board reduction in services hours; and (4) growth in caseload and average service hours per case.

(f) Fiscal year 2020-21 General Fund expenditures reflect (1) implementation of the state hourly minimum wage increase from $13 to $14, effective January 1, 2021; (2) restoration of the 7-percent across-the-board reduction in services hours; 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 with a work eligible individual and a 90-percent work participation rate among two-parent families with at least two work eligible individuals. The federal government determined that the state failed to meet these requirements for federal fiscal years ("FFYs") 2008 through 2018, 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, 2016, and 2017, the federal government waived $587 million in penalties for FFYs 2008 through 2011 and recalculated the state's penalties for FFYs 2012 through 2015 to $758 million to reflect failure to meet the two-parent rate. The state continued to fail meeting the two-parent rate in FFY 2016 through 2018, resulting in a total of $786 million in total penalty liability based on the most recent correspondence with the federal government. The state will continue to be unable to meet the two-parent participation rate, which will result in annual penalties of approximately $7 million. The earliest the assessed penalties would be imposed is FFY 2021 pending penalty dispute options and further correspondence with the federal government.

The following table shows CalWORKs caseload and General Fund expenditures.

TABLE 16
CalWORKs Expenditures
(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2016-17	452,770	$0.9
2017-18	423,097	0.6
2018-19	383,360	0.3
2019-20[(a)]	363,095	0.7
2020-21[(a)]	358,090	1.1

(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 2020-21 Governor's Budget includes approximately $2.66 billion for the SSI/SSP program from the General Fund for fiscal year 2020-21. The average monthly caseload in this program is estimated to be 1.2 million recipients in fiscal year 2020-21.

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 368,622 individuals in the community and approximately 322 individuals in state-operated facilities in fiscal year 2020-21.

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 17
Department of Developmental Services Expenditures
(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2016-17	311,004	$3.9
2017-18	325,594	4.1
2018-19	341,953	4.5
2019-20[(a)]	350,344	5.0
2020-21[(a)]	368,944	5.7

(a) Estimated.

4. *Public Safety*

The California Department of Corrections and Rehabilitation ("CDCR") operates 37 youth and adult correctional facilities and 43 youth and adult camps as well as numerous other facilities. The CDCR also contracts for multiple adult parolee service centers and community correctional facilities. The CDCR's infrastructure includes more than 46 million square feet of building space on more than 24,000 acres of land (37 square miles) statewide.

The 2020-21 Governor's Budget assumes an average daily adult inmate population of 123,716 in fiscal year 2020-21 and an average daily adult parole population of 50,453 in fiscal year 2020-21. The 2020-21 Governor's Budget includes total expenditures (excluding capital outlay) of $13.4 billion ($13.1 billion from the General Fund) for CDCR, including salaries and benefits of approximately $8.9 billion.

Prison Population. Pursuant to various rulings issued by a panel of three federal judges, (some affirmed by the United States Supreme Court), the state was ordered to reduce its prison population to 137.5 percent of the system's design capacity by February 28, 2016. In January 2015, CDCR met this court-ordered population benchmark because of successful implementation of a variety of court-ordered population reduction measures and approval of Proposition 47 by the voters in 2014, which required reclassification of certain felonies to misdemeanors (and related resentencing). Notwithstanding these changes, the fall 2016 adult inmate population projections estimated that population would increase by approximately 1,000 inmates per year. Given the need to establish a durable solution for prison crowding, the voters approved Proposition 57 in 2016 to maintain compliance with the court-ordered population cap, end federal court oversight, and establish more incentives for inmates to participate in rehabilitative programs.

Proposition 57 reforms the juvenile and adult criminal justice system in California by creating a parole consideration process for non-violent offenders who have served the full term for their primary criminal offense in state prison, authorizing CDCR to award credits earned for good conduct and approved rehabilitative or educational achievements, and requiring judges to determine whether juveniles charged with certain crimes should be tried in juvenile or adult court. The 2020-21 Governor's Budget estimates that Proposition 57 will result in a population reduction of approximately 8,600 adult inmates in fiscal year 2020-21, growing to an inmate reduction of approximately 13,000 in fiscal year 2022-23. These figures are 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 2020-21 Governor's Budget includes $2.6 billion from the General Fund for the Receiver's costs in fiscal year 2020-21, which is approximately $100 million higher than the 2019 Budget Act estimate of General Fund costs for the Receiver in fiscal year 2019-20.

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 2019, a total of 19 institutions have been transitioned back to the state, with 16 facilities remaining to be transferred.

Five-Year Expenditure Summary

The following table summarizes the major categories of state expenditures, including both General Fund and special fund programs for fiscal years 2013-14 through 2017-18.

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TABLE 18
Governmental Cost Funds (Budgetary Basis)
Schedule of Expenditures by Function and Character
Fiscal Years 2013-14 to 2017-18

(Dollars in Thousands)

Expenditures by Function	Fiscal Year 2013-14[h]	2014-15[h](i)	2015-16[h](j)	2016-17[h](k)	2017-18[h](l)
Legislative, Judicial, and Executive					
Legislative	$ 345,319	$ 347,844	$ 362,845	$ 381,601	$ 397,732
Judicial	3,257,190	3,540,001	3,593,129	3,715,472	3,834,339
Executive	1,879,794	1,843,252	2,016,591	2,248,940	1,805,382
Business, Consumer Services, and Housing[a]	712,575	884,008	831,493	1,134,851	891,944
Transportation[a]	7,389,121	7,390,367	7,560,409	7,788,678	9,004,517
Natural Resources	3,431,142	4,350,235	2,908,453	2,969,790	3,546,890
Environmental Protection	1,000,477	1,159,685	2,858,230	2,966,221	3,686,908
Health and Human Services	46,257,581	49,929,687	51,906,730	57,018,457	59,990,840
Corrections and Rehabilitation[b]	9,111,239	9,841,406	10,016,807	10,773,544	11,570,215
Education					
Education – K through 12	38,742,395	48,853,440	47,105,843	48,577,998	50,978,259
Higher Education	10,659,644	12,658,443	13,470,420	13,765,678	14,415,823
Labor and Workforce Development	726,075	773,047	811,335	802,606	799,250
Government Operations[a]	888,422	946,248	972,837	982,691	1,563,657
General Government					
Non-Agency Departments[b]	1,851,530	2,880,301	2,316,440	2,405,785	2,543,663
Tax Relief	421,734	416,755	413,953	422,752	420,303
Shared Revenues	2,082,676	1,879,362	2,139,016	1,297,140	1,838,436
Debt Service[c]	6,305,806	6,439,994	5,871,876	–	–
Other Statewide Expenditures[c]	1,109,007	2,891,100	1,440,270	6,532,786	6,647,638
Reserve for Liquidation of Encumbrances[d]	30,739	(633,345)	(503,745)	(1,125,846)	(1,127,577)
Statewide General Administration Expenditures (Pro Rata)[e]	(642,848)	(602,749)	(671,457)	(96,706)	(117,284)
General Fund Credits from Federal Funds (SWCAP)[f]	(133,400)	(147,349)	(148,980)	(159,193)	(161,186)
Total	**$ 135,426,218**	**$ 155,641,732**	**$ 155,272,495**	**$ 162,403,245**	**$ 172,529,749**
Expenditures by Character					
State Operations	$ 39,266,400	$ 43,274,995	$ 43,170,643	$ 44,160,150	$ 47,759,563
Local Assistance	95,620,340	111,421,332	111,415,101	117,176,655	124,032,641
Capital Outlay[g]	539,478	945,405	686,751	1,066,440	737,545
Total	**$ 135,426,218**	**$155,641,732**	**$ 155,272,495**	**$ 162,403,245**	**$ 172,529,749**

(a) The Governor Brown's Reorganization Plan (GRP), which became operative on July 1, 2013, cut the number of state agencies from twelve to ten. The GRP created a new functional category called Government Operations and several departments/functions moved under it. In addition, the business and housing components under the previously reported Business, Transportation, and Housing function merged with the State and Consumer Services function and the remaining transportation components now comprise the Transportation Agency. Information reported under the new functions are not comparable to that of prior years. The prior year amounts were adjusted to the new functions.

(b) Beginning with fiscal year 2015-16, Correctional Programs was retitled to Corrections and Rehabilitation. Beginning with fiscal year 2017-18, General Administration was changed to Non-Agency Departments per the Uniform Codes Manual.

(c) Beginning with fiscal year 2016-17, Debt Service was moved into Other Statewide Expenditures.

(d) Beginning with fiscal year 2016-17, Expenditure Adjustment for Encumbrances was retitled to Reserve for Liquidation of Encumbrances. Large variances between fiscal years are normal. In fiscal year 2013-14, the abnormal balance was due to the reversal of prior year accrued encumbrances being greater than the current year accrued encumbrances. In fiscal year 2014-15, the increased balance in Reserve for Liquidation of Encumbrances was due to the growth of Local Assistance expenditures.

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In fiscal year 2016-17, the increased balance in Reserve for Liquidation of Encumbrances was due to the addition of new operating funds in Local Assistance expenditures.

(e) Beginning with fiscal year 2016-17, Credits for Overhead Services by General Fund was retitled to Statewide General Administration Expenditures (Pro Rata). In fiscal year 2016-17, Pro Rata was charged directly at fund level which played a role in the variance. In previous years, central service costs allocated to special funds for their fair share of these costs were charged to the departments' appropriations.

(f) Beginning with fiscal year 2016-17, Statewide Indirect Cost Recoveries was retitled to General Fund Credits from Federal Funds (SWCAP).

(g) In fiscal year 2016-17, the increase in Capital Outlay expenditures was due to an increase in expenditures of the Greenhouse Gas Reduction Fund.

(h) Executive Orders 14/15-A, 15/16-A, 16/17-A, 17/18-A, and 18/19-A were issued by the Department of Finance, as authorized under Control Section 12.45 of the Budget Acts of 2013, 2014, 2015, 2016, and 2017 respectively, and pursuant to Government Code sections 12472.5 and 13302, to defer the June 2014, June 2015, June 2016, June 2017, and June 2018 payroll expenditures for various governmental and nongovernmental cost funds to July 2014, July 2015, July 2016, July 2017, and July 2018. This affected all state departments paid through the uniform payroll system.

(i) Six departments operating using a new financial information system (Financial Information System for California (FI$Cal)) did not submit their required fiscal year 2014-15 financial statements to the State Controller's Office in time to be included in the State Controller's Office Budgetary/Legal Basis Annual Report ("BLBAR"). The amounts reported in the BLBAR included these department's June 30, 2015 cash balances plus accruals derived from actual activities reported through October 28, 2015.

(j) Twelve departments using FI$Cal submitted estimated financial statements to the State Controller's Office for fiscal year 2015-16 which were included in the BLBAR.

(k) Four departments using FI$Cal submitted estimated financial statements to the State Controller's Office for fiscal year 2016-17 which were included in the BLBAR.

(l) Seventeen departments using FI$Cal submitted estimated financial statements to the State Controller's Office for fiscal year 2017-18 which were included in the BLBAR.

Source: State of California, Office of the State Controller.

Budget Reserves

1. *Special Fund for Economic Uncertainties ("SFEU")*

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 2 and footnote (g) in Table 5 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 ("BSA")*

Proposition 58, approved in March 2004, created the BSA as a second budgetary reserve and established the process for transferring General Fund revenues to the BSA. In fiscal year 2014-15, $1.606 billion was transferred from the General Fund to the BSA under the provisions of Proposition 58 (the balance in the BSA was $0 from fiscal year 2008-09 until fiscal year 2014-15). Beginning with fiscal year 2015-16, however, the BSA provisions of Proposition 58 were superseded by Proposition 2.

Proposition 2 provides for both paying down debt and other long-term liabilities, and saving for a rainy day by making specified deposits into the BSA. In response to the volatility of capital gains revenues and the resulting boom-and-bust budget cycles, Proposition 2 takes into account the state's heavy dependence on the performance of the stock market and the resulting capital gains. Beginning with fiscal year 2015-16, Proposition 2:

- Requires a calculation of capital gains revenues in excess of 8 percent of General Fund tax revenues that are not required to fund a Proposition 98 increase. In addition, it requires a calculation of 1.5 percent of annual General Fund revenues. The sum of the amounts so calculated will be applied for the purposes set forth below.

- Requires half of each year's calculated amount for the first 15 years be used to pay specified types of debt or other long-term liabilities. The other half must be deposited into the BSA. After the first 15 years, at least half of each year's deposit will be deposited in the BSA, with the remainder used for supplemental debt or liabilities payments at the option of the Legislature and to the extent not so used, also deposited into the BSA.

- Allows the withdrawal of funds from the BSA only for a disaster, as defined, or if spending remains at or below the highest level of spending from the past three years. The maximum amount that can be withdrawn in the first year of a recession is limited to half of the BSA balance.

- Sets the maximum size to be reserved in the BSA for a fiscal year at 10 percent of General Fund tax revenues. When the amount in the BSA is equal to its then maximum size, any amount that otherwise would have been deposited in the BSA may be spent only on infrastructure, including deferred maintenance.

- 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 do not occur until various operational and economic conditions are met.

Proposition 2 requires the Director of the Department of Finance to provide a multiyear budget projection of general fund revenues and expenditures to be submitted to the legislature. See Table 4. This budget projection can be used to assist in managing the state's finances. Under current projections, Proposition 2 will result in $19.4 billion in the BSA by the end of fiscal year 2023-24 (including supplemental transfers to the BSA) and $15.6 billion in reductions of debts and liabilities in the nine years since its adoption. See Table 7 for the current debt payment plan.

3. Budget Deficit Savings Account ("BDSA") and the Safety Net Reserve Fund

The 2018 Budget Act created two additional reserves, the BDSA and the Safety Net Reserve Fund. Under Proposition 2, the state reevaluates each fiscal year's BSA deposit twice: once in each of the two subsequent state budgets. The state does this because initial estimates of future capital gains revenues are highly uncertain. This process attempts to align original estimates of required deposits with actual revenues. Under these reevaluations, the state revises the BSA deposit up (down) if excess capital gains taxes are higher (lower) than the state's prior estimates ("BSA True-Up"). The Safety Net Reserve Fund specifically protects safety net services during an economic downturn.

The BDSA was created by the Legislature in 2018 to temporarily hold the $2.6 billion supplemental BSA deposit made in fiscal year 2018-19 (pursuant to the 2018 Budget Act). In September 2019, the entire supplemental deposit in the BDSA was applied toward prior year BSA True-Up transfers and no other amounts are expected to be deposited in the BDSA in future fiscal years.

The 2020-21 Governor's Budget includes a total of $900 million in the Safety Net Reserve Fund.

4. *Public School System Stabilization Account ("PSSSA")*

Proposition 2 also created the "PSSSA" or "Public School System Stabilization Account" that serves as a Proposition 98 reserve, and requires a deposit into the fund under specified conditions. The 2020-21 Governor's Budget reflects a balance of $487 million in the PSSSA at the end of fiscal year 2020-21.

STATE FINANCES—OTHER ELEMENTS

Pension Systems

The state participates in two principal retirement systems, CalPERS and CalSTRS. The state makes annual General Fund contributions to the CalPERS state plans, and to CalSTRS. The state also makes annual contributions to the CalPERS state plans from other state funds. Additional contributions are made by other employers, which are part of the systems, and by employees.

The state's annual contribution to CalPERS is determined by the CalPERS Board of Administration, and depends upon a variety of factors, including future investment performance, actuarial assumptions, and additional potential changes in retirement benefits. The state's annual contribution to CalSTRS is set by statute, and the CalSTRS Board has limited authority to adjust the state's contribution. The state has always made its mandatory contributions. Annually required General Fund contributions to CalPERS and CalSTRS are projected to be approximately $4.0 billion and $3.6 billion, respectively, for fiscal year 2020-21. In addition to these required payments, the 2019-20 Budget includes discretionary payments to CalPERS and CalSTRS. The 2020-21 Governor's Budget proposes to accelerate the payment of $500 million to CalPERS scheduled over fiscal years 2020-21 through 2022-23, authorized in the 2019 Budget Act, into a single $500 million payment in fiscal year 2019-20. See Table 1 and "OVERVIEW—State Pension Systems and Retiree Health Care Costs."

Both systems currently have unfunded liabilities in the tens of billions of dollars, and both systems have taken steps in recent years to address these gaps, which will result in increased state contributions in future years. Detailed information about the two retirement systems, including information regarding the unfunded liabilities of each system, is contained in EXHIBIT 1—"PENSION SYSTEMS."

Retiree Health Care Costs

In addition to a pension, as described in EXHIBIT 1—"PENSION SYSTEMS," the state also provides retiree health care and dental benefits to its retired employees and their spouses and dependents (when applicable). These benefits are referred to as "Other Postemployment Benefits" or "OPEB."

As of June 30, 2017, the measurement date of the net OPEB liability, approximately 182,865 retirees were enrolled to receive health benefits and 184,390 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 Basic Financial Statements for the fiscal year ended June 30, 2018, included as an appendix to this Official Statement. The long-term costs for the state's OPEB may negatively affect the state's financial condition if the state does not adequately manage such costs.

For fiscal years 2007-08 through 2016-17, the state reported on its liability for postemployment healthcare as well as other forms of postemployment benefits, such as life insurance, in its annual financial reports pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

GASB Statement No. 45 has been replaced with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which first applied 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 increases 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 May 15, 2019, the State Controller's Office released the state's latest OPEB actuarial valuation report as of June 30, 2018, by the private actuarial firm, Gabriel, Roeder, Smith & Company, which was tasked with calculating the state's liability for these benefits. The report will be utilized to report OPEB liabilities and accounting elements in the state's GAAP basis audited basic financial statements for the fiscal year ended June 30, 2019. 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 2.50 percent and 2.75 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, 2018, reports a TOL of $86.47 billion, of which $85.59 billion is unfunded.

An actuarially determined contribution (“ADC”) was developed assuming a full-funding interest rate of 7.00 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 TOL decreased from $91.51 billion as of June 30, 2017, to $86.47 billion as of June 30, 2018, representing a change of $5.04 billion. If the previous assumptions had been realized, the TOL would have increased by $4.89 billion, to $96.40 billion as of June 30, 2018. The primary factors contributing to the $9.93 billion of unexpected decrease in actuarial liabilities include:

- During the year, favorable healthcare claims experience and plan design changes decreased the expected TOL by approximately 7.6 percent or $7.34 billion. This change in TOL is mainly driven by the relationship between the assumed trend rate used to project average member claims cost in 2018 (used in last year’s actuarial valuation) and the actual trend rate for 2018 (used to update average per member claim costs). During plan year end June 30, 2018, average per member claim costs were lower than assumed.

- Changing the GASB Statements No. 74 and 75 blended discount rates as of June 30, 2017, which ranged from 3.56 percent to 4.22 percent, to the blended discount rates as of June 30, 2018, which range from 3.62 percent and 4.28 percent, decreased the TOL by 1.6 percent or $1.53 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. The state expects to earn 7.00 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 7.00 percent was used.

The State Controller plans to issue an actuarial valuation report annually. The State Controller’s Office expects to release the state’s OPEB actuarial valuation report as of June 30, 2019 in May 2020 or soon thereafter.

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 19
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	2.46	42	29.55	86.20	403

(a) Net employer contribution, percentage of annual OPEB cost contribution, net OPEB obligation, unfunded actuarial accrued liability and unfunded actuarial accrued liability as percent of payroll are actual amounts reported in the state's audited financial statements for the fiscal year ended June 30, 2017. See Note 11, page 134.

(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 19-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
2017-18	4.57	2.42	53	86.47	85.59

(a) Long-term expected return on assets is 7.00% for full funding.

Source: State of California OPEB Valuation as of June 30, 2018 under GASB Statement No. 75 (State Controller's Office).

The table below illustrates the state's budget for OPEB for five fiscal years. These costs are expected to continue to grow in the future. The employer contribution for health premiums maintains the average 100/90 percent contribution formula established in the Government Code. Under this formula, the state averages the premiums of the four largest health benefit plans to calculate the maximum amount the state will contribute toward each retiree's health benefits. The state also contributes 90 percent of this average for the health benefits of each of the retiree's dependents.

Generally, with 10 years of service credit, employees are entitled to 50 percent of the state's full contribution. This rate increases by 5 percent per year and with 20 years of service, the employee is entitled to the full 100/90 formula. Most state employees hired after January 1, 2016, are subject to a longer vesting schedule and an 80/80 contribution formula (effective dates vary by contract). CSU employees fully vest for the 100/90 formula at 5 years of service. An agreement between the CSU Board of Trustees and the California Faculty Association doubles the vesting period for CSU faculty hired after July 1, 2017, from 5 years to 10 years.

TABLE 20
Actual Costs/Budget for
Other Postemployment Benefits
(Dollars in Thousands)

Fiscal Year	State Employees All Funds[b]	State Employees General Fund	CSU Employees All General Fund	Employer OPEB Prefunding All Funds[c]	Employer OPEB Prefunding General Fund[c]	Total Contributions All Funds	Total Contributions General Fund[d]
2016-17	$1,622,918	$1,618,318	$272,453	$341,558[e]	$274,874[e]	$2,236,929	$2,165,645
2017-18	1,695,269	1,690,669	285,305	188,523	91,615	2,169,097	2,067,589
2018-19	1,758,678	1,754,478	312,852	393,708	208,380	2,465,238	2,275,710
2019-20[a]	1,891,954	1,887,754	331,067	561,815	273,531	2,784,836	2,492,352
2020-21[a]	2,067,852	2,067,852	362,466	703,393	335,174	3,133,711	2,765,492

(a) Estimated Contributions.
(b) "Pay-as-you-go" contributions from General Fund and Public Employee's Contingency Reserve Fund.
(c) Amount reflects the employer contribution to pay down the OPEB unfunded liability.
(d) Contributions for postemployment benefits are included for all years displayed in this table.
(e) Amount includes a one-time prefunding contribution of $240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).
Source: State of California, Department of Finance.

1. Ongoing Efforts

In 2015, a comprehensive strategy to eliminate the OPEB unfunded AAL over approximately 30 years by increasing prefunding shared equally between state employers and employees and reducing the cost structure of employee and retiree health care benefits was initiated through the collective bargaining process. Statutory language passed as part of the 2015 Budget Act contains the funding policy and framework designed to support the elimination of the unfunded AAL.

The state negotiated contributions for OPEB prefunding equivalent to the normal costs of those benefits, so that the additional contributions were equally shared between employers and employees and phased in over a three-year period. The negotiated contracts require matching contributions to an OPEB trust fund to set aside 100 percent of the actuarially determined "normal costs."

The funding schedule for these agreements generally phased in contributions over three years beginning July 1, 2016, July 1, 2017, or July 1, 2018, depending on the bargaining unit. Additionally, new employees are subject to a lower employer contribution for future retiree health benefits, and a longer vesting period to qualify for the retiree health care contribution. Successor contract agreements with all 21 bargaining units require all rank-and-file and related excluded state employees to make OPEB contributions to prefund those benefits and address the $85.6 billion unfunded liability for retiree health benefits. State employees of the judicial branch are also subject to the prefunding strategy and retiree health provisions.

As part of Chapter 2, Statutes of 2016 (AB 133), the 2015 Budget Act was amended to include a one-time allocation of $240 million to pay down the state's unfunded liability for retiree health care. The state has more than $2.1 billion currently set aside in the prefunding trust fund to pay for future retiree health benefits. By the end of fiscal year 2019-20, the trust fund balance is projected to approach $2.6 billion in assets.

The funding plan to eliminate the OPEB unfunded AAL assumes that the state continues to pay for retiree health benefits on a pay-as-you-go basis while assets are accumulated in a trust fund, and that no investment income will be used to pay for benefits until the plan is fully funded. Statutory language passed as part of the 2015 Budget Act contains the framework for this funding plan, preventing the use of investment income from the retiree health care trust fund for the payment of retiree health benefits until the earlier of:

1. The date the state bargaining unit subaccount within the trust fund reaches a 100 percent funded ratio.

2. July 1, 2046—the date the actuarial calculation of the prefunding plan is expected to reach a 100 percent funded ratio.

State Appropriations Limit

The state is subject to an annual appropriations limit imposed by the state Constitution (the "Appropriations Limit"). The Appropriations Limit does not restrict appropriations to pay debt service on voter-authorized bonds.

The state is prohibited from spending "appropriations subject to limitation" in excess of the Appropriations Limit. "Appropriations subject to limitation," with respect to the state, are authorizations to spend "proceeds of taxes," which consist of tax revenues and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by that entity in providing the regulation, product or service," but "proceeds of taxes" exclude most state subventions to local governments, tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not "proceeds of taxes," such as reasonable user charges or fees and certain other non-tax funds.

Various types of appropriations are excluded from the Appropriations Limit. For example, debt service costs of bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, appropriations for tax refunds, appropriations of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels, and appropriation of certain special taxes imposed by initiative (e.g., cigarette and tobacco taxes) are all excluded. The Appropriations Limit may also be exceeded in cases of emergency.

The Appropriations Limit in each year is based on the Appropriations Limit for the prior year, adjusted annually for changes in state per capita personal income and changes in population, and adjusted, when applicable, for any transfer of financial responsibility of providing services to or from another unit of government or any transfer of the financial source for the provisions of services from tax proceeds to regulatory licenses, user charges, or user fees. The measurement of change in population is a blended average of statewide overall population growth and the change in attendance at local school and community college ("K-14 education") 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 education 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 2016-17 through 2020-21.

TABLE 21
State Appropriations Limit
(Dollars in Millions)

	Fiscal Year				
	2016-17	**2017-18**	**2018-19**	**2019-20**	**2020-21**
State Appropriations Limit	$99,787	$103,390	$107,818	$112,102	$116,555[a]
Appropriations Subject to Limit	-88,685	-101,658	-106,593[a]	-109,970[a]	-112,926[a]
Amount (Over)/Under Limit	$11,102	$1,732	$1,225[a]	$2,132[a]	$3,629[a]

[a] Estimated/projected.

Source: State of California, Department of Finance.

Local Government Impacts on State Finances

The primary units of local government in California are the 58 counties, which range in population size from less than 2,000 residents in Alpine County to well over 10 million in Los Angeles County. County governments provide many basic services, including indigent health care, welfare, jails, and public safety in unincorporated areas. In addition, there are 482 incorporated cities in California and thousands of special districts formed to provide various services. The fiscal condition of these local governments can impact the state's financial condition and flexibility as summarized below.

1. Constitutional and Statutory Limitations

The fiscal condition of local governments changed when Proposition 13 was approved by California voters in 1978. Proposition 13 reduced and limited the future growth of local property taxes and limited the ability of local governments to impose "special taxes" (devoted to a specific purpose) without two-thirds voter approval.

In the aftermath of Proposition 13, the state provided aid to local governments, including from the General Fund, to make up for the local governments' loss of property tax revenue. Significantly, the state assumed a much larger responsibility for funding K-12 schools and community colleges ("K-14 education"). In 1988, Proposition 98 established a minimum guaranteed level of funding for K-14 education with a combination of local property taxes and state General Fund. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—*K-14 Education under Proposition 98*."

During the recession of the early 1990s, the Legislature reduced the post-Proposition 13 aid to local government entities other than K-14 education by requiring cities and counties to transfer some of their property tax revenues to school districts. The Educational Revenue Augmentation Fund ("ERAF") was created by statute in 1992 for this purpose. However, the Legislature provided additional funding sources, such as sales taxes, and reduced certain mandates for local services funded by cities and counties.

Proposition 218, a constitutional amendment approved by the voters in 1996, further limited the ability of local governments to raise taxes, fees, and other exactions. The limitations include requiring a majority vote approval for general local tax increases, prohibiting fees for services in excess of the cost of providing such service, and providing that no fee may be charged for fire, police, or any other service widely available to the public.

The 2004 Budget Act, related legislation, Proposition 1A of 2004, and Proposition 22, approved by the voters in 2010, further changed the state-local fiscal relationship. The constitutional and statutory changes in the 2004 Budget Act and Proposition 1A of 2004 were implemented in an agreement negotiated between the Governor and local government officials (the "state-local agreement") in connection with the 2004 Budget Act.

Part of the state-local 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 2020-21 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 6.4 percent in fiscal year 2019-20 and 5.7 percent in fiscal year 2020-21. 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 2020-21 Governor's Budget estimates that Proposition 98 General Fund savings are $2.2 billion in fiscal year 2019-20 and $2.4 billion in fiscal year 2020-21. Proposition 98 General Fund savings are projected to average over $2.6 billion per year from fiscal year 2021-22 through fiscal year 2023-24, with annual growth proportionate to the changes in property tax growth, and the rate at which the enforceable obligations of the former RDAs are retired.

Various local governments have disputed the implementation of the dissolution law and litigation is pending. See "LITIGATION—Budget-Related Litigation—*Actions Challenging Statutes That Reformed California Redevelopment Law*."

4. *Realigning Services to Local Governments*

The 2011 Budget Act included a major realignment of public safety programs from the state to local governments ("AB 109"). The realignment was designed to move program and fiscal responsibility to the level of government that can best provide the service, eliminate duplication of effort, generate savings, and increase flexibility. The implementation of the Community Corrections Grant Program authorized by AB 109 moved lower-level offenders from state prisons to county supervision and reduced the number of parole violators in the state's prisons.

Other realigned programs include local public safety programs, mental health, substance abuse, foster care, child welfare services, and adult protective services. The 2011 Realignment is funded through two sources in fiscal year 2020-21: (1) a state special fund sales tax of

1.0625 percent (projected to total $7.8 billion) and (2) $749 million in VLFs. General Fund savings have been over $2.0 billion annually from the realigned programs beginning in fiscal year 2011-12. The state estimates savings of $2.9 billion in fiscal year 2019-20, and $3 billion in fiscal year 2020-21.

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 2020 Governor's Budget, the General Fund is projected to have at least $31 billion of internal funds (excluding the BSA, the SFEU and the BDSA) available to borrow during fiscal year 2019-20 and $32.0 billion during fiscal year 2020-21. See "—Inter-Fund Borrowings" for a further description of this process. See Table 22 for estimates of internal borrowable resources through June 30, 2021.

One fund from which moneys may be borrowed to provide additional cash resources to the General Fund is the BSA, which increased to $16.5 billion in September 2019 and is expected to increase to $17.9 billion in September 2020. The state also may transfer funds into the General Fund from the SFEU, which is not a special fund. See "—Inter-Fund Borrowings" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves" for a further description of this process.

3. *External Borrowing*

External borrowing has typically been done with revenue anticipation notes ("RANs") that are payable no later than the last day of the fiscal year in which they are issued. Prior to fiscal year 2015-16, RANs had been issued in all but one fiscal year since the mid-1980's and have always been paid at maturity. See "—Cash Management Borrowings." The state also is authorized under certain circumstances to issue revenue anticipation warrants ("RAWs") that are payable in the succeeding fiscal year. The state issued RAWs to bridge short-term cash management shortages in the early 1990's and early 2000's. See "—State Warrants—Reimbursement Warrants" for more information on RAWs.

RANs and RAWs are both payable from any "Unapplied Money" in the General Fund on their maturity date, subject to the prior application of such money in the General Fund to pay Priority Payments. "Priority Payments" consist of: (i) the setting apart of state revenues in support of the public school system and public institutions of higher education (as provided in Section 8 of Article XVI of the state Constitution); (ii) payment of the principal of and interest on general obligation bonds and general obligation commercial paper notes of the state as and when due; (iii) a contingent obligation for General Fund payments to local governments for certain costs for realigned public safety programs if not provided from a share of state sales and use taxes, as provided in Article XIII, Section 36 of the state Constitution, enacted by Proposition 30 (see "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Restrictions on Raising or Using General Fund Revenues"); (iv) reimbursement from the General Fund to any special fund or account to the extent such reimbursement is legally required to be made to repay borrowings therefrom pursuant to Government Code Sections 16310 or 16418; and (v) payment of state employees' wages and benefits, required state payments to pension and other state employee benefit trust funds, state Medi-Cal claims, lease payments to support lease-revenue bonds, and any amounts determined by a court of competent jurisdiction to be required by federal law or the state Constitution to be paid with state warrants that can be cashed immediately. See "—State Warrants."

Inter-Fund Borrowings

Inter-fund borrowing is used to meet temporary imbalances of receipts and disbursements in the General Fund. In the event the General Fund is or will be exhausted, the State Controller is required to notify the Governor and the PMIB (comprised of the Director of the Department 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 2016-17 through 2018-19 and estimates the amount available in fiscal years 2019-20 and 20-21 based on the 2020-21 Governor's Budget. See EXHIBIT 2 to APPENDIX A. The amount of internal borrowable resources fluctuates daily throughout the year.

TABLE 22
Internal Borrowable Resources
(Cash Basis)
(Dollars in Millions)

	Fiscal year ended June 30[a]				
	2017	**2018**	**2019**	**2020[b]**	**2021[b]**
Internal Borrowable Resources	$ 41,822	$ 46,659	$ 57,634	$ 59,795	$ 61,994
Less: Reserve for PMIA and SMIF loans		6,734	6,526	7,841[c]	7,841[c]
Available Borrowable Resources	41,822	39,925	51,108	51,954	54,153
Outstanding Loans					
From Special Fund for Economic Uncertainties	1,749	0	0	1,412	1,641
Budget Stabilization Account	3,091	0	0	3,755	4,607
From Special Funds and Accounts	0	0	0	0	0
Total Outstanding Internal Loans	$ 4,839	$ 0	$ 0	$ 5,167	$ 6,248
Unused Internal Borrowable Resources	$ 36,983	$ 39,925	$ 51,108	$ 46,787	$ 47,905

(a) Numbers may not add due to rounding.

(b) Estimated.

(c) Includes $2 billion transfer to the Wildfire Fund on August 15, 2019 as required by AB 1054 and expected to be repaid in the last quarter of calendar year 2020.

Source: Fiscal years ended June 30, 2017 through June 30, 2019: State of California, Office of the State Controller.
Fiscal year ended June 30, 2020 and 2021: 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. RANs had been issued in every year except one between 1983 and 2014, the most recent issues of RANs ranged in aggregate principal amounts of approximately $2 billion to $10 billion. See "—Traditional Cash Management Tools—External Borrowing" above. More recently, with the state's improving budget and cash position, and the growth of internal borrowable resources from special funds (see Table 22) including new reserve funds, the state has not had to use external borrowing since the last RAN issue in fiscal year 2014-15. Accordingly, no RANs are planned in the current fiscal year or in fiscal year 2020-21.

Cash Management in Fiscal Years 2018-19 and 2019-20

The state entered fiscal year 2018-19 with a General Fund positive cash balance at June 30, 2018 of $5.54 billion. The state's cash flow for fiscal year 2018-19 indicated that internal resources were sufficient and available to meet the normal peaks and valleys of the state's cash needs, while maintaining a cushion of at least $2.5 billion at all times. The state did not issue any RANs in fiscal year 2018-19, the fourth consecutive year in which external borrowing was not required.

The state's cash position was strong entering fiscal year 2019-20, as the General Fund ended the previous year with a positive cash balance of $5.4 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 $29.0 billion throughout the fiscal year.

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, but none of them are planned to be used in fiscal year 2019-20.

- 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 to more closely align the state's revenues with its expenditures. This technique has been used several times in the past. Some of these statutory deferrals were made permanent, and others were implemented only for one fiscal year.

In addition, state law gives the State Controller some flexibility as to how quickly the state must pay its bills. For instance, income tax refunds for personal income taxes are not legally due until 45 days after the return filing deadline, which is normally April 15. Accordingly, while the state has typically paid tax refunds as returns are filed, it can conserve cash by withholding refund payments until May 30. Payments to vendors generally must be made within 45 days of receipt of an invoice. The state may delay payment until the end of this period, or it may even choose to make these payments later and pay interest. These delays are only used if the State Controller foresees a relatively short-term cash flow shortage.

State Warrants

No money may be drawn from the State Treasury except upon a warrant duly issued by the State Controller. The State Controller is obligated to draw every warrant on the fund out of which it is payable for the payment of money directed by state law to be paid out of the State Treasury; however, a warrant may not be drawn unless authorized by law and unless unexhausted specific appropriations provided by law are available to meet it. As described above, state law provides two methods for the State Controller to respond if the General Fund has insufficient "Unapplied Money" available to pay a warrant when it is drawn, referred to generally as "registered warrants" and "reimbursement warrants." "Unapplied Money" consists of money in the General Fund for which outstanding warrants have not already been drawn and which would remain in the General Fund if all outstanding warrants previously drawn and then due were paid subject to the prior application of such money to obligations of the state with a higher priority. See "CASH MANAGEMENT—Traditional Cash Management Tools." Unapplied Money may include moneys transferred to the General Fund from the SFEU and the BSA and internal borrowings from state special funds (to the extent permitted by law); however, the state is not obligated to utilize interfund borrowings for the payment of state obligations if insufficient Unapplied Money is available for such payment. See "—Inter-Fund Borrowings" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

1. Registered Warrants

If a warrant is drawn on the General Fund for an amount in excess of the amount of Unapplied Money in the General Fund, after deducting from such Unapplied Money the amount, as estimated by the State Controller, required by law to be earmarked, reserved or set apart from the Unapplied Money for the payment of obligations having priority over obligations to which such warrant is applicable, the warrant must be registered on the reverse side as not paid because of the shortage of funds in the General Fund. The State Controller may issue registered warrants before exhausting all cash management tools (described above) that could provide Unapplied Money to the General Fund.

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

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

2. *Reimbursement Warrants*

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

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

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

3. *Refunding Reimbursement Warrants*

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

STATE INDEBTEDNESS AND OTHER OBLIGATIONS

General

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

Capital Facilities Financing

1. *General Obligation Bonds*

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

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

A summary of the general obligation bonds outstanding as well as authorized by the voters but unissued, as of January 1, 2020, is set forth in the following table. For greater detail, see the table "Authorized and Outstanding General Obligation Bonds" following the caption

"STATE DEBT TABLES." Monthly updates of the State Debt Tables are available at www.buycaliforniabonds.com.

General Obligation Bonds
(as of January 1, 2020)

Authorized and Outstanding		Authorized but Unissued*	
Primarily Payable from General Fund	Self-Liquidating	Primarily Payable from General Fund	Self-Liquidating
$71.7 billion	$806.5 million	$33.6 billion	$1.1 billion

* May first be issued as commercial paper notes (see "—General Obligation Commercial Paper Program" below).

A bond measure to authorize $15.0 billion of general obligation bonds has been placed on the March 3, 2020 ballot and will become operative if approved by a majority of voters during this statewide primary election.

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 4.46 percent of the state's total outstanding general obligation bonds. With respect to the $1,175,000,000 of variable rate general obligation bonds having scheduled mandatory tender dates, if these bonds cannot be remarketed or redeemed 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 redeemed 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 redeemed or are paid at maturity.

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Type of Bonds	Outstanding Principal Amount ($000) as of January 1, 2020	Current Variable Rate Interest Mode	Liquidity Support[(a)]	Other Information as of January 1, 2020
General Obligation	$1,945,070	Daily/Weekly VRDO	Letters of Credit	
General Obligation	925,000	Indexed Floating Rate to Respective Mandatory Tender Dates	None	Mandatory Tenders on December 1, 2020, December 1, 2021, April 1, 2022, December 1, 2022 and December 1, 2023
General Obligation	100,000	Indexed Floating Rate to Respective Mandatory Redemption Date	None	Mandatory Redemption on May 1, 2021
General Obligation	250,000	Fixed Term Rate to Respective Mandatory Tender Dates	None	Mandatory Tender on December 1, 2021
General Obligation	14,180	Indexed Floating Rate to Respective Maturity Dates	None	Fixed Maturity on May 1, 2020
TOTAL	$3,234,250			

(a) See “Bank Arrangements Table.”

Source: State of California, Office of the State Treasurer.

The state is obligated to redeem, on the applicable purchase date, any weekly and daily variable rate demand obligations (“VRDOs”) tendered for purchase if there is a failure to pay the related purchase price of such VRDOs on such purchase date from proceeds of the remarketing thereof, or from liquidity support related to such VRDOs. The state has not entered into any interest rate hedging contracts in relation to any of its variable rate general obligation bonds.

3. *General Obligation Commercial Paper Program*

Pursuant to legislation enacted in 1995, voter-approved general obligation indebtedness may be issued either as long-term bonds or, for some but not all bond acts, as commercial paper notes. Commercial paper notes may be renewed or may be refunded by the issuance of bonds. The state uses commercial paper notes to provide flexibility for bond programs, such as to provide interim funding for voter-approved projects or to facilitate refunding of variable rate bonds into fixed rate bonds. Commercial paper notes are not included in the calculation of permitted variable rate indebtedness described under “Variable Rate General Obligation Bonds.” As of January 1, 2020, a total of $2.3 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 held by the applicable financial institution may be further accelerated and payment of related CP held by the applicable financial institution, as applicable, may also be accelerated and interest payable by the State on such VRDOs or CP could increase significantly.

5. *Lease-Revenue Obligations*

In addition to general obligation bonds, the state acquires and constructs capital facilities through the issuance of lease-revenue obligations (also referred to as lease-purchase obligations). Such borrowing must be authorized by the Legislature in a separate act or appropriation. Under these arrangements, the State Public Works Board ("SPWB"), another state or local agency or a joint powers authority uses proceeds of bonds to pay for the acquisition or construction of facilities such as office buildings, university buildings, courthouses or correctional institutions. These facilities are leased to a state agency, the CSU or the Judicial Council under a long-term lease which provides the source of revenues which are pledged to the payment of the debt service on the lease-revenue bonds. Under applicable court decisions, such lease arrangements do not constitute the creation of "indebtedness" within the meaning of the state constitutional provisions that require voter approval. For purposes of APPENDIX A and the tables under "STATE DEBT TABLES," the terms "lease-revenue obligation," "lease-revenue financing," "lease-purchase obligation" or "lease-purchase" mean principally bonds or certificates of participation for capital facilities where the lease payments providing the security are payable from the operating budget of the respective lessees, which are primarily, but not exclusively, derived from the General Fund. A summary of the lease-revenue bonds outstanding as well as those authorized by the Legislature but unissued, as of January 1, 2020, is set forth in the following table.

Lease-Revenue Obligations
(as of January 1, 2020)

Outstanding General Fund Supported Issues	Authorized but Unissued
$8.6 billion	$7.2 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 December 31, 2019.

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). As of January 31, 2020, the aggregate amount of the subsidy payments expected to be received for the remaining part of fiscal year 2019-20 through the maturity of the outstanding BABs (mostly 20 to 30 years from issuance) based on the 35 percent subsidy rate is approximately $6.04 billion for the general obligation BABs and $145.9 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 2029, although Congress can terminate or modify it sooner, or extend it. None of the BAB subsidy payments are pledged to pay debt service for the general obligation and SPWB BABs, so this reduction will not affect the state's ability to pay its debt service on time, nor have any material impact on the state's General Fund.

Future Issuance Plans; General Fund Debt Ratio

Based on estimates from the Department of Finance, as well as updates from the State Treasurer's Office, approximately $3.9 billion of new money general obligation bonds (some of which may initially be in the form of commercial paper notes) and approximately $395 million of new money lease-revenue bonds are expected to be issued in fiscal year 2019-20. In fiscal year 2020-21, the Department of Finance estimates issuance of approximately $4.4 billion of new money general obligation bonds (some of which may initially be in the form of commercial paper notes) and approximately $589.9 million of lease-revenue bonds. These estimates will be updated by the State Treasurer's Office based on information provided by the Department of Finance with respect to the updated funding needs of, and actual spending by, departments. In addition, the actual amount of bonds sold will depend on other factors such as overall budget constraints, market conditions and other considerations. The state also expects to issue refunding bonds as market conditions warrant.

The ratio of debt service on general obligation and lease-revenue bonds supported by the General Fund, to annual General Fund revenues and transfers (the "General Fund Debt Ratio"), can fluctuate as assumptions for future debt issuance and revenue projections are updated from time to time. Any changes to these assumptions will impact the projected General Fund Debt Ratio. Based on the General Fund revenue estimates less transfers to the BSA contained in the 2020-21 Governor's Budget and bond issuance estimates referred to in the preceding paragraph for fiscal year 2019-20 and fiscal year 2020-21, the General Fund Debt Ratio is estimated to equal approximately 5.43 percent in fiscal year 2019-20 and 5.29 percent in fiscal year 2020-21.

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 $2.0. billion for fiscal year 2019-20 and $2.1 billion for fiscal year 2020-21. Including the estimated offsets reduces the General Fund Debt Ratio to 4.07 percent in fiscal year 2019-20 and 3.89 percent in fiscal year 2020-21. 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 2014-15 THROUGH 2018-19" under "STATE DEBT TABLES" for certain historical ratios of debt service to General Fund receipts.

Tobacco Settlement Revenue Bonds

In 1998, the state signed a settlement agreement with the four major cigarette manufacturers, in which the participating manufacturers agreed to make payments to the state in perpetuity. Under a separate Memorandum of Understanding, half of the payments made by the cigarette manufacturers are paid to the state and half to certain local governments, subject to certain adjustments.

In 2002, the state established a special purpose trust to purchase the tobacco assets and to issue revenue bonds secured by the tobacco settlement revenues. Legislation in 2003 authorized a credit enhancement mechanism that requires the Governor to request an appropriation from the General Fund in the annual Budget Act for payment of debt service and other related costs in the event tobacco settlement revenues and certain other amounts are insufficient. The Legislature is not obligated to make any General Fund appropriation so requested.

The credit enhancement mechanism only applies to certain tobacco settlement bonds that were issued in 2005, 2013, 2015 and 2018 with an outstanding principal amount of approximately $2 billion (the “enhanced bonds”). The enhanced bonds are neither general nor legal obligations of the state and neither the faith and credit, nor the taxing power, nor any other assets or revenues of the state shall be pledged to the payment of the enhanced bonds. However, as described above, the state committed to request a General Fund appropriation from the Legislature in the event tobacco settlement revenues are insufficient to pay debt service on the enhanced bonds, and in the event that certain other available amounts, including the reserve fund for the enhanced bonds, are depleted. Every enacted budget since 2003 has included this appropriation, but use of the appropriated moneys has never been required.

Draws on the reserve fund for the enhanced bonds in the amount of approximately $7.94 million were used to make required debt service payments on the 2005 bonds in 2011 and 2012. In April 2013, the reserve fund was replenished in full from tobacco revenues. As of January 1, 2020, the balance of the reserve fund for the enhanced bonds is approximately $148.7 million. If, in any future year tobacco settlement revenues are less than required debt service payments on the enhanced bonds in such year, additional draws on the reserve fund will be required and at some point in the future the reserve fund may become fully depleted. The state is not obligated to replenish the reserve fund from the General Fund, or to request an appropriation to replenish the reserve fund.

Office of Statewide Health Planning and Development Guarantees

The Office of Statewide Health Planning and Development (“OSHPD”) insures loans and bonds that finance and refinance construction and renovation projects for nonprofit and publicly-owned healthcare facilities. This program (“Cal-Mortgage Loan Insurance”) is currently authorized by statute to insure up to $3 billion for health facility projects.

State law established the Health Facility Construction Loan Insurance Fund (the “Fund”) as a trust fund which is continuously appropriated and may only be used for purposes of this program. The Fund is used as a depository of fees and insurance premiums and any recoveries and is the initial source of funds used to pay administrative costs of the program and shortfalls resulting from defaults by insured borrowers. If the Fund is unable to make payment on an insured loan or bond, state law provides for the State Treasurer to issue debentures to the holders of the defaulted loan or bond which are payable on parity with state general obligation bonds. The Fund is liable for repayment to the General Fund of any money paid from the General Fund. All claims on insured loans to date have been paid from the Fund and no debentures have been issued.

As of November 30, 2019, OSHPD insured 81 loans to nonprofit or publicly owned health facilities throughout California with a current outstanding aggregate par amount of approximately $1.754 billion, and a cash balance of approximately $159 million. The actuarial study of the Fund as of June 30, 2018, was completed in January 2020 (the “2018 actuarial study”). Based upon a number of assumptions, the 2018 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 2047-48. Even under the “most pessimistic scenario,” the 2018 actuarial study found that there was a 70 percent likelihood that the Fund’s reserves as of June 30, 2018 would protect against any General Fund losses until at least fiscal year 2028-29, and a 90 percent likelihood that the Fund's reserves as of June 30, 2018 would protect against any General Fund losses until at least fiscal year 2023-24. There can be no assurances that the financial condition of the Fund has not materially declined since the 2018 actuarial study. More information on the program can be obtained from OSHPD's website (https://oshpd.ca.gov/construction-finance/construction-financing/).

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, 2020, the PMIA held approximately $72.2 billion of state moneys, and $28.4 billion invested for about 2,365 local governmental entities through the Local Agency Investment Fund ("LAIF"). The assets of the PMIA as of January 31, 2020 are shown in the following chart. Amounts owing on the internal cash loan from the Surplus Money Investment Fund (a state fund managed by the State Treasurer's Office as part of the PMIA) to fund the supplemental pension payment to CalPERS as described in "DEBTS AND LIABILITIES UNDER PROPOSITION 2" and the $2.0 billion transfer to the Wildfire Fund on August 15, 2019, as required by AB 1054 and expected to be repaid in the last quarter of calendar year 2020 are not reflected as an asset of the PMIA in the table below.

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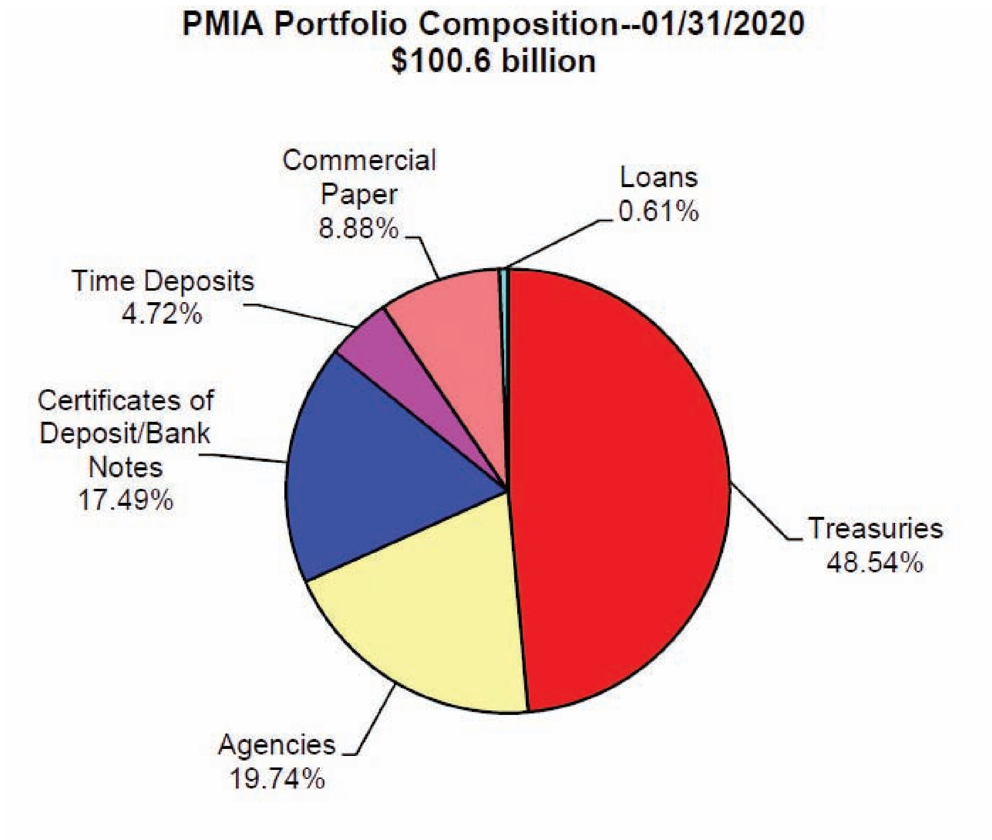

Percentages may not total 100%, due to rounding.
Source: State of California, Office of the State Treasurer.

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, 2020 was 215 days. Over the prior 12 months, the average life has ranged from 226 days to 173 days.

OVERVIEW OF STATE GOVERNMENT

Organization of State Government

The state Constitution provides for three separate branches of government: the legislative, the judicial, and the executive. The state Constitution guarantees the electorate the right to make basic decisions, including amending the state Constitution and local government charters. In addition, the state voters may directly influence state government through the initiative, referendum, and recall processes. The state Constitution provides for mechanisms through which it may be amended or revised.

California's Legislature consists of a 40-member Senate and an 80-member Assembly. Assembly members are elected for two-year terms, and Senators are elected for four-year terms. A person may serve a total of 12 years in either the Assembly, the Senate, or a combination of both. These term limits apply only to members of the Legislature elected after June 2012.

The Legislature meets almost year round for a two-year session. The Legislature employs the Legislative Analyst, who provides reports on state finances, among other subjects. The Office of the California State Auditor, an independent office since 1993, annually issues an auditor's report based on an examination of the General Purpose Financial Statements of the State Controller, in accordance with generally accepted accounting principles. See "FINANCIAL STATEMENTS."

The Governor is the chief executive officer of the state. The Governor presents the annual budget and traditionally presents an annual package of bills constituting a legislative program. In addition to the Governor, state law provides for seven other statewide elected officials in the executive branch. The Governor and the other statewide officials may be elected for up to two four-year terms. The current elected statewide officials, their party affiliation, and the dates on which they were first elected to their current terms are as follows:

Office	Name	Party Affiliation	First Elected
Governor	Gavin Newsom	Democrat	2018
Lieutenant Governor	Eleni Kounalakis	Democrat	2018
Controller	Betty T. Yee	Democrat	2014
Treasurer	Fiona Ma	Democrat	2018
Attorney General	Xavier Becerra	Democrat	2018
Secretary of State	Alex Padilla	Democrat	2014
Superintendent of Public Instruction	Tony Thurmond	Democrat	2018
Insurance Commissioner	Ricardo Lara	Democrat	2018

The executive branch is principally organized through eleven agency areas.

Some state programs are administered by boards and commissions, such as The Regents of the University of California, Public Utilities Commission, Franchise Tax Board and California Transportation Commission, which have authority over certain functions of state government with the power to establish policy and promulgate regulations. The appointment of members of boards and commissions is usually shared by the Legislature and the Governor, and often includes ex officio members.

Employee Relations

At the 2020-21 Governor's Budget, the state work force for fiscal year 2020-21 was estimated at approximately 385,000 positions. Approximately 166,000 of those positions represent state employees of the legislative and judicial branches of government, and institutions of higher education. Of the remaining 219,000 positions, over 80 percent are subject to collective bargaining on wages, hours, and other terms and conditions of employment with the Administration, which are contained in a Memorandum of Understanding ("MOU") subject to ratification by the Legislature; less than 20 percent are excluded from collective bargaining.

State law provides that state employees, defined as any civil service employee of the state and teachers under the jurisdiction of the Department of Education or the Superintendent of Public Instruction, and excluding certain other categories, have a right to form, join, and participate in the activities of employee organizations for the purpose of representation on all matters of employer-employee relations. Once a bargaining unit ("BU") selects an employee organization, only that organization can represent those employees.

There are 21 collective BUs that are represented by employee organizations. The Service Employees International Union ("SEIU") is the exclusive representative for 9 of 21 BUs, or approximately 50 percent of those represented employees subject to collective bargaining. Since the 2016 Budget Act, contract agreements with all bargaining units that represent state employees address the state's unfunded retiree health care obligation ($85.59 billion as of the latest actuarial valuation on June 30, 2018) through shared prefunding of program costs along with other cost containment strategies. See "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs."

The Legislature recently ratified successor contracts with 14 BUs, including those represented by SEIU, as negotiated by the Administration. The Administration will commence collective bargaining negotiations with 7 of the state's 21 bargaining units, representing Attorneys and Administrative Law Judges, Correctional Officers, Engineers, Scientists, Craft and Maintenance, Physicians/Dentists/Podiatrists, and Health and Social Services, whose contracts expire in late June or early July 2020. While these negotiations are underway, the existing MOUs continue to be in effect until replaced or extended pursuant to law.

ECONOMY AND POPULATION

California's economy, the largest among the 50 states and one of the largest in the world, has major components in high technology, trade, entertainment, manufacturing, tourism, construction, and services. The makeup of the state economy generally mirrors that of the national economy. See "GOVERNOR'S PROPOSED FISCAL YEAR 2020-21 BUDGET—Development of Revenue Estimates."

In July 2019, California's total population reached 39.96 million residents, an increase of 0.35 percent since July 2018. Since the national census on April 1, 2010, the state has grown by

2.7 million persons. Births and net migrants to California have seen substantial declines recently, resulting in downward revisions to current population estimates. Provisional births for fiscal year 2018-19 totaled 452,000, a decline of 2.0% from 461,000 births during fiscal year 2017-18. Net migration (in-migration minus out-migration), which averaged 64,000 persons per year during fiscal years 2010-11 through 2017-18, declined to -39,000 in fiscal year 2018-19, marking the first year since 2010 that the state experienced negative net migration (net migration was also negative during 1993-96 and 2005-10).

Natural increase (births minus deaths) will account for most of the growth in the next few years, with net migration into the state also expected to contribute to population growth. The 2018 total fertility rate in California, at 1.64 children per woman, is lower than the U.S. average (1.73); both have shown steady declines in recent years. Low fertility may lead to declining school enrollment and reductions in the size of the future labor force, although those effects may be mitigated by migration patterns, labor force participation rates, and other factors affecting school enrollment and attendance rates.

California's life expectancy at birth was approximately 81 years in 2017—among the highest of any U.S. state and well above the national average of 78.6 years. Greater longevity and lower fertility may eventually lead to an older population in California than the U.S. and an increased dependency ratio of retirement age to working age adults, although these dynamics and their consequences will be determined by migration patterns, labor force attachment, and transfer payments, among other factors.

In fiscal year 2018-19 there were 9.1 million Californians under age 18. California has a younger population than the remainder of the U.S., with a slightly higher percentage under 18, a lower percentage 65 and older, and a younger median age. Population growth rates will vary by age group. The state's overall projected five-year growth of 2.5 percent (reaching 40.9 million in 2024) is higher than the anticipated 0.5 percent growth in the 25-64 year old working-age population (from 20.6 million in 2019 to 20.7 million in 2024). Among younger ages, the 5-17 year old school-age group is expected to decline by 1.7 percent (to 6.6 million in 2024) and the college-age group (18-24 years old) is expected to decrease by 0.5 percent, to just under 4.3 million in 2024. Related to lower births in recent years, the preschool-age group (0-4 years old) is expected to decrease by 4.7 percent, to 2.3 million in 2024. The population of the 65 and older retirement-age group is expected to expand rapidly (by 18.7 percent, to 7.1 million in 2024).

Over the long term, California's population is projected to continue to increase, and reach 45 million by 2060. With population aging, deaths are expected to increase more than births, and this will lessen the state's growth over time, but projected gains from migration—in line with California's historical patterns—bolster younger age groups in each projection year, allowing continued population growth.

The following table shows population totals for California and the U.S. as of July 1, 2019.

TABLE 23
Population

Year	California	Annual Percent Change	United States	Annual Percent Change	California as % of United States
2010	37,367,579	0.8%	309,321,666	0.8%	12.1%
2011	37,729,544	1.0	311,556,874	0.7	12.1
2012	38,101,155	1.0	313,830,990	0.7	12.1
2013	38,410,053	0.8	315,993,715	0.7	12.2
2014	38,742,595	0.9	318,301,008	0.7	12.2
2015	39,055,383	0.8	320,635,163	0.7	12.2
2016	39,308,636	0.6	322,941,311	0.7	12.2
2017	39,590,613	0.7	324,985,539	0.6	12.2
2018	39,817,785	0.6	326,687,501	0.5	12.2
2019	39,959,095	0.4	328,239,523	0.5	12.2

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

Labor Force, Employment, Income, Construction and Export Growth

The following table presents California's civilian labor force data for the resident population, age 16 and over, and unemployment rates for California and the U.S., in each case, reflecting the annual average for the applicable calendar year.

TABLE 24
Labor Force
(Thousands)

			Unemployment Rate	
Year	Labor Force	Employment	California	United States
2010	18,336	16,092	12.2%	9.6%
2011	18,415	16,258	11.7	8.9
2012	18,524	16,603	10.4	8.1
2013	18,625	16,958	8.9	7.4
2014	18,715	17,311	7.5	6.2
2015	18,851	17,682	6.2	5.3
2016	19,045	18,003	5.5	4.9
2017	19,205	18,286	4.8	4.4
2018	19,398	18,583	4.2	3.9
2019 p/	19,479	18,691	4.1	3.7

p/ Preliminary

Note: Final 2019 and benchmark revisions to historical data is expected to be released on March 13, 2020.

Source: State of California, Employment Development Department, U.S. Department of Labor, Bureau of Labor Statistics.

The following table shows California's nonfarm payroll employment distribution and growth for 2009 and 2019.

TABLE 25
Nonfarm Payroll Employment by Major Sector
2009 and 2019
(Thousands)

Industry Sector	Employment 2009	Employment 2019 p/	Distribution of Employment 2009	Distribution of Employment 2019 p/
Mining and Logging	24.0	23.1	0.2%	0.1%
Construction	623.3	889.6	4.3	5.1
Manufacturing	--	--	--	--
Nondurable Goods	479.7	474.7	3.3	2.7
Durable Goods	806.3	863.3	5.6	4.9
High Technology	355.4	368.6	2.5	2.1
Other Durable Goods	451.0	494.7	3.1	2.8
Trade, Transportation & Utilities	2,629.2	3,056.3	18.2	17.5
Information	441.0	556.2	3.1	3.2
Financial Activities	781.7	840.2	5.4	4.8
Professional & Business Services	2,072.1	2,734.7	14.4	15.7
Educational & Health Services	2,114.4	2,808.6	14.6	16.1
Leisure & Hospitality	1,502.8	2,025.6	10.4	11.6
Other Services	484.9	574.5	3.4	3.3
Government	--	--	--	--
Federal Government	251.2	246.9	1.7	1.4
State & Local Government	2,228.4	2,373.0	15.4	13.6
TOTAL	**14,439.1**	**17,466.7**	**100.0%**	**100.0%**

p/ Preliminary
Figures may not add due to rounding.
Note: Final 2019 and benchmark revisions to historical data is expected to be released on March 13, 2020.
Source: State of California, Employment Development Department.

The following tables show California's total and per capita income patterns for the years 2009 through 2018.

TABLE 26
Total Personal Income in California
(Dollars in Millions)

Year	Total Personal Income	Annual % Change	California % of U.S.
2009	$1,554,013	(3.3)%	12.9%
2010	1,628,458	4.8	13.0
2011	1,737,940	6.7	13.1
2012	1,852,398	6.6	13.2
2013	1,886,379	1.8	13.3
2014	2,021,039	7.1	13.5
2015	2,171,947	7.5	13.8
2016	2,263,890	4.2	14.1
2017	2,370,112	4.7	14.0
2018 p/	2,514,129	6.1	14.1

p/ Preliminary
Note: Data for 2019 is expected to be released on March 24, 2020. 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.
2009	$42,044	(4.2)%	$39,284	(4.0)%	107.0%
2010	43,634	3.8	40,546	3.2	107.6
2011	46,170	5.8	42,735	5.4	108.0
2012	48,798	5.7	44,599	4.4	109.4
2013	49,277	1.0	44,851	0.6	109.9
2014	52,234	6.2	47,058	4.9	111.2
2015	55,758	6.6	48,978	4.1	113.8
2016	57,739	3.6	49,870	1.8	115.8
2017	60,156	4.2	51,885	4.0	115.9
2018 [p/]	63,557	5.7	54,446	4.9	116.7

[p/] Preliminary
Note: Data for 2019 is expected to be released on March 24, 2020. Omits income for government employees overseas.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The following tables show certain information with respect to residential and non-residential construction in California.

TABLE 28
Units and Valuation of New Housing Authorized by Building Permits
(Dollars in Millions)

	Units			
Year	**Total Number**	**Single-Family**	**Multi-Family**	**Valuation**
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	115,670	55,827	59,843	35,267
2018	117,892	59,049	58,843	37,547
2019 [p/]	110,999	57,255	53,744	33,783

[p/] 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
2010	$ 1,990	$ 358	$1,937	$ 6,914	$11,200
2011	2,213	479	2,153	8,146	12,991
2012	3,216	1,410	2,383	7,627	14,635
2013	5,294	1,072	6,340	8,975	21,681
2014	7,208	1,116	4,327	11,056	23,706
2015	8,292	1,253	4,590	12,128	26,263
2016	9,337	1,037	4,482	12,533	27,389
2017	9,758	1,820	4,668	12,626	28,873
2018	12,872	1,931	4,908	13,860	33,571
2019 p/	11,161	1,357	4,647	14,256	31,421

p/ Preliminary

Source: Construction Industry Research Board; California Homebuilding Foundation.

The following table shows certain changes in California's exports of goods.

TABLE 30
California's Exports of Goods
(Dollars in Millions)

Year	Exports[(a)]	Annual % Change
2010	$143,208.23	19.3%
2011	159,421.39	11.3
2012	161,757.31	1.5
2013	168,191.55	4.0
2014	173,868.59	3.4
2015	165,360.38	(4.9)
2016	163,260.62	(1.3)
2017	171,915.71	5.3
2018	178,181.05	3.6
2019 p/	173,326.24	(2.7)

p/ Preliminary

(a) Origin of Movement (OM) series.

Source: U.S. Department of Commerce, Bureau of the Census.

BANK ARRANGEMENTS TABLE

The following table includes certain information relating to letters of credit, liquidity facilities and other bank arrangements entered into in connection with variable rate obligations and commercial paper notes. See also "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—*Bank Arrangements*."

BANK ARRANGEMENTS TABLE

(See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—Bank Arrangements.")
As of January 1, 2020

Program	Series	Outstanding Par Amount	Credit Provider[1]	Expiration Date	Type of Credit	Reset Mode
GO VRDOs	2003A 1	$ 42,600,000	Barclays Bank PLC	8/26/2022	LOC	Daily
GO VRDOs	2003A 2-3	170,800,000	Bank of Montreal	9/7/2021	LOC	Daily
GO VRDOs	2003B 1-4	250,000,000	Bank of America, N.A.	1/15/2021	LOC	Weekly
GO VRDOs	2003C 1	85,400,000	TD Bank, N.A.	8/28/2023	LOC	Weekly
GO VRDOs	2003C 3-4	85,300,000	US Bank National Association	3/25/2022	LOC	Weekly
GO VRDOs	2004A 1, 4 & 5	200,000,000	Citibank, N.A.	9/7/2021	LOC	Daily
GO VRDOs	2004A 2 &3	133,500,000	State Street Bank & Trust Company	1/16/2024	LOC	Daily
GO VRDOs	2004A 6, 7, 8 & 10	200,000,000	Citibank, N.A.	9/7/2021	LOC	Weekly
GO VRDOs	2004 A 9	44,400,000	State Street Bank & Trust Company	1/16/2024	LOC	Weekly
GO VRDOs	2004B 1-3	165,000,000	Citibank, N.A.	9/7/2021	LOC	Daily
GO VRDOs	2004B 4	31,100,000	Citibank, N.A.	9/7/2021	LOC	Weekly
GO VRDOs	2004B 5-6	94,400,000	US Bank National Association	10/1/2021	LOC	Daily
GO VRDOs	2005A-2-1	143,200,000	Sumitomo Mitsui Banking Corporation	9/22/2023	LOC	Weekly
GO VRDOs	2005B-1	147,100,000	Wells Fargo Bank, N.A.	4/22/2022	LOC	Weekly
GO VRDOs	2005B-3	49,100,000	Sumitomo Mitsui Banking Corporation	9/22/2023	LOC	Weekly
GO VRDOs	2005B-4	7,140,000	Barclays Bank PLC	5/1/2020	LOC	Weekly
GO VRDOs	2005B-5	88,890,000	MUFG Union Bank, N.A.	3/26/2021	LOC	Daily
GO VRDOs	2005B-7	7,140,000	Barclays Bank PLC	5/1/2020	LOC	Daily
Total GO VRDOs		$1,945,070,000				

[1] The agreements between the state and the respective credit providers for GO VRDOs are filed on EMMA by the applicable remarketing agents. The agreements between the state and the respective credit providers for GO CP are voluntarily filed on EMMA by the State Treasurer.

GO CP[a]	A1/B1	$500,000,000	Wells Fargo Bank, N.A.	9/24/2021	LOC	Up to 90 days
	A2/B2	500,000,000	Royal Bank of Canada	1/13/2023	LOC	Up to 90 days
	A3/B3	200,000,000	MUFG Union Bank, N.A.	3/26/2021	LOC	Up to 90 days
	A4/B4	200,000,000	The Toronto-Dominion Bank	11/19/2020	LOC	Up to 90 days
	A5/B5	225,000,000	US Bank National Association	7/15/2022	LOC	Up to 90 days
	A6/B6	350,000,000	Bank of America, N.A.	1/15/2021	LOC	Up to 90 days
	A7/B7	200,000,000	State Street Bank & Trust Company	4/22/2024	LOC	Up to 90 days
	A8/B8	125,000,000	Bank of the West	2/10/2023	LOC	Up to 90 days
	Total GO CP	**$2,300,000,000**				
Grand Total		**$4,245,070,000**				

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

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STATE DEBT TABLES

The tables which follow provide information on outstanding state debt, authorized but unissued general obligation bonds and commercial paper notes, debt service requirements for state general obligation and lease-revenue bonds, and authorized and outstanding state revenue bonds. See “STATE INDEBTEDNESS AND OTHER OBLIGATIONS.” For purposes of these tables, “General Fund bonds,” also known as “non-self liquidating bonds,” are general obligation bonds expected to be paid from the General Fund without reimbursement from any other fund. Although the principal of general obligation commercial paper notes in the “non-self liquidating” category is legally payable from the General Fund, the state expects that principal of such commercial paper notes will be paid only from the issuance of new commercial paper notes or the issuance of long-term general obligation bonds to retire the commercial paper notes. Interest on “non-self liquidating” general obligation commercial paper notes is payable from the General Fund.

“Enterprise Fund bonds,” also known as “self liquidating bonds,” are general obligation bonds for which program revenues are expected to be sufficient to pay debt service payments or reimburse in full the General Fund for debt service payments, but any failure to make such a payment or reimbursement does not affect the obligation of the state to pay principal of and interest on the bonds from the General Fund.

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OUTSTANDING STATE DEBT
FISCAL YEARS 2014-15 THROUGH 2018-19
(Dollars in Thousands Except for Per Capita Information)

	2014-15	2015-16	2016-17	2017-18	2018-19
Outstanding Debt (a)					
General Obligation Bonds					
General Fund (Non-Self Liquidating).................	$ 76,005,055	$ 74,941,755	$ 73,837,840	$ 74,160,490	$ 72,651,425
Enterprise Fund (Self Liquidating).......................	$ 646,750	$ 787,760	$ 701,740	$ 688,650	$ 841,255
Special Revenue Fund (Self Liquidating)............	$ 929,735	$ 0	$ 0	$ 0	$ 0
Total General Obligation Bonds.............................	**$ 77,581,540**	**$ 75,729,515**	**$ 74,539,580**	**$ 74,849,140**	**$ 73,492,680**
Revenue Bonds					
Lease-Purchase Debt...	$ 10,989,480	$ 9,808,190	$ 9,400,075	$ 9,103,975	$ 8,667,400
Total Revenue Bonds……………...........................	**$ 10,989,480**	**$ 9,808,190**	**$ 9,400,075**	**$ 9,103,975**	**$ 8,667,400**
Total Outstanding General Obligation and Revenue Bonds...	**$ 88,571,020**	**$ 85,537,705**	**$ 83,939,655**	**$ 83,953,115**	**$ 82,160,080**
Bond Sales During Fiscal Year					
Non-Self Liquidating General Obligation Bonds...	$ 6,613,070	$ 7,316,280	$ 9,046,715	$ 8,444,045	$ 7,017,660
Self Liquidating General Obligation Bonds...........	$ 110,000	$ 545,440	$ 0	$ 106,805	$ 193,410
Lease-Purchase Debt...	$ 728,085	$ 1,004,305	$ 1,304,420	$ 541,785	$ 121,825
Debt Service (b)					
Non-Self Liquidating General Obligation Bonds...	$ 6,580,411	$ 6,641,942	$ 6,775,916	$ 6,932,317	$ 7,027,289
Lease-Purchase Debt...	$ 1,030,213	$ 1,013,838	$ 1,012,291	$ 1,032,630	$ 1,008,868
General Fund Receipts (c).....................................	$ 116,385,580	$ 120,417,389	$ 122,608,066	$ 136,732,289	$ 145,612,779
Non-Self Liquidating General Obligation Bonds Debt Service as a Percentage of General Fund Receipts...	**5.65%**	**5.52%**	**5.53%**	**5.07%**	**4.83%**
Lease-Purchase Debt Service as a Percentage of General Fund Receipts................	**0.89%**	**0.84%**	**0.83%**	**0.76%**	**0.69%**
Population (d)...	39,055,383	39,308,636	39,590,613	39,817,785	39,959,095
Non-Self Liquidating General Obligation Bonds Outstanding per Capita.......................................	**$ 1,946.08**	**$ 1,906.50**	**$ 1,865.03**	**$ 1,862.50**	**$ 1,818.14**
Lease-Purchase Debt Outstanding per Capita........	**$ 281.38**	**$ 249.52**	**$ 237.43**	**$ 228.64**	**$ 216.91**
Personal Income (e)..	$ 2,021,039,000	$ 2,171,947,000	$ 2,263,890,000	$ 2,370,112,000	$ 2,514,129,000
Non-Self Liquidating General Obligation Bonds Outstanding as Percentage of Personal Income....	**3.76%**	**3.45%**	**3.26%**	**3.13%**	**2.89%**
Lease-Purchase Debt Outstanding as Percentage of Personal Income............................	**0.54%**	**0.45%**	**0.42%**	**0.38%**	**0.34%**

(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, 2019. See Table 23 of Appendix A.
(e) See Table 26 of Appendix A.

SOURCES: Outstanding Debt, Bond Sales During Fiscal Year and Debt Service: State of California, Office of the Treasurer
General Fund Receipts: State of California, Office of the State Controller
Population: State of California, Department of Finance
Personal Income: U.S. Department of Commerce, Bureau of Economic Analysis

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of January 1, 2020
(Thousands)

	Proposition Number	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding [(a)] $	Unissued $
GENERAL FUND BONDS (Non-Self Liquidating)						
1988 School Facilities Bond Act [(b)]	79	11/08/88	797,745	23,430	0	0
1990 School Facilities Bond Act [(b)]	123	06/05/90	797,875	47,005	0	0
1992 School Facilities Bond Act [(b)]	155	11/03/92	898,211	118,550	0	0
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 [(f)]	40	03/05/02	2,596,643	1,858,050	16,865	162,508
California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access For All Act of 2018	68	06/05/18	4,100,000	16,860	35,135	4,045,270
California Library Construction and Renovation Bond Act of 1988 [(b)]	85	11/08/88	72,405	6,280	0	0
* California Park and Recreational Facilities Act of 1984 [(b)]	18	06/05/84	368,900	6,305	0	0
* California Parklands Act of 1980	1	11/04/80	285,000	1,100	0	0
California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	14	03/07/00	350,000	203,680	0	5,040
* California Safe Drinking Water Bond Law of 1976 [(b)]	3	06/08/76	172,500	1,830	0	0
* California Safe Drinking Water Bond Law of 1984	28	11/06/84	75,000	1,030	0	0
* California Safe Drinking Water Bond Law of 1986	55	11/04/86	100,000	12,735	0	0
California Safe Drinking Water Bond Law of 1988	81	11/08/88	75,000	17,170	0	0
California Stem Cell Research and Cures Bond Act of 2004	71	11/02/04	3,000,000	994,225	22,115	290,650
* California Wildlife, Coastal, and Park Land Conservation Act [(b)]	70	06/07/88	768,670	64,080	0	0
Children's Hospital Bond Act of 2004	61	11/02/04	750,000	532,720	0	1,530
Children's Hospital Bond Act of 2008	3	11/04/08	980,000	743,900	63,310	105,465
Children's Hospital Bond Act of 2018	4	11/06/18	1,500,000	0	350	1,499,650
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (Hi-Ed)	1A	11/03/98	2,500,000	1,358,220	0	0
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (K-12)	1A	11/03/98	6,700,000	2,864,270	5	615
* Clean Air and Transportation Improvement Bond Act of 1990	116	06/05/90	1,990,000	465,050	0	4,985
* Clean Water Bond Law of 1984	25	11/06/84	325,000	5,030	0	0
* Clean Water and Water Conservation Bond Law of 1978	2	06/06/78	375,000	2,505	0	0
Clean Water and Water Reclamation Bond Law of 1988	83	11/08/88	65,000	10,770	0	0
* Community Parklands Act of 1986	43	06/03/86	100,000	1,095	0	0
* County Correctional Facility Capital Expenditure Bond Act of 1986	52	06/03/86	495,000	5,815	0	0
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	86	11/08/88	500,000	31,385	0	0
Disaster Preparedness and Flood Prevention Bond Act of 2006 [(e)]	1E	11/07/06	3,990,000	2,639,355	227,450	908,252

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of January 1, 2020
(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	24,380	635	7,490
* Fish and Wildlife Habitat Enhancement Act of 1984	19	06/05/84	85,000	3,445	0	0
Higher Education Facilities Bond Act of 1988	78	11/08/88	600,000	12,390	0	0
Higher Education Facilities Bond Act of June 1990	121	06/05/90	450,000	23,965	0	540
Higher Education Facilities Bond Act of June 1992	153	06/02/92	900,000	154,040	0	0
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	1B	11/07/06	19,925,000	15,622,245	38,965	1,003,035
Housing and Emergency Shelter Trust Fund Act of 2002	46	11/05/02	2,100,000	122,955	0	71,395
Housing and Emergency Shelter Trust Fund Act of 2006	1C	11/07/06	2,850,000	939,060	49,490	298,135
Housing and Homeless Bond Act of 1990	107	06/05/90	150,000	740	0	0
Kindergarten Through Community College Public Education Facilities Bond Act of 2016 (CCC)	51	11/08/16	2,000,000	19,580	23,805	1,953,210
Kindergarten Through Community College Public Education Facilities Bond Act of 2016 (K-12)	51	11/08/16	7,000,000	1,740,895	12,230	5,120,560
Kindergarten-University Public Education Facilities Bond Act of 2002 (Hi-Ed)	47	11/05/02	1,650,000	1,142,810	0	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (K-12)	47	11/05/02	11,400,000	7,813,845	1,080	6,240
Kindergarten-University Public Education Facilities Bond Act of 2004 (Hi-Ed)	55	03/02/04	2,300,000	1,739,130	0	58,019
Kindergarten-University Public Education Facilities Bond Act of 2004 (K-12)	55	03/02/04	10,000,000	7,001,160	13,370	16,160
Kindergarten-University Public Education Facilities Bond Act of 2006 (Hi-Ed)	1D	11/07/06	3,087,000	2,709,040	840	38,775
Kindergarten-University Public Education Facilities Bond Act of 2006 (K-12)	1D	11/07/06	7,329,000	5,669,270	2,735	196,620
* New Prison Construction Bond Act of 1986	54	11/04/86	500,000	925	0	0
New Prison Construction Bond Act of 1988	80	11/08/88	817,000	2,880	35	1,245
New Prison Construction Bond Act of 1990	120	06/05/90	450,000	1,230	0	605
Passenger Rail and Clean Air Bond Act of 1990	108	06/05/90	1,000,000	3,465	0	0
Public Education Facilities Bond Act of 1996 (Higher Education)	203	03/26/96	975,000	358,215	530	4,650
Public Education Facilities Bond Act of 1996 (K-12) [c]	203	03/26/96	2,012,035	580,835	0	0
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act [e]	13	03/07/00	1,884,000	1,110,220	0	43,346
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 [e][f]	84	11/07/06	5,266,357	3,277,255	159,110	1,144,267
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000	12	03/07/00	2,100,000	1,217,925	6,760	36,460
Safe, Clean, Reliable Water Supply Act [e]	204	11/05/96	969,500	397,585	0	62,915
Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century	1A	11/04/08	9,950,000	3,296,275	25,000	5,573,190
* School Building and Earthquake Bond Act of 1974	1	11/05/74	150,000	9,310	0	0

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of January 1, 2020
(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	73,395	0	0
School Facilities Bond Act of 1992	152	06/02/92	1,900,000	242,550	0	10,280
Seismic Retrofit Bond Act of 1996	192	03/26/96	2,000,000	829,525	0	0
* State, Urban, and Coastal Park Bond Act of 1976	2	11/02/76	280,000	2,165	0	0
Veterans Homes Bond Act of 2000	16	03/07/00	50,000	31,290	0	975
Veterans Housing and Homeless Prevention Bond Act of 2014	41	06/03/14	600,000	49,360	37,090	511,470
Veterans and Affordable Housing Bond Act of 2018	1	11/06/18	3,000,000	99,830	60,380	2,839,200
Voting Modernization Bond Act of 2002	41	03/05/02	200,000	0	5,005	59,490
Water Conservation Bond Law of 1988	82	11/08/88	60,000	11,025	0	5,235
* Water Conservation and Water Quality Bond Law of 1986 [e]	44	06/03/86	136,500	14,365	0	230
Water Quality, Supply, and Infrastructure Improvement Act of 2014 [f]	1	11/04/14	7,465,000	887,530	148,395	6,323,035
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 [e]	50	11/05/02	3,345,000	2,395,265	12,680	263,659
Total General Fund Bonds			**152,764,341**	**71,663,815**	**963,365**	**32,674,396**

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of January 1, 2020
(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	28,005	0	167,600
Veterans Bond Act of 1986	42	06/03/86	850,000	8,060	0	0
Veterans Bond Act of 1988	76	06/07/88	510,000	26,095	0	0
Veterans Bond Act of 1990	142	11/06/90	400,000	28,600	0	0
Veterans Bond Act of 1996	206	11/05/96	400,000	57,490	0	0
Veterans Bond Act of 2000	32	11/07/00	500,000	280,565	0	0
Veterans Bond Act of 2008 [d]	12	11/04/08	300,000	277,775	0	0
Veterans and Affordable Housing Bond Act of 2018 (CalVet)	1	11/06/18	1,000,000	99,865	0	900,045
Total Enterprise Fund Bonds			**5,710,000**	**806,455**	**0**	**1,067,645**
TOTAL GENERAL OBLIGATION BONDS			**158,474,341**	**72,470,270**	**963,365**	**33,742,041**

(a) A total of not more than $2.3 billion of commercial paper principal plus accrued interest may be owing at one time. Bond acts marked with an asterisk (*) are not legally permitted to utilize commercial paper.
(b) SB 1018 (06/27/2012) reduced the voter authorized amount
(c) SB 1018 (06/27/2012) and SB 71 (06/27/2013) reduced the voter authorized amount
(d) AB 639 (10/10/2013) reduced the voter authorized amount
(e) AB 1471 (11/04/2014) reduced the voter authorized amount
(f) SB 5 (6/5/2018) reduced the voter authorized amount

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR ENTERPRISE FUND SELF LIQUIDATING BONDS
Fixed Rate
As of January 1, 2020

Fiscal Year Ending June 30	Current Debt		
	Interest	**Principal**	**Total (a)**
2020 (b)	13,715,426.89	17,320,000.00	31,035,426.89
2021	26,353,688.78	34,835,000.00	61,188,688.78
2022	25,541,651.28	19,235,000.00	44,776,651.28
2023	25,098,652.53	15,720,000.00	40,818,652.53
2024	24,825,323.78	8,235,000.00	33,060,323.78
2025	24,593,526.28	11,100,000.00	35,693,526.28
2026	24,414,561.28	4,210,000.00	28,624,561.28
2027	24,027,647.53	23,695,000.00	47,722,647.53
2028	23,390,004.40	20,855,000.00	44,245,004.40
2029	22,645,844.39	30,845,000.00	53,490,844.39
2030	21,441,298.76	46,195,000.00	67,636,298.76
2031	19,939,781.26	45,825,000.00	65,764,781.26
2032	18,438,578.76	42,650,000.00	61,088,578.76
2033	17,146,565.01	30,730,000.00	47,876,565.01
2034	15,796,683.76	45,190,000.00	60,986,683.76
2035	14,236,317.51	41,945,000.00	56,181,317.51
2036	12,846,145.01	36,630,000.00	49,476,145.01
2037	11,677,972.51	29,005,000.00	40,682,972.51
2038	10,606,981.88	30,300,000.00	40,906,981.88
2039	9,569,012.50	26,055,000.00	35,624,012.50
2040	8,566,673.75	27,240,000.00	35,806,673.75
2041	7,402,940.00	35,060,000.00	42,462,940.00
2042	6,334,145.00	23,785,000.00	30,119,145.00
2043	5,477,455.00	24,700,000.00	30,177,455.00
2044	4,571,295.00	25,585,000.00	30,156,295.00
2045	3,613,451.25	26,640,000.00	30,253,451.25
2046	2,613,582.50	27,715,000.00	30,328,582.50
2047	1,663,475.00	23,470,000.00	25,133,475.00
2048	848,215.00	19,855,000.00	20,703,215.00
2049	284,200.00	9,450,000.00	9,734,200.00
2050	47,600.00	2,380,000.00	2,427,600.00
Total	**$ 427,728,696.60**	**$ 806,455,000.00**	**$ 1,234,183,696.60**

(a) Includes scheduled mandatory sinking fund payments.
(b) Represents the remaining debt service requirements from February 1, 2020 through June 30, 2020.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Fixed Rate
As of January 1, 2020

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2020 (c)	1,777,595,875.53	903,865,000.00	2,681,460,875.53
2021	3,472,763,001.33	3,228,650,000.00	6,701,413,001.33
2022	3,322,670,421.92	3,365,940,000.00	6,688,610,421.92
2023	3,163,884,268.14	2,939,565,000.00	6,103,449,268.14
2024	3,034,675,311.91	2,837,085,000.00	5,871,760,311.91
2025	2,907,901,104.37	2,914,895,000.00	5,822,796,104.37
2026	2,772,936,702.45	2,882,460,000.00	5,655,396,702.45
2027	2,628,355,955.47	2,919,020,000.00	5,547,375,955.47
2028	2,502,332,907.90	2,644,505,000.00	5,146,837,907.90
2029	2,375,131,727.90	2,929,850,000.00	5,304,981,727.90
2030	2,235,009,865.40	2,972,810,000.00	5,207,819,865.40
2031	2,088,874,068.05	2,689,140,000.00	4,778,014,068.05
2032	1,958,021,729.45	2,852,470,000.00	4,810,491,729.45
2033	1,815,485,140.84	2,987,850,000.00	4,803,335,140.84
2034	1,689,248,019.70	3,415,890,000.00	5,105,138,019.70
2035	1,463,964,366.66	2,990,940,000.00	4,454,904,366.66
2036	1,290,131,173.65	2,888,995,000.00	4,179,126,173.65
2037	1,130,035,570.05	2,889,435,000.00	4,019,470,570.05
2038	969,903,050.18	2,998,900,000.00	3,968,803,050.18
2039	844,066,025.30	3,413,375,000.00	4,257,441,025.30
2040	559,486,213.85	2,019,675,000.00	2,579,161,213.85
2041	393,420,937.52	2,190,000,000.00	2,583,420,937.52
2042	291,140,937.52	1,319,000,000.00	1,610,140,937.52
2043	235,683,562.52	1,326,325,000.00	1,562,008,562.52
2044	162,114,578.14	875,000,000.00	1,037,114,578.14
2045	127,577,368.76	893,925,000.00	1,021,502,368.76
2046	86,321,493.76	500,000,000.00	586,321,493.76
2047	62,596,493.76	525,000,000.00	587,596,493.76
2048	36,060,746.88	650,000,000.00	686,060,746.88
2049	17,125,000.00	315,000,000.00	332,125,000.00
2050	3,000,000.00	150,000,000.00	153,000,000.00
Total	**$ 45,417,513,618.91**	**$ 68,429,565,000.00**	**$ 113,847,078,618.91**

(a) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(b) Includes scheduled mandatory sinking fund payments. Does not include outstanding commercial paper.
(c) Represents the remaining debt service requirements from February 1, 2020, through June 30, 2020.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Variable Rate
As of January 1, 2020

Fiscal Year Ending June 30	Current Debt Interest (a)	Principal	Total (b)
2020 (c)	23,390,368.39	55,960,000.00	79,350,368.39
2021	53,580,203.71	154,400,000.00	207,980,203.71
2022	51,280,074.04	39,200,000.00	90,480,074.04
2023	50,795,031.59	61,100,000.00	111,895,031.59
2024	50,219,458.86	173,600,000.00	223,819,458.86
2025	47,630,487.91	116,400,000.00	164,030,487.91
2026	46,150,214.98	203,300,000.00	249,450,214.98
2027	42,714,379.57	215,600,000.00	258,314,379.57
2028	35,942,506.49	559,000,000.00	594,942,506.49
2029	26,049,022.75	467,700,000.00	493,749,022.75
2030	17,708,536.52	364,390,000.00	382,098,536.52
2031	10,699,475.76	323,600,000.00	334,299,475.76
2032	5,446,547.12	325,600,000.00	331,046,547.12
2033	1,607,057.55	171,400,000.00	173,007,057.55
2034	47,787.45	1,600,000.00	1,647,787.45
2035	29,110.96	-	29,110.96
2036	29,237.15	-	29,237.15
2037	28,984.84	-	28,984.84
2038	29,110.98	-	29,110.98
2039	29,110.98	-	29,110.98
2040	28,790.03	400,000.00	428,790.03
2041	24,867.05	-	24,867.05
2042	24,703.13	-	24,703.13
2043	24,703.13	-	24,703.13
2044	24,810.68	-	24,810.68
2045	24,731.32	-	24,731.32
2046	24,770.99	-	24,770.99
2047	20,631.19	1,000,000.00	1,020,631.19
Total	**$ 463,604,715.12**	**$ 3,234,250,000.00**	**$ 3,697,854,715.12**

(a) The estimate of future interest payments is based on rates in effect as of January 1, 2020. The interest rates for the daily, weekly and monthly rate bonds range from 0.80-2.76%.
The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, Series 2016A currently bears interest at a fixed rate of 4.00% (the "Prop 1B Put Bonds").
(b) Includes scheduled mandatory sinking fund payments. Does not include outstanding commercial paper.
(c) Represents the remaining estimated debt service requirements from February 1, 2020, through June 30, 2020.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR LEASE-REVENUE DEBT
Fixed Rate
January 1, 2020

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2020 (c)	214,731,846.93	191,335,000.00	406,066,846.93
2021	414,636,327.18	533,950,000.00	948,586,327.18
2022	388,371,522.98	522,005,000.00	910,376,522.98
2023	364,172,674.17	479,960,000.00	844,132,674.17
2024	340,714,991.90	477,820,000.00	818,534,991.90
2025	316,829,075.51	497,225,000.00	814,054,075.51
2026	291,745,882.36	512,200,000.00	803,945,882.36
2027	265,693,903.86	538,170,000.00	803,863,903.86
2028	238,741,403.71	551,860,000.00	790,601,403.71
2029	211,146,245.34	519,025,000.00	730,171,245.34
2030	185,030,586.38	512,030,000.00	697,060,586.38
2031	159,737,970.58	506,445,000.00	666,182,970.58
2032	133,432,763.44	519,455,000.00	652,887,763.44
2033	108,056,086.88	452,340,000.00	560,396,086.88
2034	84,568,278.16	437,275,000.00	521,843,278.16
2035	61,280,952.80	400,140,000.00	461,420,952.80
2036	43,056,737.50	259,610,000.00	302,666,737.50
2037	30,765,275.00	255,620,000.00	286,385,275.00
2038	18,218,725.00	185,760,000.00	203,978,725.00
2039	9,610,087.50	130,545,000.00	140,155,087.50
2040	4,151,425.00	88,420,000.00	92,571,425.00
2041	1,736,500.00	6,890,000.00	8,626,500.00
2042	1,383,125.00	7,245,000.00	8,628,125.00
2043	1,011,625.00	7,615,000.00	8,626,625.00
2044	621,000.00	8,010,000.00	8,631,000.00
2045	210,375.00	8,415,000.00	8,625,375.00
Total	**$ 3,889,655,387.18**	**$ 8,609,365,000.00**	**$ 12,499,020,387.18**

(a) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(b) Includes scheduled mandatory sinking fund payments.
(c) Represents the remaining debt service requirements from February 1, 2020 through June 30, 2020.

SOURCE: State of California, Office of the Treasurer.

STATE PUBLIC WORKS BOARD AND
OTHER LEASE-REVENUE FINANCING
OUTSTANDING ISSUES
As of January 1, 2020

GENERAL FUND SUPPORTED ISSUES[a]:		**Outstanding**
State Public Works Board Issues (by Facility Lessee)		
Board of State and Community Corrections	$	72,965,000
California Community Colleges		114,745,000
California Department of Corrections and Rehabilitation		4,005,805,000
California Department of Forestry and Fire Protection		187,405,000
California Department of Veterans Affairs		253,040,000
Department of Developmental Services		93,305,000
Department of Education		127,485,000
Department of General Services		872,885,000
Department of Public Health		87,480,000
Department of State Hospitals		316,325,000
Judicial Council		1,974,550,000
Other State Facilities		231,085,000
Trustees of the California State University		149,180,000
Total State Public Works Board Issues	**$**	**8,486,255,000**
Total Non-State Public Works Board State Facilities Issues[b]	**$**	**123,110,000**
Total General Fund Supported Issues	**$**	**8,609,365,000**
SPECIAL FUND SUPPORTED ISSUES:		
San Bernardino Joint Powers Financing Authority	$	3,515,000
Total Special Fund Supported Issues	**$**	**3,515,000**
TOTAL	**$**	**8,612,880,000**

(a) Lease payments that secure each of these issues are payable from the operating budget of the respective lessees. The operating budgets of the lessees are primarily, but not exclusively, derived from the General Fund.
(b) Includes $43,555,000 Sacramento City Financing Authority Lease-Revenue Refunding Bonds State of California - Cal/EPA Building, 2013 Series A, which are supported by lease payments from the California Environmental Protection Agency; these lease payments are subject to annual appropriation by the State Legislature.

SOURCE: State of California, Office of the Treasurer.

GENERAL OBLIGATION AND REVENUE BONDS
SUMMARY OF DEBT SERVICE REQUIREMENTS
As of January 1, 2020

	Total Debt		
	Interest	**Principal**	**Total (a)**
GENERAL OBLIGATION BONDS			
GENERAL FUND NON-SELF LIQUIDATING (b)			
Fixed Rate	$ 45,417,513,618.91	$ 68,429,565,000.00	$ 113,847,078,618.91
Variable Rate (c)	463,604,715.12	3,234,250,000.00	3,697,854,715.12
ENTERPRISE FUND SELF LIQUIDATING			
Fixed Rate	427,728,696.60	806,455,000.00	1,234,183,696.60
REVENUE BONDS			
GENERAL FUND LEASE-REVENUE			
Lease-Revenue	3,889,655,387.18	8,609,365,000.00	12,499,020,387.18
General Fund and Lease-Revenue Total (d)	**$ 50,198,502,417.81**	**$ 81,079,635,000.00**	**$ 131,278,137,417.81**

(a) Includes scheduled mandatory sinking fund payments.
(b) Does not include outstanding commercial paper.
(c) The estimate of future interest payments is based on rates in effect as of January 1, 2020. The interest rates for the daily, weekly and monthly rate bonds range from 0.80-2.76%. The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, Series 2016A currently bears interest at a fixed rate of 4.00% (the "Prop 1B Put Bonds").
(d) Estimated interest included.

SOURCE: State of California, Office of the Treasurer.

STATE AGENCY REVENUE BONDS
AND CONDUIT FINANCING
As of December 31, 2019

Issuing Agency	Outstanding[(a)(b)(c)]
State Revenue Bond Financing Programs:	
California Alternative Energy and Advanced Transportation Financing Authority	1,704,533
California Health Facilities Financing Authority	544,210,000
California Housing Finance Agency	1,554,082,521
California Infrastructure and Economic Development Bank	1,835,560,000
California State University	6,590,175,000
Department of Water Resources - Central Valley Project	2,637,230,000
Department of Water Resources - Power Supply Program	2,458,945,000
The Regents of the University of California	19,702,565,000
Veterans Revenue Debenture	377,540,000
TOTAL	**35,702,012,054**
Conduit Financing:	
California Alternative Energy and Advanced Transportation Financing Authority	3,303,833
California Educational Facilities Authority	4,693,115,138
California Health Facilities Financing Authority	17,216,037,327
California Housing Finance Agency	1,172,706,297
California Infrastructure and Economic Development Bank	4,150,118,747
California Pollution Control Financing Authority	3,155,305,831
California School Financing Authority	1,385,856,367
TOTAL	**31,776,443,540**

(a) Totals for California State University, Department of Water Resources and Veterans Revenue Debenture were provided by the State of California, Office of the Treasurer. All other totals were provided by the listed issuing agency.

(b) Does not include the Tobacco Settlement Revenue Bonds issued by Golden State Tobacco Securitization Corporation.

(c) Certain state agencies and authorities issue revenue obligations for which the General Fund has no liability. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing -Non-Recourse Debt." The tables above are intended to provide general information concerning the scope of the various State Revenue Bond Financing and Conduit Financing Programs referenced therein, and are not intended to be an exhaustive listing of all of the outstanding obligations of the respective programs.

EXHIBIT 1 TO APPENDIX A

PENSION SYSTEMS

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PENSION SYSTEMS

General

California Public Employees' Retirement System ("CalPERS") and California State Teachers' Retirement System ("CalSTRS") are the two principal retirement systems in which the state participates. The assets and liabilities of the funds administered by CalPERS and CalSTRS are included as fiduciary funds in the financial statements of the state. Thus, a summary description of CalPERS and CalSTRS is set forth in the state's financial statements and required supplementary information. CalPERS and CalSTRS each have unfunded liabilities in the tens of billions of dollars. See "FINANCIAL STATEMENTS."

The University of California ("UC") maintains a separate retirement system. The 2020-21 Governor's Budget does not specifically allocate any of UC's appropriation to fund its employer retirement costs; UC manages its retirement contributions within its overall budget.

General Fund retirement costs are expected to continue to increase in the foreseeable future. The amount of such increases will depend on a variety of factors, including but not limited to actual investment returns, actuarial assumptions, actual experience, benefit adjustments and, in the case of CalSTRS, statutory changes to contribution levels.

The information in this Exhibit 1 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 valuations 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 valuations will change with the future experience of the pension plans. As used in this Exhibit 1, an active member refers to a participant currently employed by a CalPERS or CalSTRS covered employer, an inactive member refers to a participant with member contributions on account who is not receiving a benefit or currently employed by a CalPERS or CalSTRS covered employer, and a retiree, survivor, or beneficiary refers to a participant currently receiving a benefit from CalPERS or CalSTRS.

CalPERS

1. <u>General</u>

CalPERS administers a total of 12 funds, including four funds for the defined benefit retirement plans: the Public Employees' Retirement Fund ("PERF"), the Legislators' Retirement Fund ("LRF"), the Judges' Retirement Fund ("JRF"), and the Judges' Retirement Fund II ("JRF

II”). (These plans, as well as the other plans administered by CalPERS, are described in the comprehensive financial reports of CalPERS, which can be found on CalPERS’ website at www.calpers.ca.gov. Such information is not incorporated by reference herein.) The PERF, LRF, JRF, and JRF II are defined benefit pension plans which generally provide benefits based on members’ years of service, age, final compensation, and benefit formula. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Certain summary information concerning PERF is set forth below. Certain summary information concerning LRF, JRF, JRF II, and the 1959 Survivor Benefit program (which provides payments to the survivors of eligible members who die before retirement) is set forth at the end of this section.

CalPERS is administered by a 13-member Board of Administration (the “CalPERS Board”) that includes four ex officio members: the State Controller, the Director of the California Department of Human Resources, the State Treasurer, and a member designated by the State Personnel Board. The other nine CalPERS Board members include six elected members: a member elected by active school employees, a member elected by retirees, a member elected by active state employees, a member elected by active public agency employees, two members elected by all members, and three appointed members: a public representative appointed jointly by the Speaker of the Assembly and the Senate Rules Committee, an official of a life insurer appointed by the Governor, and an elected local official appointed by the Governor.

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 school districts (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.

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The following table reflects the number of state employee members of CalPERS as of June 30, 2018 and June 30, 2019.

TABLE 31
CalPERS State Employee Membership as of June 30

Category	2018	2019
Retirees	208,086	214,279
Survivors and Beneficiaries	38,545	38,164
Active Members	269,697	270,162
Inactive Members	97,875	101,258
Total	614,203	623,863

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2018 and June 30, 2019.

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 to 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). State Safety PEPRA members who retire at age 57 will be eligible for a benefit equal to 2 percent under the Basic Safety Plan, 2.5 percent under the Safety Option Plan One, or 2.7 percent under the Safety Option Plan Two, of final compensation for each year of credited service. Approximately 37 percent of the state active member population consists of PEPRA members as of June 30, 2019.

The following table shows the amount of pension benefits paid from CalPERS for fiscal years 2013-14 through 2017-18.

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

Fiscal Year	Benefits Paid
2013-14	$7,410
2014-15	7,859
2015-16	8,307
2016-17	8,717
2017-18	9,213

Source: CalPERS State Actuarial Valuation for Fiscal Years Ended June 30, 2014 through June 30, 2018.

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 2020-21 Governor's Budget includes the following employer contribution rates for fiscal year 2020-21:

	Contribution Rates[a]
State Miscellaneous Tier 1	31.798%
California State University, Miscellaneous Tier 1	31.798
State Miscellaneous Tier 2	31.798
State Industrial	21.981
State Safety	22.782
State Peace Officers & Firefighters	48.647
California State University, Peace Officers and Firefighters	48.647
California Highway Patrol	61.019

[a] Does not reflect the contribution rate impact of the $500 million in General Fund supplemental pension payments to CalPERS proposed in the 2020-21 Governor's Budget, as described in the following section.

Table 33 shows the state's actual and estimated contributions to CalPERS for fiscal years 2016-17 through 2020-21.

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
2016-17	$4,754	$2,506	$621	$621	$5,375	$3,128
2017-18[a]	5,188	2,727	661	661	5,849	3,388
2018-19	5,506	2,890	683	683	6,190	3,574
2019-20[b][c]	5,946	3,112	716	716	6,663	3,828
2020-21[b][c]	6,303	3,295	739	739	7,042	4,034

[a] Does not include the one-time $6 billion supplemental pension payment to CalPERS in fiscal year 2017-18 per Chapter 50, Statutes of 2017 (SB 84), as described below.

[b] Estimated contributions.

[c] Does not reflect the $500 million in General Fund supplemental pension payments to CalPERS proposed in the 2020-21 Governor's Budget, as described below.

Note: Totals may not add due to rounding effects.

Source: State of California, Department of Finance.

The 2019-20 Budget includes a $3 billion General Fund allocation for supplemental pension payments to CalPERS to be paid over fiscal years 2018-19 ($2.5 billion), 2020-21 ($265 million), 2021-22 ($200 million), and 2022-23 ($35 million). These amounts are in addition to the state's actuarially-determined contributions for the noted fiscal years. This $3 billion payment authorized by SB 90 was adjusted by Chapter 859, Statutes of 2019 (AB 118) to attribute a share of the total payment ($243 million in fiscal year 2020-21) to the CalPERS California Highway Patrol (CHP) Plan, which had been previously excluded. Additionally, the 2019-20 Budget includes a $100 million supplemental pension payment from the Motor Vehicle Account towards the unfunded liability of the CalPERS CHP Plan, to be paid in four equal installments over fiscal years 2019-20 through 2022-23. Subsequently, the 2020-21 Governor's Budget proposes to accelerate the payments currently scheduled under SB 90 and AB 118 over fiscal years 2020-21 through 2022-23 into a single $500 million payment in fiscal year 2019-20. Based on current CalPERS actuarial assumptions, these supplemental pension payments are estimated to result in total savings of about $7.4 billion over the next three decades.

The 2019-20 Budget also includes a $904 million General Fund payment to the CalPERS Schools Pool in fiscal year 2018-19. The CalPERS Schools Pool provides pension benefits to classified school employees. (School employers of these employees are solely responsible for the unfunded liabilities of the pool.) Through this payment, the state will assist school employers with their pension costs for the CalPERS Schools Pool. Of the entire amount, $144 million will be used to offset the fiscal year 2019-20 employer contribution rate by 1.012 percent, and $100 million will be used to offset the fiscal year 2020-21 employer contribution rate by 0.7 percent. The remaining $660 million will be paid towards the school employers' share of the unfunded liability for the CalPERS Schools Pool, which is estimated to reduce the long-term employer contribution rate by 0.1 percent to 0.3 percent starting in fiscal year 2020-21. Under current CalPERS actuarial assumptions, the $904 million payment is projected to save school employers an estimated $1.9 billion over the next three decades. Revenues in fiscal years 2017-18 and 2018-19 were higher than anticipated, which resulted in additional resources, a portion of these resources were allocated in the 2019-20 Budget to payments in fiscal year 2018-19.

The 2020-21 Governor's Budget proposes $817 million in Proposition 2 debt repayment funding towards the pension loan further described below that funded the fiscal year 2017-18 supplemental pension payment to CalPERS. The General Fund's share of the repayment of the loan over the expected term (approximately $3.5 billion estimated as of the 2020-21 Governor's Budget) is eligible for repayment under Proposition 2's debt repayment requirements, as reflected in Table 7. The remaining balance is to be repaid from other funds that contribute to CalPERS and are expected to benefit from the supplemental pension payment. 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.

In fiscal year 2017-18, the state made a one-time $6 billion supplemental pension payment to CalPERS to mitigate the future increase in state contributions and reduce unfunded liabilities. The supplemental pension payment was in addition to the state's actuarially-determined contribution and was funded through an internal cash loan from the Surplus Money Investment Fund (a state fund managed by the State Treasurer's Office as part of the Pooled Money Investment Account to invest surplus cash from special funds held by state departments). The supplemental pension payment was apportioned accordingly to the five state retirement plans administered by CalPERS based on the unfunded liability of each plan.

As of the 2020-21 Governor's Budget, the Department of Finance projects that the $6 billion supplemental pension payment will save an estimated $6.0 billion in state contributions (net of principal and interest on the loan) to CalPERS from all state funded sources over the next two decades.

5. Prospective Funding Status; Future State Contributions

The level of future required contributions from the state depends on a variety of factors, including future investment portfolio performance, actuarial assumptions, and additional potential changes in retirement benefits. In December 2016, the CalPERS Board voted to lower its assumed rate of return from 7.5 to 7 percent over three years, which will result in contribution increases for employers and some employees. The increase in contributions the state will incur, as a result of the discount rate change, is being 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 would increase by $931 million ($552 million from the General Fund), reaching $8.6 billion ($4.9 billion from the General Fund) in total, due to changes in the discount rate, scheduled contribution increases under existing funding policies, and payroll growth. In response, as previously mentioned, the 2017-18 Budget included a $6 billion one-time, supplemental pension payment to CalPERS in fiscal year 2017-18, which resulted in a decrease to the state's projected contributions beginning in fiscal year 2018-19. The aggregate $3.1 billion in supplemental pension payments to CalPERS over fiscal years 2018-19 through 2022-23 that is included in the 2019-20 Budget is projected to result in further reductions to the state's contributions starting in fiscal year 2019-20.

The projected state contribution rates for fiscal years 2020-21 through 2024-25 as published in the actuarial valuation for the fiscal year ended June 30, 2018 are included in the table below. These projected rates serve as the basis for the sensitivity analysis included in the June 30, 2018 valuation, also set forth below. The June 30, 2018 valuation also includes the additional state contribution rates required by statute to offset increased member contributions under PEPRA for fiscal year 2019-20. The table below shows the projected state contribution rates for fiscal years 2020-21 through 2024-25, and assumes the additional statutorily required state contribution rates for 2019-20- remain constant through fiscal year 2024-25. 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 $8.5 billion in supplemental pension payments paid in fiscal years 2017-18 and 2018-19, the fiscal year 2018-19 investment return of 6.7 percent and projected additional contributions required to offset increased member contributions under PEPRA.

Projected Contribution Rates

Plan:	Fiscal Year 2020-21	2021-22	2022-23	2023-24	2024-25
State Miscellaneous	31.798%	32.398%	32.698%	33.298%	32.398%
State Industrial	21.981	22.381	22.481	22.881	21.081
State Safety	22.782	22.982	22.882	22.482	22.182
State Peace Officers & Firefighters	48.647	49.247	49.747	50.447	49.047
California Highway Patrol	61.019	62.119	62.719	63.619	62.519

Source: CalPERS State Actuarial Valuation for Fiscal Year Ended June 30, 2018.

In accordance with state law, the actuarial valuation for the fiscal year ended June 30, 2018 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, 2018 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 2021-22 through 2023-24 for the employee categories under five different investment return scenarios, based on an 6.7 percent investment return for fiscal year 2018-19. Note that the projected state contribution rates in the tables below do not reflect the additional state contribution rates required by statute to offset increased member contributions under PEPRA. The projected state contribution rates assume that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur. The five different investment return scenarios are as follows:

- The first scenario assumes a 1.00 percent return for each of the fiscal years 2019-20, 2020-21, and 2021-22.
- The second scenario assumes a 4.00 percent return for each of the fiscal years 2019-20, 2020-21, and 2021-22.
- The third scenario assumes a 7.00 percent return for each of the fiscal years 2019-20, 2020-21, and 2021-22.
- The fourth scenario assumes a 9.00 percent return for each of the fiscal years 2019-20, 2020-21, and 2021-22.
- The fifth scenario assumes a 12.00 percent return for each of the fiscal years 2019-20, 2020-21, and 2021-22.

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

Estimated: Fiscal Year 2021-22

Assumed return	1.00%	4.00%	7.00%	9.00%	12.00%
	Projected Contribution Rates				
State Miscellaneous	33.2%	32.8%	32.3%	32.1%	31.6%
State Industrial	22.2	21.8	21.5	21.3	20.9
State Safety	22.4	22.1	21.8	21.6	21.2
State Peace Officers & Firefighters	48.9	48.3	47.6	47.2	46.5
California Highway Patrol	62.1	61.5	60.8	60.4	59.7

Source: CalPERS State Actuarial Valuation for Fiscal Year Ended June 30, 2018.

Estimated: Fiscal Year 2022-23

Assumed return	1.00%	4.00%	7.00%	9.00%	12.00%
	Projected Contribution Rates				
State Miscellaneous	35.1%	33.9%	32.6%	31.8%	30.5%
State Industrial	23.6	22.6	21.6	20.9	19.8
State Safety	23.6	22.7	21.7	21.1	20.1
State Peace Officers & Firefighters	51.9	50.0	48.1	46.8	44.8
California Highway Patrol	65.2	63.3	61.4	60.0	58.0

Source: CalPERS State Actuarial Valuation for Fiscal Year Ended June 30, 2018.

Estimated: Fiscal Year 2023-24

Assumed return	1.00%	4.00%	7.00%	9.00%	12.00%
	Projected Contribution Rates				
State Miscellaneous	38.1%	35.7%	33.2%	31.5%	28.8%
State Industrial	26.0	24.0	22.0	20.5	18.4
State Safety	24.9	23.1	21.3	20.0	18.0
State Peace Officers & Firefighters	56.3	52.6	48.8	46.2	42.2
California Highway Patrol	69.8	66.1	62.3	59.6	55.5

Source: CalPERS State Actuarial Valuation, for Fiscal Year Ended June 30, 2018.

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. Such information is not incorporated by reference herein.

The following tables set forth the total return on all assets for PERF for fiscal years 2009-10 through 2018-19, as well as time-weighted average returns.

TABLE 34
CalPERS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Return
2009-10	13.3%
2010-11	21.7
2011-12	0.1
2012-13	13.2
2013-14	18.4
2014-15	2.4
2015-16	0.6
2016-17	11.2
2017-18	8.6
2018-19	6.7

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2009 through June 30, 2019.

TABLE 35
PERF Time-Weighted Average Returns as of June 30, 2019

Period	Time Weighted Average Rate of Return
3 years	8.8%
5 years	5.8
10 years	9.1
20 years	5.8

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2019; CalPERS Newsletter, July 11, 2019 for the 20-year time period.

Both the 5-year and 20-year rates fall below 7.25 percent, CalPERS' actuarially assumed rate of return used to determine contribution rates for fiscal year 2018-19. In order to more accurately reflect investment expectations given the current environment, the CalPERS Board of Administration voted at its December 21, 2016 meeting to phase in a reduction in the assumed rate of return, from 7.5 percent to 7 percent, by fiscal year 2019-20.

CalPERS has publicly indicated that it expects actual investment returns in the next ten year period will be less than the 7 percent rate of return. Actual investment returns lower than the actuarially assumed level will result in decreased funding status, and increased actuarially required contributions.

7. <u>Actuarial Methods and Assumptions</u>

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.

The following table sets forth certain economic actuarial assumptions for fiscal years 2019-20 through 2022-23.

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TABLE 36
Actuarial Assumptions—State Plans

	Fiscal Year			
Assumption	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Investment Returns	7.00%	7.00%	7.00%	7.00%
Inflation	2.50	2.50	2.50	2.50
Salary Increase (Total Payroll)	2.75	2.75	2.75	2.75

On November 18, 2015, the CalPERS Board adopted a Funding Risk Mitigation Policy that seeks to reduce funding risk over time. It establishes a mechanism whereby CalPERS investment performance that significantly outperforms the discount rate triggers adjustments to the discount rate, expected investment return, and strategic asset allocation targets. Reducing the volatility of investment returns is expected to increase the long-term sustainability of CalPERS pension benefits for members. In February 2017, the CalPERS Board revised the Funding Risk Mitigation Policy. The revisions include suspension of the policy until fiscal year 2020-21, and a decrease of the required first excess investment return threshold from 4 to 2 percent.

On February 14, 2018, the CalPERS Board of Administration adopted revisions to its actuarial amortization policy. Major revisions that affect state plans were made to the amortization of investment gains and losses, as well as to actuarial surplus. For the amortization of investment gains and losses, the amortization period was reduced from 30 years to 20 years, and the 5-year direct smoothing process was removed from the end of the amortization period. Amortization of actuarial surplus was eliminated. These policy revisions will be applied to the amortization of investment gains and losses, and actuarial surplus, experienced on or after June 30, 2019. These revisions will affect contributions starting in fiscal year 2020-21.

8. Actuarial Valuation; Determination of Required Contributions

The required state contributions to PERF are determined on an annual basis by the CalPERS Chief Actuary. The actuary uses demographic and other data (such as employee age, salary, and service credits) and various assumptions (such as estimated salary increases, interest rates, employee turnover, and mortality and disability rates) to determine the amount that the state must contribute in a given year to provide sufficient funds to PERF to pay benefits when due. The actuary then produces a report, called the "actuarial valuation," in which the actuary reports on the assets, liabilities, and required contribution for the following fiscal year. State law requires the state to make the actuarially-required contribution to PERF each year.

A portion of the actuarial valuations performed by CalPERS actuaries are audited each year by an independent actuarial firm. The actuarial valuations specific to state employees are audited every three years. The most recent audit was for the June 30, 2018 actuarial valuation and was completed in December 2019.

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 17, 2019, the CalPERS Board adopted the contribution rates for the state plans for fiscal year 2019-20. The unfunded liability allocable to state employees (excluding judges and elected officials) is estimated to be $59.7 billion as of June 30, 2018, which is an increase of $951 million from the June 30, 2017 valuation. The funded ratio increased to 69.5 percent as of June 30, 2018, from 67.4 percent as of June 30, 2017.

TABLE 37
PERF Schedule of Funding Status
State Employees Only
(Dollars in Millions)

	Year Date (June 30)				
	2014	**2015**	**2016**	**2017**	**2018**
Market Value of Assets (MVA)	$111,982	$112,532	$111,121	$121,587	$136,231
Actuarial Accrued Liabilities	155,247	162,091	170,657	180,311	195,906
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis	(43,265)	(49,559)	(59,536)	(58,724)	(59,675)
Covered Payroll	16,476	17,453	18,092	18,799	19,662
Funded Ratio (MVA)	72.1%	69.4%	65.1%	67.4%	69.5%

Source: CalPERS State Actuarial Valuation for Fiscal Years Ended June 30, 2013 through June 30, 2018.

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, 2019, CalPERS reported that JRF and JRF II had an unfunded actuarial liability of approximately $3.2 billion and $10.8 million, respectively. For the same year, the LRF reported a funding surplus of $16.7 million. In the 1959 Survivor Benefit Program actuarial report for the year ended June 30, 2018, CalPERS reported that the program had an unfunded actuarial liability of approximately $39 million.

The state's fiscal year 2020-21 retirement contributions from the General Fund are estimated to be $225 million for JRF, $87 million for JRF II and $84 thousand for LRF. The state's fiscal year 2019-20 General Fund retirement contributions to the 1959 Survivor Benefit Program is approximately $5.1 million.

Further information concerning JRF, JRF II, and LRF can be found in CalPERS' financial reports and actuarial reports and is set forth in Note 10 (and the "Net Pension Liability and Related Rates" included in the Required Supplementary Information) to the Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2018 attached as an appendix to this Official Statement.

CalSTRS

1. General

CalSTRS was established under the California Education Code in 1913 to provide benefits to California public school and community college teachers and to certain other employees of the state's public school system (pre-kindergarten through community college). CalSTRS is the administrator of a multiple-employer, cost-sharing defined benefit plan, 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 2017-18 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 Benefit 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. For contributions from employers and the state, the CalSTRS Board (defined below) 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 four ex officio members: the Director of the Department of Finance, State Controller, the State Superintendent of Public Instruction, and the State Treasurer. The other eight CalSTRS Board members serve four-year terms and include three CalSTRS member-elected representatives who represent current educators, and five representatives appointed by the Governor and confirmed by the Senate including: one retired CalSTRS member, three public representatives, and one school board representative.

Certain summary information concerning the DB Program is set forth below.

2. Members and Employers

As of June 30, 2019, the DB Program included 1,778 employers. The following table reflects the total number of members in the DB Program as of June 30, 2018 and 2019.

TABLE 38
DB Program Membership

Membership	June 30, 2018	June 30, 2019
Active Members	449,555	451,343
Inactive Members	198,186	204,707
Retirees and Beneficiaries	301,629	308,522
Total	949,370	964,572

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2018 and June 30, 2019 – Notes to Basic Financial Statements, Note 1.

CalSTRS reported in its Comprehensive Annual Financial Report for fiscal year ended June 30, 2019 that over the past six years, the number of active members had grown by 7 percent, while the number of retirees and beneficiaries had grown by 12 percent.

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 longevity 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, 2018, there were about 100,000 active PEPRA members. According to CalSTRS, there were about 117,000 active PEPRA members as of June 30, 2019, representing roughly 26 percent of the total active population.

Benefits are increased by 2 percent (a simple, not a compounded, cost-of-living increase) of the initial allowance, on each September 1 following the first anniversary of the effective date of the benefit.

The following table shows the amount of benefits and administrative expenses paid under the DB Program for fiscal years 2013-14 through 2017-18:

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

Fiscal Year	Amount of Benefits Paid	Administrative Expenses
2013-14	$11,414	$154
2014-15	11,972	146
2015-16	12,546	183
2016-17	13,226	180
2017-18	13,855	205

Source: CalSTRS Actuarial Valuations for Fiscal Years ended June 30, 2014 through 2018.

4. Funding for the DB Program

The DB Program is funded with a combination of investment earnings and contributions from members, employers, and the state. The DB Program is one of the four programs under the STRP. Although specific amounts vary from year to year, approximately 61 percent of total inflows to the STRP were derived from investment earnings, according to CalSTRS. As described below, historically 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, Governor Brown signed AB 1469, a comprehensive long-term funding solution intended to eliminate the current CalSTRS unfunded liability on the DB Program by 2046. The changes in contribution rates for members, employers and the state required by AB 1469 are described below. While the plan is intended to eliminate the unfunded liability of the DB Program by 2046, there is no assurance that it will be eliminated by that date. See "—Prospective Funding Status; Future Contributions" below. Accordingly, there can be no assurances that the required amounts annually payable among the members, employers, and state will not significantly increase in the future.

The 2020-21 Governor's Budget includes multiple supplemental pension payments from the state to CalSTRS. The proposed payments are discussed in further detail later in this section.

Member Contributions. Under AB 1469, the member contribution rate increased over time from 8 percent in fiscal year 2013-14 to 10.25 percent in fiscal year 2016-17 for members not subject to PEPRA, and to 9.205 percent in fiscal year 2016-17 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 PEPRA, the contribution rate for PEPRA members will be adjusted if the normal cost changes by more than 1 percent since the last time the member contribution rate was set. The contribution rate for PEPRA members was increased to 10.205 percent in fiscal year

2018-19 due to this condition being met. The current rate continues to be set at 10.25 percent for members not subject to PEPRA and 10.205 percent for members subject to PEPRA.

Employer Contributions. Employers are required to make contributions to the DB Program. Prior to the passage of AB 1469, the employer contribution rate was 8.25 percent of creditable compensation. Under AB 1469, employer contributions have increased from 8.25 percent of creditable compensation to the current rate of 18.13 percent. The rate is scheduled to increase to 19.1 percent of creditable compensation in fiscal year 2020-21 per AB 1469. Beginning in fiscal year 2021-22 through fiscal year 2045-46, AB 1469 authorizes the CalSTRS Board to adjust the employer contribution up or down 1 percentage point each year, but no higher than 20.25 percent total and no lower than 8.25 percent, to eliminate the remaining unfunded obligation that existed on July 1, 2014. CalSTRS currently anticipates that the CalSTRS Board would be asked to lower the employer rate the first time the CalSTRS Board will exercise this authority.

Included in the contribution rates listed above is 0.25 percent to be applied toward the cost of unused sick leave credit. Each year, a portion of the employers' contributions is also transferred to the Medicare Premium Program which has the effect of reducing aggregate annual contributions to the DB Program.

The 2019-20 Budget includes a $2.2 billion General Fund payment to CalSTRS in fiscal year 2018-19 on behalf of CalSTRS school employers. Of this amount, an estimated $356 million will be used to offset the fiscal year 2019-20 employer contribution rate by 1.03 percent, and an estimated $250 million will be used to offset the fiscal year 2020-21 employer contribution rate by 0.7 percent. The remaining $1.6 billion was allocated in fiscal year 2018-19 towards the CalSTRS employers' share of the unfunded liability for the DB Program, which is estimated to reduce the long-term employer contribution rate by 0.3 percent starting in fiscal year 2021-22. Based on CalSTRS actuarial assumptions as of the 2018 CalSTRS Valuation (defined below), this $2.2 billion payment is projected to save CalSTRS employers an estimated $5.0 billion over the next three decades. Revenues in fiscal years 2017-18 and 2018-19 were higher than anticipated, which resulted in additional resources, a portion of these resources were allocated in the 2019-20 Budget to payments in fiscal year 2018-19. See "CURRENT STATE BUDGET – Fiscal Year 2018-19 Revised General Fund Estimates in the 2019 Budget Act."

State Contributions. The state's General Fund base contribution to the DB Program is 2.017 percent of creditable compensation from two fiscal years prior. For example, for fiscal year 2011-12, the state's contribution was based on creditable compensation from fiscal year 2009-10. Before fiscal year 2014-15, the state also contributed a supplemental contribution based on a percentage of creditable compensation from two fiscal years prior when there is an unfunded obligation or a normal cost deficit exists for benefits in place as of July 1, 1990 in an amount not to exceed 1.505 percent of creditable compensation from two fiscal years prior.

Under AB 1469, the state increased its supplemental contribution to the July 1, 1990 benefit obligation to the current rate of 5.311 percent. Beginning in fiscal year 2017-18 through fiscal year 2045-46, the CalSTRS Board is authorized to adjust the supplemental state contribution rate up 0.50 percent each year to eliminate the unfunded obligation for benefits in place as of July 1, 1990. If there is no unfunded obligation, the supplemental contribution shall be reduced to zero. In fiscal years 2017-18, 2018-19, 2019-20, and 2020-21, the CalSTRS Board adopted the maximum increase allowed.

The 2020-21 Budget reflects a 8.328 percent total (base and supplemental) state contribution rate to the DB Program in fiscal year 2020-21, as expected to be approved by the CalSTRS Board at its May 2020 meeting.

As described above, AB 1469 provides the CalSTRS Board with limited authority to increase or decrease the school and state contributions based on changing conditions. The plan is intended to eliminate the unfunded liability of the DB Program by 2046. However, while AB 1469 provides for significant increases in the statutorily required contributions to CalSTRS from the state, employers and members, it does not provide that such statutory rates be adjusted to equal actuarially required amounts from time to time. Actuarially required amounts will vary from time to time based on a variety of factors, including actuarial assumptions, investment performance and member benefits. To the extent rates established pursuant to AB 1469 are less than actuarially required amounts from time to time, such circumstances could materially adversely affect the funded status of CalSTRS.

In addition to the statutorily-required state contribution, the 2020-21 Budget includes a $802 million supplemental pension payment in fiscal year 2020-21 towards the state's share of the unfunded liability for the DB Program. This payment is the second installment of an estimated $2.9 billion to be paid to CalSTRS for the DB Program through fiscal year 2022-23 using available Proposition 2 debt repayment funding. Based on CalSTRS actuarial assumptions as of the 2018 CalSTRS Valuation, the $2.9 billion in supplemental pension payments is estimated to result in total savings to the General Fund of $7.4 billion over the next three decades, and reduce the long-term state contribution rate by an estimated 0.5 percent to 0.6 percent starting in fiscal year 2022-23.

5. Accounting Standards

The Basic Financial Statements contained in the CalSTRS Comprehensive Annual Financial Report For Fiscal Year Ended June 30, 2019 (the "CalSTRS 2019 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 CalSTRS Comprehensive Annual Financial Report For Fiscal Year Ended June 30, 2019, is available on the CalSTRS website at www.calstrs.com. Such information is not incorporated by reference herein.

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 2019 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, 2019 (which is available on the CalSTRS website at www.calstrs.com, however, such information is not incorporated by reference herein), 35.299 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 37.17 percent or $34.4 billion as of the June 30, 2017 measurement date pursuant to the state's financial statements for the fiscal year ended June 30, 2018.

6. Funding for the SBMA

The SBMA is a separate account within the DB Program that is funded with a combination of investment income and contributions from the state. The contribution rate for the state's funding of the SBMA is determined by statute in the Education Code. The Purchasing Power Protection Program funded from the SBMA provides quarterly payments to retired and disabled members and beneficiaries to restore purchasing power to beneficiaries if the purchasing power of their initial retirement or disability allowances have fallen below a specified percentage. The Purchasing Power Protection Program payments are made only to the extent funds are available in the SBMA and are not a vested benefit.

The state's General Fund contribution to the SBMA is 2.5 percent of creditable compensation of the fiscal year ending in the prior calendar year, less a specified amount that is currently limited to $72 million.

The following table displays the total state contributions to CalSTRS for the DB Program, SBMA, and the additional Pre-1990 Defined Benefit supplemental payments scheduled pursuant to AB 1469 for fiscal years 2016-17 through 2020-21.

TABLE 40
Schedule of General Fund Contributions from the State
(Dollars in Millions)

Fiscal Year	DB Program	SBMA	Pre-1990 DB	Total
2016-17	$581	$649	$1,243	$2,473
2017-18	619	695	1,476	2,790
2018-19[(a)]	647	730	1,705	3,082
2019-20[(a)]	663	750	1,910	3,323
2020-21[(a)]	682	774	2,135	3,591

(a) The 2019-20 Budget includes multiple discretionary pension payments to CalSTRS that are not reflected in this table.
Source: State of California, Department of Finance.

7. Actuarial Methods and Assumptions

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 generally 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 January 2020, 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 January 2020 meeting, and they will be reflected in the June 30, 2019 actuarial valuation that will be completed in May 2020. The most recent valuation report for the DB Program, dated April 23, 2019 (the "2018 CalSTRS Valuation"), was prepared as of June 30, 2018 and was adopted by the CalSTRS Board at its May 2019 meeting. The assumptions used in the 2018 CalSTRS Valuation were adopted following the 2016 experience report and therefore do not include the new assumptions adopted in January 2020.

In preparing the 2018 CalSTRS Valuation, the CalSTRS Consulting Actuary used the Entry Age Actuarial Cost Method to measure the accruing costs of benefits under the DB Program. GASB Statements 67 and 68 require all state and local governments with pension liabilities to use the Entry Age Actuarial Cost Method beginning in fiscal year 2014-15 if they are not already doing so. Under the Entry Age Actuarial Cost Method, the actuarial present value of projected benefits of each individual is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. The portion of the actuarial present value allocated to the valuation year is called the normal cost and represents the cost assigned to a member for a given year, such that it would meet the continuing costs of a particular benefit if contributed each year starting with the date of membership. The CalSTRS Consulting Actuary notes that the Entry Age Actuarial Cost Method is designed to produce a normal cost rate that remains a level percentage of earned salaries and that the normal cost rate is expected to remain fairly stable so long as the benefit provisions are not amended, the assumptions are not changed, membership experience emerges as assumed, and the demographic characteristics of the membership remain reasonably consistent. Some of the key demographic information taken into account includes assumptions about membership, service retirements, disability retirements, deaths, and merit salary increases, and some of the economic items include assumptions about investment performance, inflation, and wage growth.

The portion of the actuarial value of benefits not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial obligation, and the excess, if any, of the actuarial obligation over the actuarial value of assets is the unfunded actuarial obligation. Assumptions about how long benefits will be paid for active and inactive members and when such members will retire and how long they will live are required in calculating the actuarial obligation, and economic assumptions and valuation methods are required in valuing assets. The following table sets forth certain actuarial methods and assumptions for the four fiscal years ended June 30.

TABLE 41
Actuarial Methods and Assumptions—DB Program

	Fiscal Year			
Methods	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Actuarial Cost Method	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization Method	Level Percent of payroll	Level Percent of payroll	Level Percent of payroll	Level Percent of payroll
Amortization Period	Closed	Closed	Closed	Closed
Remaining Amortization Period	31 years	30 years	30 years	30 years
Asset Valuation Method	Adjustment to market value	Adjustment to market value	Adjustment to market value	Adjustment to market value
Actuarial Assumptions				
Investment Rate of Return	7.50%	7.50%	7.25%	7.00%
Interest on Accounts	4.50	4.50	3.00	3.00
Wage Growth	3.75	3.75	3.50	3.50
Consumer Price Inflation	3.00	3.00	2.75	2.75
Post-retirement Benefit Increases	2.00 (simple)	2.00 (simple)	2.00 (simple)	2.00 (simple)

Source: CalSTRS Comprehensive Annual Financial Reports for Fiscal Years ended June 30, 2016 through June 30, 2019.

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 2018 CalSTRS Valuation uses the investment rate of return assumed for fiscal year 2019-20 (7.00 percent) to determine the state contribution rate for that same fiscal year.

At its January 31, 2020 meeting, the CalSTRS Board approved several changes to demographic assumptions, with the most significant changes being the termination and service retirement assumption. The demographic assumption changes were based on the July 1, 2015 through June 30, 2018 experience study also adopted by the CalSTRS Board in January 2020. These changes generally create additional funding pressures on the DB Plan.

8. Actuarial Valuation

In calculating the actuarial value of assets, contributions for the past year are added to the actuarial value of assets at the end of the prior year; benefits and expenses are subtracted; an assumed rate of return is added, and as described below, a portion of market value gains and losses are added or subtracted. The assumed investment rate of return on DB Program assets (net of investment and administrative expenses) and the assumed interest to be paid on refunds of member accounts are based in part on an inflation assumption of 2.75 percent for fiscal years 2017-18 and thereafter.

Actual market returns are taken into account but to reduce rate volatility, actual market gains and losses are spread or "smoothed" over a three-year period. That is, one third of the difference between the expected actuarial value of assets and the fair market value of assets is taken into account to determine the actuarial value of assets. Based on the 2018 CalSTRS Valuation, due to the asset smoothing method, approximately one-third of the approximately $5.2 billion investment gain has not been recognized (the difference between the AVA and MVA in Table 42 below). GASB Statements 67 and 68, beginning in fiscal year 2013-14 for pension plans and fiscal year 2014-15 for employers, required state and local governments with pension liabilities to recognize the differences between expected and actual investment returns over a closed 5-year period instead of the 3-year period currently used by CalSTRS. CalSTRS continues to use 3-year period for valuation purposes and the 5-year period for financial reporting purposes.

9. Funding Status

The following table sets forth the schedule of funding status as of the five most recent actuarial valuation dates based on information provided by CalSTRS from the actuarial valuation reports for such years. Funding status is measured by a comparison of DB Program assets with DB Program liabilities.

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

	Fiscal Year as of June 30				
	2013-14[(a)]	**2014-15[(a)]**	**2015-16[(a)]**	**2016-17[(a)]**	**2017-18[(a)]**
Market Value of Assets (MVA)	$169,406	$169,127	$165,118	$183,482	$195,611
Actuarial Value of Assets (AVA)	158,495	165,553	169,976	179,689	190,451
Actuarial Accrued Liabilities (AAL)-entry age	231,213	241,753	266,704	286,950	297,603
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis[(a)]	(61,807)	(72,626)	(101,586)	(103,468)	(101,992)
Excess of Actuarial Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) AVA Basis	(72,718)	(76,200)	(96,728)	(107,261)	(107,152)
Covered Payroll	26,470	28,013	29,826	31,136	31,884
Funded Ratio (MVA)	73%	70%	62%	64%	66%
Funded Ratio (AVA)	69%	69%	64%	63%	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, 2016, 2017, and 2018 CalSTRS Valuation.

Source: CalSTRS Actuarial Valuations for Fiscal Years ended June 30, 2014 through June 30, 2018.

The market value of the entire DB Program investment portfolio (including the SBMA assets) was $211.4 billion as of June 30, 2018, a 6.9 percent increase from $197.7 billion on June 30, 2017.

10. Prospective Funding Status; Future Contributions

The CalSTRS Board increased the state contribution rate by 0.5 percent of payroll, to 8.328 percent, effective July 1, 2020. The 2020-21 Budget includes $3.6 billion from the General Fund for fiscal year 2020-21 state contributions to CalSTRS. The 0.5 percent increase in the state contribution rate results in an approximately $169 million increase in General Fund contributions for fiscal year 2020-21. Under the current CalSTRS actuarial assumptions and the AB 1469 funding plan, with the supplemental pension payments, the state contribution rate is expected to increase by 0.5 percent for fiscal years 2021-22 and 2022-23 and remain roughly the same through 2045-46.

According to the 2018 CalSTRS Valuation, future revenues from contributions and appropriations for the DB Program are projected to be sufficient to finance its obligation by 2046, except for a small portion of the UAAL attributable to new benefits attributable to post-2014 service that is not actuarially funded. This amount is estimated to be $65 million as of June 30, 2018.

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. The CalSTRS Board approved updated asset allocation targets at its November 6, 2019 meeting. Additional information concerning CalSTRS investments can be found on the CalSTRS website. Such information is not incorporated by reference herein.

The following tables sets forth the total return on all CalSTRS' assets (including the DB Program assets) for the fiscal years ended June 30, 2010 through June 30, 2019, as well as time-weighted average returns.

TABLE 43
CalSTRS Investment Results Based On Market Value

Fiscal Year	Time-Weighted Annual Return
2009-10	11.95%
2010-11	22.83
2011-12	1.59
2012-13	13.55
2013-14	18.30
2014-15	4.52
2015-16	1.35
2016-17	13.44
2017-18	8.99
2018-19	6.82

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2019.

TABLE 44
CalSTRS Time-Weighted Gross Returns as of June 30, 2019

Period	Time-Weighted Rate of Return
3 years	9.72%
5 years	6.95
10 years	10.13
20 years	6.20

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2019.

The 5-year and 20-year rates of return are below the 7.00 percent rate of return, CalSTRS' actuarially assumed rate of return for fiscal year 2018-19.

June 2019

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

BETTY T. YEE
California State Controller

BETTY T. YEE
California State Controller

July 10, 2019

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2018, through June 30, 2019. This statement reflects the State of California's General Fund cash position, and compares actual receipts and disbursements for the 2018-19 fiscal year to cash flow estimates prepared by the Department of Finance (DOF) for the 2018-19 Budget Act. The statement is prepared in compliance with Provision 5 of Budget Act item 0840-001-0001, using records compiled by the State Controller. Prior-year actual amounts also are displayed for comparative purposes.

Attachment A compares actual receipts and disbursements for the 2018-19 fiscal year to cash flow estimates published in the 2019-20 May Revision to the Governor's Budget. These cash flow estimates are predicated on projections and assumptions made by DOF in preparation of the 2019-20 May Revision.

Attachment B compares actual receipts and disbursements for the 2018-19 fiscal year to cash flow estimates prepared by DOF based upon the 2018-19 Budget Act.

These statements also are available online at www.sco.ca.gov under the category Monthly Financial Reports.

Please direct any questions relating to this report to Casandra Moore-Hudnall, Chief of the State Accounting and Reporting Division, by telephone at (916) 445-5834.

Sincerely,

Original signed by

BETTY T. YEE

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2019-20 May Revision Estimates
(Amounts in thousands)

	July 1 through June 30				
	2019				2018
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ 5,540,527**	**$ 5,540,527**	**$ -**	**-**	**$ -**
Add Receipts:					
Revenues	141,652,851	142,932,388	(1,279,537) (i)	(0.9)	135,289,821
Nonrevenues	3,959,928	4,047,900	(87,972) (g)	(2.2)	1,442,468
Total Receipts	145,612,779	146,980,288	(1,367,509)	(0.9)	136,732,289
Less Disbursements (c):					
State Operations	35,481,234	36,755,766	(1,274,532)	(3.5)	32,619,395
Local Assistance	98,217,752	99,964,574	(1,746,822)	(1.7)	90,774,228
Capital Outlay	872,073	853,519	18,554	2.2	(757,748)
Nongovernmental	11,184,178	11,560,173	(375,995)	(3.3)	3,716,602
Total Disbursements	145,755,237	149,134,032	(3,378,795)	(2.3)	126,352,477
Receipts Over / (Under) Disbursements	(142,458)	(2,153,744)	2,011,286	(93.4)	10,379,812
Net Increase / (Decrease) in Temporary Loans	-	-	-	-	(4,839,285)
GENERAL FUND ENDING CASH BALANCE	5,398,069	3,386,783	2,011,286		5,540,527
Special Fund for Economic Uncertainties	2,063,135	1,962,010	101,125	5.2	1,248,929
TOTAL CASH	**$ 7,461,204**	**$ 5,348,793**	**$ 2,112,411**		**$ 6,789,456**

BORROWABLE RESOURCES

	Actual	Estimate (a)	Amount	%	2018 Actual
Special Fund for Economic Uncertainties	$ 2,063,135	$ 1,962,010	$ 101,125	5.2	$ 1,248,929
Budget Stabilization Account	11,157,422	11,157,422	-	-	8,486,422
Other Internal Sources (f)	44,413,749	41,169,000	3,244,749	7.9	36,923,643
Cash Balance from Borrowable Resources	57,634,306	54,288,432	3,345,874	6.2	46,658,994
Less:					
PMIA Loans (AB 55, GC 16312 and 16313)	778,773	800,000	(21,227)	(2.7)	733,964
SMIF Loans (SB 84, GC 20825)	5,747,295	5,795,000	(47,705)	(0.8)	6,000,000
Total Available Borrowable Resources (e)	51,108,238	47,693,432	3,414,806	7.2	39,925,030
Outstanding Loans to General Fund (b)	-	-	-	-	-
Outstanding Loans to the SFEU Fund (h)	-	-	-	-	-
Unused Borrowable Resources	$ 51,108,238	$ 47,693,432	$ 3,414,806	7.2	$ 39,925,030

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2018-19 fiscal year was prepared by the Department of Finance for the 2019-20 May Revision. Any projections or estimates are set forth as such and not as representation of facts.
(b) The ending cash balance for the fiscal year is $5.40 billion with $0.00 in oustanding loans at June 30, 2019.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.
(e) Cash Balance from Borrowable Resources has been reduced by Pooled Money Investment Account (PMIA) loans pursuant to Assembly Bill (AB) 55 (Government Code (GC) sections 16312 and 16313) and Surplus Money Investment Fund (SMIF) loans pursuant to Senate Bill (SB) 84 (Chapter 50/17, GC section 20825).
(f) Other Internal Sources balance includes $200.0 million for the CalWORKs Subaccount, Safety Net Reserve Fund pursuant to AB 1830 (Chapter 42/18, Welfare and Institutions Code section 11011).
(g) A $3.15 billion transfer was made from the Special Fund for Economic Uncertainties for Disaster Response-Emergency Operations Account pursuant to GC section 8690.6(a) and Emergency Declarations issued by the Governor and for the California Student Aid Commission pursuant to Provision 3 of Item 6980-101-0001 of the Budget Act of 2017.
(h) $2.89 billion in payments for California wildfires were made from the Disaster Response-Emergency Account in December, pursuant to Government Code (GC) Section 8690.6. These payments were funded from the SFEU from $1.03 billion available cash and a $1.86 billion cash flow loan from the Budget Stabilization Account pursuant to GC 16351. The loan was repaid in January 2019.
(i) The Revenue variance is partially due to timing delays resulting from the additional time necessary to process and record FI$Cal agency receipts into the Controller's book of record.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2019				2018
	2019	2018	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 24,027	$ 30,576	$ 353,296	$ 380,899	$ (27,603)	(7.2)	$ 381,670
Corporation Tax	3,487,867	3,234,380	13,792,520	13,632,877	159,643	1.2	12,488,304
Cigarette Tax	8,592	8,045	59,099	63,270	(4,171)	(6.6)	69,145
Estate, Inheritance, and Gift Tax	-	5	344	334	10	3.0	577
Insurance Companies Tax	473,324	235,105	2,720,717	2,642,792	77,925	2.9	2,574,537
Personal Income Tax	12,558,559	12,571,919	98,313,017	98,507,018	(194,001)	(0.2)	93,478,159
Retail Sales and Use Taxes	1,016,938	3,145,955	24,673,845	26,026,874	(1,353,029)	(5.2)	24,859,910
Vehicle License Fees	1	1	4	-	4	-	8
Pooled Money Investment Interest	50,896	34,575	543,985	534,019	9,966	1.9	181,979
Not Otherwise Classified	634,026	650,672	1,196,024	1,144,305	51,719	4.5	1,255,532
Total Revenues	**18,254,230**	**19,911,233**	**141,652,851**	**142,932,388**	**(1,279,537)**	**(0.9)**	**135,289,821**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	(101,125)	9,427	3,050,207	3,151,332	(101,125) (g)	(3.2)	460,217
Transfers from Other Funds	200,949	7,802	537,906	524,722	13,184	2.5	481,564
Miscellaneous	23,512	61,526	371,815	371,846	(31)	(0.0)	500,687
Total Nonrevenues	**123,336**	**78,755**	**3,959,928**	**4,047,900**	**(87,972)**	**(2.2)**	**1,442,468**
Total Receipts	**$ 18,377,566**	**$ 19,989,988**	**$ 145,612,779**	**$ 146,980,288**	**$ (1,367,509)**	**(0.9)**	**$ 136,732,289**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2019				2018
	2019	2018	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 147,661	$ (173,588)	$ 1,620,463	$ 1,712,389	$ (91,926)	(5.4)	$ 1,350,393
Business, Consumer Services and Housing	(456)	99	28,994	36,593	(7,599)	(20.8)	26,738
Transportation	8,837	-	12,251	3,413	8,838	259.0	1,752
Resources	80,768	(38,646)	2,462,113	2,557,978	(95,865)	(3.7)	1,801,916
Environmental Protection Agency	91,634	10,283	496,535	423,059	73,476	17.4	130,426
Health and Human Services:							
Health Care Services and Public Health	(11,316)	2,445	314,564	350,815	(36,251)	(10.3)	286,034
Department of State Hospitals	149,217	97,976	1,639,179	1,657,761	(18,582)	(1.1)	1,513,814
Other Health and Human Services	47,252	28,999	654,814	767,786	(112,972)	(14.7)	625,945
Education:							
University of California	27,250	103,839	3,699,807	3,670,797	29,010	0.8	3,533,017
State Universities and Colleges	(49)	2,600	3,788,970	3,787,135	1,835	0.0	3,473,025
Other Education	18,158	16,358	247,609	258,964	(11,355)	(4.4)	227,965
Dept. of Corrections and Rehabilitation	938,348	883,482	12,107,231	12,233,939	(126,708)	(1.0)	11,399,040
Governmental Operations	91,380	340,811	1,227,716	1,227,252	464	0.0	1,041,567
General Government	234,436	230,533	2,373,528	2,360,286	13,242	0.6	2,189,544
Public Employees Retirement System	(276,558)	(258,155)	(57,911)	763,978	(821,889)	(107.6)	(68,718)
Debt Service (d)	(67,432)	(67,150)	4,828,615	4,905,659	(77,044)	(1.6)	5,064,396
Interest on Loans	3,234	3,041	36,756	37,962	(1,206)	(3.2)	22,541
Total State Operations	**1,482,364**	**1,182,927**	**35,481,234**	**36,755,766**	**(1,274,532)**	**(3.5)**	**32,619,395**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	5,239,884	4,122,063	49,464,015	51,034,439	(1,570,424)	(3.1)	45,755,685
Community Colleges	665,939	499,353	6,328,059	6,263,448	64,611	1.0	5,607,465
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	3,082,316	3,082,315	1	0.0	2,790,444
Other Education	50,588	19,320	2,776,374	2,807,356	(30,982)	(1.1)	2,247,807
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	6,293	3,637	286,410	292,146	(5,736)	(2.0)	220,265
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	-
Health Care Services and Public Health:							
Medical Assistance Program	1,635,926	2,847,471	19,470,805	19,626,489	(155,684)	(0.8)	19,965,548
Other Health Care Services/Public Health	(3,376)	28,600	361,103	391,400	(30,297)	(7.7)	269,456
Developmental Services - Regional Centers	215,643	(14,310)	4,188,233	4,160,892	27,341	0.7	3,529,107
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	492,582	369,302	6,766,836	6,540,720	226,116	3.5	6,139,873
CalWORKs	19,976	(105,640)	797,182	743,665	53,517	7.2	549,443
Other Social Services	151,172	79,856	1,072,699	1,137,349	(64,650)	(5.7)	1,086,107
Tax Relief	(1)	285	411,326	426,717	(15,391)	(3.6)	411,612
Other Local Assistance	125,424	86,453	3,212,394	3,457,638	(245,244)	(7.1)	2,201,416
Total Local Assistance	**8,600,050**	**7,936,390**	**98,217,752**	**99,964,574**	**(1,746,822)**	**(1.7)**	**90,774,228**

See notes on page A1.

(Continued)

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

	Month of June		July 1 through June 30				
			2019				2018
	2019	2018	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**14,048**	**2,673**	**872,073**	**853,519**	**18,554**	**2.2**	**(757,748)**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	3,823,968	3,823,968	-	-	-
Transfer to Budget Stabilization Account	-	-	2,676,000	2,676,000	-	-	2,289,000
Transfer to Other Funds	147,925	116,050	4,789,312	5,111,096	(321,784)	(6.3)	1,313,010
Transfer to Revolving Fund	(3,717)	(3,379)	19,388	23,106	(3,718)	(16.1)	4,616
Advance:							
MediCal Provider Interim Payment	-	(1,000,000)	-	-	-	-	-
State-County Property Tax Administration Program	(18,113)	(18,141)	4,926	45,048	(40,122)	(89.1)	16,526
Social Welfare Federal Fund	-	38,200	(38,200)	(38,200)	-	-	29,001
Local Governmental Entities	295	-	(235)	(517)	282	(54.5)	(1,243)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	276,476	367,457	(90,981)	(80,328)	(10,653)	13.3	65,692
Total Nongovernmental	**402,866**	**(499,813)**	**11,184,178**	**11,560,173**	**(375,995)**	**(3.3)**	**3,716,602**
Total Disbursements	**$ 10,499,328**	**$ 8,622,177**	**$ 145,755,237**	**$ 149,134,032**	**$ (3,378,795)**	**(2.3)**	**$ 126,352,477**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (1,962,010)	$ (1,251,179)	$ -	$ -	$ -	-	$ (1,748,646)
Budget Stabilization Account	(518,159)	(4,576,105)	-	-	-	-	(3,090,639)
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	-	-	-	-	-	-	-
Revenue Anticipation Notes	-	-	-	-	-	-	-
Net Increase / (Decrease) Loans	**$ (2,480,169)**	**$ (5,827,284)**	**$ -**	**$ -**	**$ -**	**-**	**$ (4,839,285)**

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**	
	2019	2018	2019	2018
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 353,296	$ 381,670	$ -	$ -
Corporation Tax	13,792,520	12,488,304	(1)	-
Cigarette Tax	59,099	69,145	1,920,050	2,358,976
Cannabis Excise Taxes	-	-	256,536	40,291
Estate, Inheritance, and Gift Tax	344	577	-	-
Insurance Companies Tax	2,720,717	2,574,537	8,406	(1,625,854)
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	6,432,831	5,590,039
Diesel & Liquid Petroleum Gas	-	-	1,146,597	791,885
Jet Fuel Tax	-	-	3,372	3,247
Vehicle License Fees	4	8	2,967,438	2,839,006
Personal Income Tax	98,313,017	93,478,159	1,766,904	1,674,071
Retail Sales and Use Taxes	24,673,845	24,859,910	14,669,721	14,648,272
Pooled Money Investment Interest	543,985	181,979	1,213	4,671
Total Major Taxes, Licenses, and Investment Income	**140,456,827**	**134,034,289**	**29,173,067**	**26,324,604**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fees	1,892	2,010	64,856	58,508
Motor Vehicle Registration and Other Fees	(1)	-	6,970,530	5,843,078
Cannabis Licensing Fees	-	-	23,006	990
Electrical Energy Tax	-	-	712,691	688,489
Private Rail Car Tax	9,905	9,746	-	-
Penalties on Traffic Violations	-	-	174	719
Health Care Receipts	2,986	7,886	-	-
Revenues from State Lands	95,266	91,105	-	-
Abandoned Property	440,001	412,141	-	-
Trial Court Revenues	33,668	35,232	1,518,039	1,506,002
Horse Racing Fees	669	1,000	12,766	14,871
Cap and Trade	-	-	3,207,446	2,913,175
Miscellaneous Tax Revenue	-	-	2,455,615	4,146,600
Miscellaneous	611,638	696,412	15,174,926	14,770,185
Not Otherwise Classified	**1,196,024**	**1,255,532**	**30,140,049**	**29,942,617**
Total Revenues, All Governmental Cost Funds	**$ 141,652,851**	**$ 135,289,821**	**$ 59,313,116**	**$ 56,267,221**

See notes on page A1.

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2018-19 Budget Act
(Amounts in thousands)

	July 1 through June 30				
	2019				2018
	Actual	Estimate (a)	Actual Over or (Under) Estimate: Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ 5,540,527**	**$ 5,540,527**	**$ -**	**-**	**$ -**
Add Receipts:					
Revenues	141,652,851	138,239,769	3,413,082 (j)	2.5	135,289,821
Nonrevenues	3,959,928	680,480	3,279,448 (g)	481.9	1,442,468
Total Receipts	145,612,779	138,920,249	6,692,530	4.8	136,732,289
Less Disbursements (c):					
State Operations	35,481,234	35,384,200	97,034	0.3	32,619,395
Local Assistance	98,217,752	103,693,427	(5,475,675) (i)	(5.3)	90,774,228
Capital Outlay	872,073	1,146,204	(274,131)	(23.9)	(757,748)
Nongovernmental	11,184,178	8,431,395	2,752,783	32.6	3,716,602
Total Disbursements	145,755,237	148,655,226	(2,899,989)	(2.0)	126,352,477
Receipts Over / (Under) Disbursements	(142,458)	(9,734,977)	9,592,519	(98.5)	10,379,812
Net Increase / (Decrease) in Temporary Loans	-	4,194,450	(4,194,450)	(100.0)	(4,839,285)
GENERAL FUND ENDING CASH BALANCE	5,398,069	-	5,398,069		5,540,527
Special Fund for Economic Uncertainties	2,063,135	1,962,010	101,125	5.2	1,248,929
TOTAL CASH	**$ 7,461,204**	**$ 1,962,010**	**$ 5,499,194**		**$ 6,789,456**

BORROWABLE RESOURCES

	2019 Actual	2019 Estimate (a)	Amount	%	2018 Actual
Special Fund for Economic Uncertainties	$ 2,063,135	$ 1,962,000	$ 101,135	5.2	$ 1,248,929
Budget Stabilization Account	11,157,422	13,768,422	(2,611,000)	(19.0)	8,486,422
Other Internal Sources (f)	44,413,749	38,656,000	5,757,749	14.9	36,923,643
Cash Balance from Borrowable Resources	57,634,306	54,386,422	3,247,884	6.0	46,658,994
Less:					
PMIA Loans (AB 55, GC 16312 and 16313)	778,773	700,000	78,773	11.3	733,964
SMIF Loans (SB 84, GC 20825)	5,747,295	5,795,000	(47,705)	(0.8)	6,000,000
Total Available Borrowable Resources (e)	51,108,238	47,891,422	3,216,816	6.7	39,925,030
Outstanding Loans to General Fund (b)	-	4,194,450	(4,194,450)	(100.0)	-
Outstanding Loans to the SFEU Fund (h)	-	-	-	-	
Unused Borrowable Resources	$ 51,108,238	$ 43,696,972	$ 7,411,266	17.0	$ 39,925,030

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2018-19 fiscal year was prepared by the Department of Finance for the 2018-19 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.
(b) The ending cash balance for the fiscal year is $5.40 billion with $0.00 in oustanding loans at June 30, 2019.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.
(e) Cash Balance from Borrowable Resources has been reduced by Pooled Money Investment Account (PMIA) loans pursuant to Assembly Bill (AB) 55 (Government Code (GC) sections 16312 and 16313) and Surplus Money Investment Fund (SMIF) loans pursuant to Senate Bill (SB) 84 (Chapter 50/17, GC section 20825).
(f) Other Internal Sources balance includes $200.0 million for the CalWORKs Subaccount, Safety Net Reserve Fund pursuant to AB 1830 (Chapter 42/18, Welfare and Institutions Code section 11011).
(g) A $3.15 billion transfer was made from the Special Fund for Economic Uncertainties for Disaster Response-Emergency Operations Account pursuant to GC section 8690.6(a) and Emergency Declarations issued by the Governor and for the California Student Aid Commission pursuant to Provision 3 of Item 6980-101-0001 of the Budget Act of 2017.
(h) $2.89 billion in payments for California wildfires were made from the Disaster Response-Emergency Account in December, pursuant to Government Code (GC) Section 8690.6. These payments were funded from the SFEU from $1.03 billion available cash and a $1.86 billion cash flow loan from the Budget Stabilization Account pursuant to GC 16351. The loan was repaid in January 2019.
(i) Medical Assistance Program disbursements were lower than anticipated in the 2018-19 Budget Act due to delay in Managed Care payments.
(j) The Revenue variance is partially due to timing delays resulting from the additional time necessary to process and record FI$Cal agency receipts into the Controller's book of record.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				2018
			2019				
					Actual Over or (Under) Estimate		
	2019	2018	Actual	Estimate (a)	Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 24,027	$ 30,576	$ 353,296	$ 377,338	$ (24,042)	(6.4)	$ 381,670
Corporation Tax	3,487,867	3,234,380	13,792,520	12,224,381	1,568,139	12.8	12,488,304
Cigarette Tax	8,592	8,045	59,099	64,597	(5,498)	(8.5)	69,145
Estate, Inheritance, and Gift Tax	-	5	344	-	344	-	577
Insurance Companies Tax	473,324	235,105	2,720,717	2,575,567	145,150	5.6	2,574,537
Personal Income Tax	12,558,559	12,571,919	98,313,017	95,046,975	3,266,042	3.4	93,478,159
Retail Sales and Use Taxes	1,016,938	3,145,955	24,673,845	26,543,100	(1,869,255)	(7.0)	24,859,910
Vehicle License Fees	1	1	4	-	4	-	8
Pooled Money Investment Interest	50,896	34,575	543,985	325,228	218,757	67.3	181,979
Not Otherwise Classified	634,026	650,672	1,196,024	1,082,583	113,441	10.5	1,255,532
Total Revenues	**18,254,230**	**19,911,233**	**141,652,851**	**138,239,769**	**3,413,082**	**2.5**	**135,289,821**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	(101,125)	9,427	3,050,207	-	3,050,207 (g)	-	460,217
Transfers from Other Funds	200,949	7,802	537,906	491,215	46,691	9.5	481,564
Miscellaneous	23,512	61,526	371,815	189,265	182,550	96.5	500,687
Total Nonrevenues	**123,336**	**78,755**	**3,959,928**	**680,480**	**3,279,448**	**481.9**	**1,442,468**
Total Receipts	**$ 18,377,566**	**$ 19,989,988**	**$ 145,612,779**	**$ 138,920,249**	**$ 6,692,530**	**4.8**	**$ 136,732,289**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2019				2018
	2019	2018	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 147,661	$ (173,588)	$ 1,620,463	$ 1,627,461	$ (6,998)	(0.4)	$ 1,350,393
Business, Consumer Services and Housing	(456)	99	28,994	35,010	(6,016)	(17.2)	26,738
Transportation	8,837	-	12,251	3,408	8,843	259.5	1,752
Resources	80,768	(38,646)	2,462,113	2,527,022	(64,909)	(2.6)	1,801,916
Environmental Protection Agency	91,634	10,283	496,535	88,789	407,746	459.2	130,426
Health and Human Services:							
Health Care Services and Public Health	(11,316)	2,445	314,564	333,150	(18,586)	(5.6)	286,034
Department of State Hospitals	149,217	97,976	1,639,179	1,688,748	(49,569)	(2.9)	1,513,814
Other Health and Human Services	47,252	28,999	654,814	716,657	(61,843)	(8.6)	625,945
Education:							
University of California	27,250	103,839	3,699,807	3,728,762	(28,955)	(0.8)	3,533,017
State Universities and Colleges	(49)	2,600	3,788,970	3,753,457	35,513	0.9	3,473,025
Other Education	18,158	16,358	247,609	248,897	(1,288)	(0.5)	227,965
Dept. of Corrections and Rehabilitation	938,348	883,482	12,107,231	11,317,186	790,045	7.0	11,399,040
Governmental Operations	91,380	340,811	1,227,716	1,163,131	64,585	5.6	1,041,567
General Government	234,436	230,533	2,373,528	3,394,268	(1,020,740)	(30.1)	2,189,544
Public Employees Retirement System	(276,558)	(258,155)	(57,911)	41,353	(99,264)	(240.0)	(68,718)
Debt Service (d)	(67,432)	(67,150)	4,828,615	4,672,932	155,683	3.3	5,064,396
Interest on Loans	3,234	3,041	36,756	43,969	(7,213)	(16.4)	22,541
Total State Operations	**1,482,364**	**1,182,927**	**35,481,234**	**35,384,200**	**97,034**	**0.3**	**32,619,395**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	5,239,884	4,122,063	49,464,015	51,574,879	(2,110,864)	(4.1)	45,755,685
Community Colleges	665,939	499,353	6,328,059	6,243,333	84,726	1.4	5,607,465
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	3,082,316	3,082,316	-	-	2,790,444
Other Education	50,588	19,320	2,776,374	2,879,420	(103,046)	(3.6)	2,247,807
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	6,293	3,637	286,410	277,614	8,796	3.2	220,265
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	-
Health Care Services and Public Health:							
Medical Assistance Program	1,635,926	2,847,471	19,470,805	22,912,480	(3,441,675) (i)	(15.0)	19,965,548
Other Health Care Services/Public Health	(3,376)	28,600	361,103	256,628	104,475	40.7	269,456
Developmental Services - Regional Centers	215,643	(14,310)	4,188,233	3,853,182	335,051	8.7	3,529,107
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	492,582	369,302	6,766,836	6,482,450	284,386	4.4	6,139,873
CalWORKs	19,976	(105,640)	797,182	1,179,874	(382,692)	(32.4)	549,443
Other Social Services	151,172	79,856	1,072,699	1,200,950	(128,251)	(10.7)	1,086,107
Tax Relief	(1)	285	411,326	420,001	(8,675)	(2.1)	411,612
Other Local Assistance	125,424	86,453	3,212,394	3,330,300	(117,906)	(3.5)	2,201,416
Total Local Assistance	**8,600,050**	**7,936,390**	**98,217,752**	**103,693,427**	**(5,475,675)**	**(5.3)**	**90,774,228**

See notes on page A1.

(Continued)

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

	Month of June		July 1 through June 30				
			2019				2018
	2019	2018	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**14,048**	**2,673**	**872,073**	**1,146,204**	**(274,131)**	**(23.9)**	**(757,748)**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	3,823,968	710,871	3,113,097	437.9	-
Transfer to Budget Stabilization Account	-	-	2,676,000	2,671,000	5,000	0.2	2,289,000
Transfer to Other Funds	147,925	116,050	4,789,312	4,905,781	(116,469)	(2.4)	1,313,010
Transfer to Revolving Fund	(3,717)	(3,379)	19,388	-	19,388	-	4,616
Advance:							
MediCal Provider Interim Payment	-	(1,000,000)	-	-	-	-	-
State-County Property Tax Administration Program	(18,113)	(18,141)	4,926	-	4,926	-	16,526
Social Welfare Federal Fund	-	38,200	(38,200)	-	(38,200)	-	29,001
Local Governmental Entities	295	-	(235)	-	(235)	-	(1,243)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	276,476	367,457	(90,981)	143,743	(234,724)	(163.3)	65,692
Total Nongovernmental	**402,866**	**(499,813)**	**11,184,178**	**8,431,395**	**2,752,783**	32.6	**3,716,602**
Total Disbursements	**$ 10,499,328**	**$ 8,622,177**	**$ 145,755,237**	**$ 148,655,226**	**$ (2,899,989)**	**(2.0)**	**$ 126,352,477**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (1,962,010)	$ (1,251,179)	$ -	$ 1,962,000	$ (1,962,000)	(100.0)	$ (1,748,646)
Budget Stabilization Account	(518,159)	(4,576,105)	-	2,232,450	(2,232,450)	(100.0)	(3,090,639)
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	-	-	-	-	-	-	-
Revenue Anticipation Notes	-	-	-	-	-	-	-
Net Increase / (Decrease) Loans	**$ (2,480,169)**	**$ (5,827,284)**	**$ -**	**$ 4,194,450**	**$ (4,194,450)**	**(100.0)**	**$ (4,839,285)**

See notes on page A1.

(Concluded)

January 2020

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

BETTY T. YEE
California State Controller

BETTY T. YEE
California State Controller

February 10, 2020

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period of July 1, 2019, through January 31, 2020. This statement reflects the State of California's General Fund cash position, and compares actual receipts and disbursements for the 2019-20 fiscal year to cash flow estimates prepared by the Department of Finance (DOF).

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 also are displayed for comparative purposes.

Attachment A compares actual receipts and disbursements for the 2019-20 fiscal year to cash flow estimates published in the 2020-21 Governor's Budget. These cash flow estimates are predicated on projections and assumptions made by the DOF in preparation of the 2020-21 Governor's Budget.

Attachment B compares actual receipts and disbursements for the 2019-20 fiscal year to cash flow estimates prepared by the DOF based upon the 2019-20 Budget Act.

These statements also are available online at www.sco.ca.gov under the category Monthly Financial Reports, located on the Financial Report, Taxes, and Economy page.

Please direct any questions relating to this report to Liz Cornell, Acting Division Chief of the State Accounting and Reporting Division, by telephone at (916) 322-7407.

Sincerely,

Original signed by

BETTY T. YEE

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2020-21 Governor's Budget Estimates
(Amounts in thousands)

	July 1 through January 31				
	2020				2019
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ 5,398,069**	**$ 5,398,069**	**$ -**	**-**	**$ 5,540,527**
Add Receipts:					
Revenues	83,734,156	81,622,196	2,111,960 (g)	2.6	74,417,980
Nonrevenues	1,013,816	1,061,049	(47,233)	(4.5)	3,624,037
Total Receipts	84,747,972	82,683,245	2,064,727	2.5	78,042,017
Less Disbursements (c):					
State Operations	30,745,047	31,082,358	(337,311)	(1.1)	21,344,389
Local Assistance	63,208,817	62,101,670	1,107,147	1.8	58,060,537
Capital Outlay	156,456	235,157	(78,701)	(33.5)	841,875
Nongovernmental	7,159,119	7,275,560	(116,441)	(1.6)	10,390,895
Total Disbursements	101,269,439	100,694,745	574,694	0.6	90,637,696
Receipts Over / (Under) Disbursements	(16,521,467)	(18,011,500)	1,490,033	(8.3)	(12,595,679)
Net Increase / (Decrease) in Temporary Loans	11,123,398	12,613,431	(1,490,033)	(11.8)	7,055,152
GENERAL FUND ENDING CASH BALANCE	-	-	-		-
Special Fund for Economic Uncertainties	-	-	-	-	
TOTAL CASH	**$ -**	**$ -**	**$ -**		**$ -**

BORROWABLE RESOURCES

	Actual 2020	Estimate (a)	Amount	%	Actual 2019
Special Fund for Economic Uncertainties	$ 1,411,515	$ 1,411,515	$ -	-	$ 1,962,010
Budget Stabilization Account	16,516,422	16,516,422	-	-	11,157,422
Other Internal Sources (f)	45,839,557	40,586,000	5,253,557	12.9	42,740,689
Cash Balance from Borrowable Resources	63,767,494	58,513,937	5,253,557	9.0	55,860,121
Less:					
PMIA Loans (AB 55, GC 16312 and 16313)	617,241	800,000	(182,759)	(22.8)	800,905
SMIF Loans (SB 84, GC 20825)	5,041,501	5,041,000	501	0.0	5,759,740
SMIF Loans (AB 1054, PUC 3285)	2,000,000	2,000,000	-	-	-
Total Available Borrowable Resources (e)	56,108,752	50,672,937	5,435,815	10.7	49,299,476
Outstanding Loans to General Fund (b)	11,123,398	12,613,431	(1,490,033)	(11.8)	7,055,152
Outstanding Loans to the SFEU Fund	-	-	-	-	-
Unused Borrowable Resources	$ 44,985,354	$ 38,059,506	$ 6,925,848	18.2	$ 42,244,324

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 2019-20 fiscal year was prepared by the Department of Finance for the 2020-21 Governor's Budget. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $11.12 billion is comprised of $11.12 billion of internal borrowing. Current balance is comprised of $0.00 carried forward from June 30, 2019, plus current year Net Increase/(Decrease) in Temporary Loans of $11.12 billion.
(c) If shown, 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 (Chapter 6/1987, Government Code (GC) sections 16312 and 16313) and Surplus Money Investment Fund (SMIF) loans pursuant to Senate Bill (SB) 84 (Chapter 50/2017, GC section 20825) and AB 1054 (Chapter 79/2019, Public Utilities Codes (PUC) section 3285).
(f) Other Internal Sources balance includes $900.0 million for the Safety Net Reserve Fund pursuant to AB 1830 (Chapter 42/2018, Welfare and Institutions Code (WIC) section 11011).
(g) The Revenue variance is partially due to timing delays resulting from the additional time necessary to process and record FI$Cal agency receipts into the Controller's book of record.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of January		July 1 through January 31				
			2020				2019
	2020	2019	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 31,145	$ 36,709	$ 259,334	$ 242,321	$ 17,013	7.0	$ 215,055
Corporation Tax	555,744	579,166	5,910,237	6,025,658	(115,421)	(1.9)	4,796,705
Cigarette Tax	7,921	4,703	39,915	34,374	5,541	16.1	34,133
Estate, Inheritance, and Gift Tax	84	3	221	135	86	63.7	289
Insurance Companies Tax	22,907	2,447	1,504,352	1,505,287	(935)	(0.1)	1,268,313
Personal Income Tax	19,158,560	16,359,140	59,270,748	57,212,462	2,058,286	3.6	53,796,605
Retail Sales and Use Taxes	1,623,003	1,592,255	15,741,931	15,343,839	398,092	2.6	13,623,868
Vehicle License Fees	-	-	2	-	2	-	2
Pooled Money Investment Interest	61,385	62,169	418,131	416,165	1,966	0.5	293,164
Not Otherwise Classified	116,547	149,340	589,285	841,955	(252,670)	(30.0)	389,846
Total Revenues	**21,577,296**	**18,785,932**	**83,734,156**	**81,622,196**	**2,111,960**	**2.6**	**74,417,980**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	649,946	-	651,939	651,939	-	-	3,151,332
Transfers from Other Funds	13,119	59,949	164,551	201,123	(36,572)	(18.2)	266,234
Miscellaneous	9,320	23,071	197,326	207,987	(10,661)	(5.1)	206,471
Total Nonrevenues	**672,385**	**83,020**	**1,013,816**	**1,061,049**	**(47,233)**	**(4.5)**	**3,624,037**
Total Receipts	**$ 22,249,681**	**$ 18,868,952**	**$ 84,747,972**	**$ 82,683,245**	**$ 2,064,727**	**2.5**	**$ 78,042,017**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of January		July 1 through January 31				
			2020				2019
	2020	2019	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 115,722	$ 129,520	$ 1,621,091	$ 1,673,966	$ (52,875)	(3.2)	$ 1,005,597
Business, Consumer Services and Housing	3,452	2,953	25,857	29,023	(3,166)	(10.9)	19,475
Transportation	2,287	1	5,465	26,178	(20,713)	(79.1)	3,414
Resources	190,858	195,738	1,477,382	1,451,240	26,142	1.8	1,689,811
Environmental Protection Agency	42,740	44,553	1,090,192	1,175,618	(85,426)	(7.3)	147,922
Health and Human Services:							
Health Care Services and Public Health	(12,346)	26,777	332,836	345,333	(12,497)	(3.6)	251,522
Department of State Hospitals	145,066	146,423	1,034,042	1,026,238	7,804	0.8	947,803
Other Health and Human Services	10,642	25,586	442,725	466,294	(23,569)	(5.1)	443,871
Education:							
University of California	479,600	293,042	2,249,391	2,394,792	(145,401)	(6.1)	2,209,919
State Universities and Colleges	515,931	289,588	2,526,543	2,552,433	(25,890)	(1.0)	2,213,224
Other Education	17,220	15,680	3,528,849	3,551,557	(22,708)	(0.6)	161,569
Dept. of Corrections and Rehabilitation	1,084,124	992,415	7,364,351	7,348,138	16,213	0.2	7,215,345
Governmental Operations	119,108	67,635	4,258,806	4,211,137	47,669	1.1	740,226
General Government	236,188	271,462	1,487,727	1,550,257	(62,530)	(4.0)	1,472,688
Public Employees Retirement System	10,833	7,800	524,536	521,944	2,592	0.5	495,444
Debt Service (d)	(519,473)	(113,104)	2,681,962	2,664,917	17,045	0.6	2,306,014
Interest on Loans	-	-	93,292	93,293	(1)	(0.0)	20,545
Total State Operations	**2,441,952**	**2,396,069**	**30,745,047**	**31,082,358**	**(337,311)**	**(1.1)**	**21,344,389**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	3,661,224	4,328,407	27,908,835	27,442,501	466,334	1.7	27,680,968
Community Colleges	331,399	335,387	3,755,766	3,931,907	(176,141)	(4.5)	3,598,857
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	2,304,955	2,304,955	-	-	2,129,142
Other Education	569,232	281,728	2,460,237	2,397,232	63,005	2.6	1,981,815
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	13,463	10,309	304,479	321,153	(16,674)	(5.2)	264,506
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	-
Health Care Services and Public Health:							
Medical Assistance Program	1,689,411	1,694,309	12,816,642	12,703,603	113,039	0.9	10,874,452
Other Health Care Services/Public Health	32,450	37,988	208,874	237,217	(28,343)	(11.9)	239,873
Developmental Services - Regional Centers	(68,903)	454,838	3,045,232	3,580,291	(535,059)	(14.9)	3,152,271
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	650,668	115,689	6,293,948	4,903,017	1,390,931	28.4	4,190,406
CalWORKs	(8,816)	71,747	498,401	455,773	42,628	9.4	624,154
Other Social Services	149,960	110,070	821,982	704,289	117,693	16.7	595,162
Tax Relief	1	-	202,135	208,640	(6,505)	(3.1)	208,373
Other Local Assistance	104,420	303,924	2,587,331	2,911,092	(323,761)	(11.1)	2,520,558
Total Local Assistance	**7,124,509**	**7,744,396**	**63,208,817**	**62,101,670**	**1,107,147**	**1.8**	**58,060,537**

See notes on page A1.

(Continued)

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

	Month of January		July 1 through January 31				
			2020				2019
	2020	2019	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**9,514**	**7,376**	**156,456**	**235,157**	**(78,701)**	**(33.5)**	**841,875**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	3,823,968	-	-	-	-	3,823,968
Transfer to Budget Stabilization Account	-	-	2,748,000	2,748,000	-	-	2,676,000
Transfer to Other Funds	19,078	110,340	4,572,788	4,744,691	(171,903)	(3.6)	4,148,068
Transfer to Revolving Fund	(1)	1	15,052	15,050	2	0.0	25,100
Advance:							
MediCal Provider Interim Payment	-	-	-	-	-	-	-
State-County Property Tax Administration Program	41,767	38,842	71,698	35,637	36,061	101.2	51,322
Social Welfare Federal Fund	-	4,397	29,100	9,700	19,400	200.0	33,968
Local Governmental Entities	-	(11)	(1,043)	(1,042)	(1)	0.1	(74)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	-	-	(276,476)	(276,476)	-	-	(367,457)
Total Nongovernmental	**60,844**	**3,977,537**	**7,159,119**	**7,275,560**	**(116,441)**	(1.6)	**10,390,895**
Total Disbursements	**$ 9,636,819**	**$ 14,125,378**	**$ 101,269,439**	**$ 100,694,745**	**$ 574,694**	**0.6**	**$ 90,637,696**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (649,946)	$ 1,961,387	$ 1,411,515	$ 1,411,515	$ -	-	$ 1,962,010
Budget Stabilization Account	(6,804,539)	(4,201,699)	9,711,883	11,201,916	(1,490,033)	(13.3)	5,093,142
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	(5,158,377)	(2,503,262)	-	-	-	-	-
Revenue Anticipation Notes	-	-	-	-	-	-	-
Net Increase / (Decrease) Loans	**$ (12,612,862)**	**$ (4,743,574)**	**$ 11,123,398**	**$ 12,613,431**	**$ (1,490,033)**	**(11.8)**	**$ 7,055,152**

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	
	2020	2019	2020	2019
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 259,334	$ 215,055	$ -	$ -
Corporation Tax	5,910,237	4,796,705	-	502
Cigarette Tax	39,915	34,133	1,310,776	1,110,184
Cannabis Excise Taxes	-	-	212,675	81,619
Estate, Inheritance, and Gift Tax	221	289	-	-
Insurance Companies Tax	1,504,352	1,268,313	8,887	13,841
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	4,192,718	3,737,317
Diesel & Liquid Petroleum Gas	-	-	764,344	698,002
Jet Fuel Tax	-	-	2,234	1,919
Vehicle License Fees	2	2	1,791,106	1,744,641
Personal Income Tax	59,270,748	53,796,605	1,052,569	964,173
Retail Sales and Use Taxes	15,741,931	13,623,868	9,237,616	7,923,527
Pooled Money Investment Interest	418,131	293,164	1,227	511
Total Major Taxes, Licenses, and Investment Income	**83,144,871**	**74,028,134**	**18,574,152**	**16,276,236**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fees	1,338	1,148	41,038	36,532
Motor Vehicle Registration and Other Fees	-	(1)	4,172,235	4,032,966
Cannabis Licensing Fees	-	-	23,590	848
Electrical Energy Tax	-	-	295,905	275,231
Private Rail Car Tax	10,506	9,809	-	-
Penalties on Traffic Violations	-	-	140	106
Health Care Receipts	2,622	1,018	131	-
Revenues from State Lands	53,456	40,879	-	-
Abandoned Property	59,541	(4,192)	-	-
Trial Court Revenues	19,405	19,808	859,090	861,592
Horse Racing Fees	1,024	210	8,003	6,672
Cap and Trade	-	-	1,468,428	1,611,124
Miscellaneous Tax Revenue	-	-	640,547	1,406,301
Miscellaneous	441,393	321,167	8,312,558	8,028,593
Not Otherwise Classified	**589,285**	**389,846**	**15,821,665**	**16,259,965**
Total Revenues, All Governmental Cost Funds	**$ 83,734,156**	**$ 74,417,980**	**$ 34,395,817**	**$ 32,536,201**

See notes on page A1.

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2019-20 Budget Act
(Amounts in thousands)

	July 1 through January 31				
	2020				2019
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	$ 5,398,069	$ 5,398,069	$ -	-	$ 5,540,527
Add Receipts:					
Revenues	83,734,156	80,047,714	3,686,442 (g)	4.6	74,417,980
Nonrevenues	1,013,816	822,979	190,837	23.2	3,624,037
Total Receipts	84,747,972	80,870,693	3,877,279	4.8	78,042,017
Less Disbursements (c):					
State Operations	30,745,047	29,026,115	1,718,932	5.9	21,344,389
Local Assistance	63,208,817	61,912,841	1,295,976	2.1	58,060,537
Capital Outlay	156,456	292,815	(136,359)	(46.6)	841,875
Nongovernmental	7,159,119	7,681,992	(522,873)	(6.8)	10,390,895
Total Disbursements	101,269,439	98,913,763	2,355,676	2.4	90,637,696
Receipts Over / (Under) Disbursements	(16,521,467)	(18,043,070)	1,521,603	(8.4)	(12,595,679)
Net Increase / (Decrease) in Temporary Loans	11,123,398	12,645,001	(1,521,603)	(12.0)	7,055,152
GENERAL FUND ENDING CASH BALANCE	-	-	-		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	$ -	$ -	$ -		$ -

BORROWABLE RESOURCES

	Actual	Estimate (a)	Amount	%	2019 Actual
Special Fund for Economic Uncertainties	$ 1,411,515	$ 1,411,515	$ -	-	$ 1,962,010
Budget Stabilization Account	16,516,422	16,516,422	-	-	11,157,422
Other Internal Sources (f)	45,839,557	39,114,000	6,725,557	17.2	42,740,689
Cash Balance from Borrowable Resources	63,767,494	57,041,937	6,725,557	11.8	55,860,121
Less:					
PMIA Loans (AB 55, GC 16312 and 16313)	617,241	800,000	(182,759)	(22.8)	800,905
SMIF Loans (SB 84, GC 20825)	5,041,501	5,029,000	12,501	0.2	5,759,740
SMIF Loans (AB 1054, PUC 3285)	2,000,000	-	2,000,000	-	-
Total Available Borrowable Resources (e)	56,108,752	51,212,937	4,895,815	9.6	49,299,476
Outstanding Loans to General Fund (b)	11,123,398	12,645,001	(1,521,603)	(12.0)	7,055,152
Outstanding Loans to the SFEU Fund	-	-	-	-	-
Unused Borrowable Resources	$ 44,985,354	$ 38,567,936	$ 6,417,418	16.6	$ 42,244,324

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 2019-20 fiscal year was prepared by the Department of Finance for the 2019-20 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $11.12 billion is comprised of $11.12 billion of internal borrowing. Current balance is comprised of $0.00 carried forward from June 30, 2019, plus current year Net Increase/(Decrease) in Temporary Loans of $11.12 billion.
(c) If shown, 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 (Chapter 6/1987, Government Code (GC) sections 16312 and 16313) and Surplus Money Investment Fund (SMIF) loans pursuant to Senate Bill (SB) 84 (Chapter 50/2017, GC section 20825) and AB 1054 (Chapter 79/2019, Public Utilities Codes (PUC) section 3285).
(f) Other Internal Sources balance includes $900.0 million for the Safety Net Reserve Fund pursuant to AB 1830 (Chapter 42/2018, Welfare and Institutions Code (WIC) section 11011).
(g) The Revenue variance is partially due to timing delays resulting from the additional time necessary to process and record FI$Cal agency receipts into the Controller's book of record.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of January		July 1 through January 31				
			2020				2019
	2020	2019	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 31,145	$ 36,709	$ 259,334	$ 232,446	$ 26,888	11.6	$ 215,055
Corporation Tax	555,744	579,166	5,910,237	4,831,948	1,078,289	22.3	4,796,705
Cigarette Tax	7,921	4,703	39,915	36,124	3,791	10.5	34,133
Estate, Inheritance, and Gift Tax	84	3	221	-	221	-	289
Insurance Companies Tax	22,907	2,447	1,504,352	1,384,432	119,920	8.7	1,268,313
Personal Income Tax	19,158,560	16,359,140	59,270,748	57,772,683	1,498,065	2.6	53,796,605
Retail Sales and Use Taxes	1,623,003	1,592,255	15,741,931	14,996,032	745,899	5.0	13,623,868
Vehicle License Fees	-	-	2	-	2	-	2
Pooled Money Investment Interest	61,385	62,169	418,131	354,053	64,078	18.1	293,164
Not Otherwise Classified	116,547	149,340	589,285	439,996	149,289	33.9	389,846
Total Revenues	**21,577,296**	**18,785,932**	**83,734,156**	**80,047,714**	**3,686,442**	**4.6**	**74,417,980**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	649,946	-	651,939	550,495	101,444	18.4	3,151,332
Transfers from Other Funds	13,119	59,949	164,551	135,549	29,002	21.4	266,234
Miscellaneous	9,320	23,071	197,326	136,935	60,391	44.1	206,471
Total Nonrevenues	**672,385**	**83,020**	**1,013,816**	**822,979**	**190,837**	**23.2**	**3,624,037**
Total Receipts	**$ 22,249,681**	**$ 18,868,952**	**$ 84,747,972**	**$ 80,870,693**	**$ 3,877,279**	**4.8**	**$ 78,042,017**

See notes on page B1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of January		July 1 through January 31				
			2020				2019
	2020	2019	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS							
Legislative/Judicial/Executive	$ 115,722	$ 129,520	$ 1,621,091	$ 1,356,047	$ 265,044	19.5	$ 1,005,597
Business, Consumer Services and Housing	3,452	2,953	25,857	29,113	(3,256)	(11.2)	19,475
Transportation	2,287	1	5,465	47,509	(42,044)	(88.5)	3,414
Resources	190,858	195,738	1,477,382	1,595,723	(118,341)	(7.4)	1,689,811
Environmental Protection Agency	42,740	44,553	1,090,192	53,330	1,036,862	1,944.2	147,922
Health and Human Services:							
Health Care Services and Public Health	(12,346)	26,777	332,836	293,505	39,331	13.4	251,522
Department of State Hospitals	145,066	146,423	1,034,042	1,044,653	(10,611)	(1.0)	947,803
Other Health and Human Services	10,642	25,586	442,725	415,440	27,285	6.6	443,871
Education:							
University of California	479,600	293,042	2,249,391	2,375,312	(125,921)	(5.3)	2,209,919
State Universities and Colleges	515,931	289,588	2,526,543	2,596,082	(69,539)	(2.7)	2,213,224
Other Education	17,220	15,680	3,528,849	3,555,346	(26,497)	(0.7)	161,569
Dept. of Corrections and Rehabilitation	1,084,124	992,415	7,364,351	7,156,178	208,173	2.9	7,215,345
Governmental Operations	119,108	67,635	4,258,806	4,044,144	214,662	5.3	740,226
General Government	236,188	271,462	1,487,727	1,812,743	(325,016)	(17.9)	1,472,688
Public Employees Retirement System	10,833	7,800	524,536	543,604	(19,068)	(3.5)	495,444
Debt Service (d)	(519,473)	(113,104)	2,681,962	2,106,386	575,576	27.3	2,306,014
Interest on Loans	-	-	93,292	1,000	92,292	9,229.2	20,545
Total State Operations	**2,441,952**	**2,396,069**	**30,745,047**	**29,026,115**	**1,718,932**	**5.9**	**21,344,389**
LOCAL ASSISTANCE							
Public Schools - K-12	3,661,224	4,328,407	27,908,835	27,426,413	482,422	1.8	27,680,968
Community Colleges	331,399	335,387	3,755,766	3,658,267	97,499	2.7	3,598,857
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	2,304,955	2,304,956	(1)	(0.0)	2,129,142
Other Education	569,232	281,728	2,460,237	2,422,121	38,116	1.6	1,981,815
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	13,463	10,309	304,479	327,173	(22,694)	(6.9)	264,506
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	-
Health Care Services and Public Health:							
Medical Assistance Program	1,689,411	1,694,309	12,816,642	13,409,216	(592,574)	(4.4)	10,874,452
Other Health Care Services/Public Health	32,450	37,988	208,874	313,889	(105,015)	(33.5)	239,873
Developmental Services - Regional Centers	(68,903)	454,838	3,045,232	2,805,667	239,565	8.5	3,152,271
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	650,668	115,689	6,293,948	4,227,814	2,066,134	48.9	4,190,406
CalWORKs	(8,816)	71,747	498,401	299,898	198,503	66.2	624,154
Other Social Services	149,960	110,070	821,982	686,553	135,429	19.7	595,162
Tax Relief	1	-	202,135	207,500	(5,365)	(2.6)	208,373
Other Local Assistance	104,420	303,924	2,587,331	3,823,374	(1,236,043)	(32.3)	2,520,558
Total Local Assistance	**7,124,509**	**7,744,396**	**63,208,817**	**61,912,841**	**1,295,976**	**2.1**	**58,060,537**

See notes on page B1.

(Continued)

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

	Month of January		July 1 through January 31				
			2020				2019
	2020	2019	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**9,514**	**7,376**	**156,456**	**292,815**	**(136,359)**	**(46.6)**	**841,875**
NONGOVERNMENTAL							
Transfer to Special Fund for Economic Uncertainties	-	3,823,968	-	-	-	-	3,823,968
Transfer to Budget Stabilization Account	-	-	2,748,000	2,748,000	-	-	2,676,000
Transfer to Other Funds	19,078	110,340	4,572,788	5,210,468	(637,680)	(12.2)	4,148,068
Transfer to Revolving Fund	(1)	1	15,052	-	15,052	-	25,100
Advance:							
MediCal Provider Interim Payment	-	-	-	-	-	-	-
State-County Property Tax Administration Program	41,767	38,842	71,698	-	71,698	-	51,322
Social Welfare Federal Fund	-	4,397	29,100	-	29,100	-	33,968
Local Governmental Entities	-	(11)	(1,043)	-	(1,043)	-	(74)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	-	-	(276,476)	(276,476)	-	-	(367,457)
Total Nongovernmental	**60,844**	**3,977,537**	**7,159,119**	**7,681,992**	**(522,873)**	(6.8)	**10,390,895**
Total Disbursements	**$ 9,636,819**	**$ 14,125,378**	**$ 101,269,439**	**$ 98,913,763**	**$ 2,355,676**	**2.4**	**$ 90,637,696**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (649,946)	$ 1,961,387	$ 1,411,515	$ 1,411,515	$ -	-	$ 1,962,010
Budget Stabilization Account	(6,804,539)	(4,201,699)	9,711,883	11,233,486	(1,521,603)	(13.5)	5,093,142
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	(5,158,377)	(2,503,262)	-	-	-	-	-
Revenue Anticipation Notes	-	-	-	-	-	-	-
Net Increase / (Decrease) Loans	**$ (12,612,862)**	**$ (4,743,574)**	**$ 11,123,398**	**$ 12,645,001**	**$ (1,521,603)**	**(12.0)**	**$ 7,055,152**

See notes on page B1.

(Concluded)

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 ___, 2020 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.

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

"Holder" shall mean any person listed on the registration books of the State Treasurer as the registered owner of any Bonds.

"Listed Event" shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports or notices pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Official Statement" shall mean the official statement relating to the Bonds, dated March __, 2020.

"Participating Underwriter" shall mean any of the 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 2018-19 fiscal year (which is due not later than April 1, 2020), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the State may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date in accordance with Section 4(a). If the State's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(d). 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, in a timely manner, send or cause to be sent to the MSRB a notice 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:

Tables Entitled

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

General Fund Revenues by Source and Expenditures by Agency

(c) Information concerning the total amount of the State's authorized and outstanding debt, long-term lease obligations and other long-term liabilities as of the most recent June 30, which debt is supported by payments from the State's General Fund and which includes short-term debt. Such information shall include schedules of debt service for outstanding general obligation bonds and lease-purchase debt. This shall be accomplished by updating information of the type appearing in the following tables contained under the caption APPENDIX A—"THE STATE OF CALIFORNIA— STATE DEBT TABLES" in the Official Statement.

Tables Entitled

Outstanding State Debt

Authorized and Outstanding General Obligation Bonds

General Obligation and Revenue Bonds—Summary of Debt Service Requirements

Schedule of Debt Service Requirements for General Fund—Non-Self Liquidating Bonds—Fixed Rate

Schedule of Debt Service Requirements for General Fund—Non-Self Liquidating Bonds—Variable Rate

Schedule of Debt Service Requirements for Enterprise Fund—Self Liquidating Bonds—Fixed Rate

Schedule of Debt Service Requirements for Lease-Revenue Debt—Fixed Rate

State Public Works Board and Other Lease-Revenue Financing Outstanding Issues

State Agency Revenue Bonds and Conduit Financing

Notwithstanding the foregoing, information referenced in this Section 4(c) will no longer be updated for any twelve-month period ended June 30 that commences after all of the debt, long-term lease obligations, other long-term liabilities and/or short-term debt referenced in the respective table, as applicable, is no longer outstanding.

(d) Financial information relating to the State referenced in section 4(b) and 4(c) may be updated from time to time, and such updates may involve displaying data in a different format or table or eliminating data that is no longer available.

(e) The Annual Report may consist of one or more documents. Any or all of the items listed above may be included in the Annual Report by reference to other documents that have been filed by the State with the MSRB, including any final official statement (in which case such final official statement must also be available from the MSRB). The State Treasurer shall clearly identify in the Annual Report each such document so included by reference.

Section 5. Reporting of Significant Events.

(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;

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

10. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the State, any of which reflect financial difficulties.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The State Treasurer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;

2. Modifications to rights of Bond holders;

3. Optional, unscheduled or contingent Bond calls;

4. Release, substitution, or sale of property securing repayment of the Bonds;

5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

7. Appointment of a successor or additional trustee or the change of name of a trustee; or

8. Incurrence of a Financial Obligation of the State, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the State, any of which affect Holders.

(c) The State Treasurer notes that Sections 5(a)(2), (3) and (4) and 5(b)(4) are not applicable to the Bonds.

(d) 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) above 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) or 5(d), 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(d), 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 Fiona Ma

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 ___, 2020

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]_________________

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APPENDIX D

PROPOSED FORMS OF LEGAL OPINIONS

FORM OF FINAL OPINION OF BOND COUNSEL

[Closing Date]

The Honorable Fiona Ma
State Treasurer
Sacramento, California

$____________
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS

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

____

(Final Opinion)

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 reviewed the Resolutions; the tax certificate of the State relating to the Bonds, dated the date hereof (the "Tax Certificate"); opinions of counsel to the State; other certifications of officials of the State; and such other documents, opinions and matters to the extent we 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 disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State. 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, arbitration, judicial reference, 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 Preliminary Official Statement, dated February 28, 2020 and the Official Statement, dated March ___, 2020, 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. 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 of California personal income taxes. We express no opinion regarding 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]

The Honorable Fiona Ma
State Treasurer
Sacramento, California

$____________
STATE OF CALIFORNIA
Various Purpose General Obligation Bonds

$____________
STATE OF CALIFORNIA
Various Purpose General Obligation Refunding Bonds

The Honorable Fiona Ma:

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"). The Bonds are all dated [Closing Date], and are issued as separate series as 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 __, 2020, 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

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BNY MELLON

BNY Mellon Capital Markets, LLC
240 Greenwich Street, 3rd Floor
New York, NY 10286

February 20, 2020

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

Re: Distribution Agreement relating to BNY Mellon Capital Markets, LLC's appointment as a Co-Managing Underwriter for the State of California General Obligation Bonds, Series 2020 Bonds

Dear Mr. Fowler:

BNY Mellon Capital Markets, LLC would like to request that the Office of the Treasurer of the State of California approve a retail distribution agreement for BNY Mellon Capital Markets.

BNY Mellon Capital Markets, as a Co-Managing Underwriter on the above referenced Bonds, and Pershing LLC, both direct or indirect subsidiaries of The Bank of New York Mellon Corporation, entered into a distribution agreement (the "BNYM Distribution Agreement") that enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to BNY Mellon Capital Markets, LLC, including the Bonds Under the BNYM Distribution Agreement, BNY Mellon Capital Markets will share with Pershing LLC a portion of the fee or commission paid to BNY Mellon Capital Markets, LLC.

We understand that this letter may be included in the Official Statement for the Bonds.

Very truly yours,

BNY Mellon Capital Markets, LLC

BofA SECURITIES

February 20, 2020

State of California
Office of the State Treasurer
915 Capitol Mall, Room 261
Sacramento, CA 95814

Attn: Blake Fowler

Re: State of California March 2020 General Obligation Bonds (the "Bonds")

Dear Mr. Fowler:

BofA Securities, Inc. is providing the following language for inclusion in the Official Statement:

BofA Securities, Inc. ("BofA Securities"), as an underwriter of the Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"). As part of this arrangement, BofA Securities may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities may compensate MLPF&S as a dealer for their selling efforts with respect to the Bonds.

Sincerely,

BofA Securities, Inc.

J.P.Morgan

February 25, 2020

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 2020 (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

Jefferies

February 27, 2020

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

Re: State of California General Obligation Bonds – March 2020 (the "Bonds")

Dear Mr. Fowler:

Jefferies LLC is providing the following language for inclusion in the Official Statement.

Jefferies LLC, an underwriter of the Bonds, has entered into an agreement (the "Agreement") with E*TRADE Securities LLC ("E*TRADE") for the retail distribution of municipal securities. Pursuant to the Agreement, Jefferies LLC will sell Bonds to E*TRADE and will share a portion of its selling concession compensation with E*TRADE.

Jefferies LLC

Morgan Stanley

February 24, 2020

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 Bond and Various Purpose General Obligation Refunding Bonds, March 2020 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

PIPER | SANDLER

February 25, 2020

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

RE: STATE OF CALIFORNIA MARCH 2020 GENERAL OBLIGATION BOND SALE

Dear Mr. Fowler,

Piper Sandler & Co. is providing the following language for inclusion in the Official Statement.

Piper Sandler & Co. and UnionBanc Investment Securities LLC ("UnionBanc") entered into an agreement (the "Agreement") which enables UnionBanc to distribute certain new issue municipal securities underwritten by or allocated to Piper Sandler & Co., including the State of California March 2020 Various Purpose General Obligation Bonds (the "Bonds). Under the Agreement, Piper Sandler & Co. will share with UnionBanc a portion of the fee or commission paid to Piper Sandler & Co.

Sincerely,

Piper Sandler & Co.

UBS

February 27, 2020

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

Re: State of California March 2020 General Obligation Bonds

Dear Mr. Fowler,

UBS Financial Services Inc. is providing the following language for inclusion in the Official Statement.

UBS Financial Services Inc. ("UBS FSI") has entered into a distribution and service agreement with its affiliate UBS Securities LLC ("UBS Securities") for the distribution of certain municipal securities offerings. Pursuant to such agreement, UBS FSI will share a portion of its underwriting compensation with UBS Securities. UBS FSI and UBS Securities are each subsidiaries of UBS Group AG.

UBS Financial Services Inc.

February 19, 2020

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

Re: State of California General Obligation Bond Sale (March 2020)

Dear Mr. Fowler:

Wells Fargo Securities is providing the following language for inclusion in the Official Statement.

Wells Fargo Bank, National Association, acting through its Municipal Finance Group ("WFBNA"), and one of the underwriters of the Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Finance Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association

APPENDIX F

STATE OF CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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State of California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2018

BETTY T. YEE

California State Controller's Office

STATE OF CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2018

Prepared by
The Office of the State Controller

BETTY T. YEE
California State Controller

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Introductory Section

BETTY T. YEE
California State Controller

BETTY T. YEE
California State Controller

June 5, 2019

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, 2018. This report meets the requirements of Government Code section 12460 for an annual report prepared in accordance with accounting principles generally accepted in the United States and contains information to help readers gain a reasonable understanding of the state's financial activities.

California's fiscal recovery continues, and the state now is the fifth largest economy in the world. Over the past several years, the state has improved in numerous areas including hiring, job growth, salaries, and payroll. For the fiscal year ended June 30, 2018, the state's revenue exceeded expenses by $15.3 billion for governmental activities. In addition, the state ended the fiscal year on a positive note with a cash balance of $5.5 billion in the General Fund.

With the next economic downturn approaching, I applaud the Governor's budget planning with an eye towards building a strong foundation of long-term cost savings and fiscal discipline. The Governor's proposals for debt and pension liability reduction; investments in education, health care, and housing; and rainy day savings will pay dividends.

The state implemented Governmental Accounting Standards Board (GASB) Statement Number 75 related to other postemployment benefits (OPEB) in fiscal year 2017-18, which significantly revised accounting and reporting for OPEB costs and liabilities. GASB statements are national and apply to all governmental financial reports prepared in accordance with generally accepted accounting principles. When evaluating the net OPEB liability, please note that the state's OPEB liability has existed for decades. OPEB liabilities are part of the employment exchange between the state and its employees. In other words, the employee is trading their labor in exchange for wages and the promise of future health care benefits. The unfunded portion of these OPEB promises are a present-day liability of the government and must be reported by the state as a liability since receiving the benefit of the employee's service. As a result of implementing this standard, the primary government is reporting a net OPEB liability of $92.6 billion as of June 30, 2018.

I extend my sincere appreciation to all the government agencies for their efforts and support in submitting the information required for the CAFR. Thank you to the California State Auditor and her staff for maintaining the highest standards of professionalism in the management of the state's finances. Finally, thank you to my team for their skill, effort, and dedication in completing this complex report.

Sincerely,

Original signed by

BETTY T. YEE

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Report Overview

The State's management assumes responsibility for the accuracy, completeness, and fairness of information presented in the CAFR, including all disclosures, based 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, 2018, 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 is also 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, 2018, and its economic performance as of March 31, 2019, for fiscal year 2018-19. 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 2018, is estimated to be almost 40 million residents. The State's government is divided into three branches: Executive, Legislative, and Judicial. Executive power is vested in the Governor. Other members of the Executive branch include the Lieutenant Governor, Attorney General, Secretary of State, State Treasurer, State Controller, Insurance Commissioner, and the State Superintendent of Public Instruction. All officers of the Executive branch are elected to four-year terms. The Legislative branch of government is the State's law-making authority and is comprised of two houses: the Senate and the Assembly. The Judicial branch is charged with interpreting the laws of the State. It provides settlement of disputes between parties in controversy, determines the guilt or innocence of those accused of violating laws, and protects the rights of Californians.

California's government includes control agencies that help to regulate internal governmental operations. The State Controller's Office, the State's independent fiscal watchdog, ensures that the State's budget is spent properly, offers fiscal guidance to local governments, reports on the State's financial position, and uncovers fraud and abuse of taxpayer dollars. The Department of Finance, part of the Executive branch of government, establishes fiscal policies to carry out the State's programs and serves as the Governor's chief fiscal policy 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; transportation; business, consumer services, and housing; corrections and rehabilitation programs; and other general government services. The State also is financially accountable for legally separate entities (component units) that provide and support post-secondary education programs; provide financing for low and moderate income housing and other public needs; promote agricultural activities; and provide financial assistance to public agencies and small businesses. The State, through its related organizations (organizations for which the primary government is not financially accountable), provides services such as the operation of the statewide energy transmission grid; earthquake insurance for homeowners and renters; workers' compensation insurance; health insurance for individuals, families, and employees of small businesses; financing for pollution control and health facilities; and loans to students attending public and private nonprofit colleges and universities. The financial information of these institutions is not included in the State's financial statements.

The State Legislature approves an annual budget that contains estimates of revenues and expenditures for the ensuing fiscal year. This budget is the result of negotiations between the Governor and the Legislature. The State Controller's Office is statutorily responsible for controlling revenues due the primary government and for expenditures of each appropriation contained in the budget. The State's annual budget is submitted by the Governor no later than January 10 preceding the beginning of the fiscal year on July 1, and must be approved by the Legislature by June 15 each year. This annual budget serves as the foundation for the State's financial planning and control. Additional information on the budgetary basis of accounting can be found in Note 2, Budgetary and Legal Compliance, in the Budgetary Comparison Schedule at the end of the nonmajor governmental funds combining statements, and in the Required Supplementary Information section of the CAFR that follows the Notes to the Financial Statements.

Overview of the State's Economy

California's economy, the largest in the United States and one of the most diverse in the world, includes major industries such as high technology, trade, entertainment, manufacturing, government, tourism, construction, and services. The relative proportion of the various industries of the California economy closely resembles the make-up of the national economy. California's gross domestic product totaled nearly $3.0 trillion at fiscal year-end and the State remains the national leader in agricultural production and exports with over $50.0 billion in farm cash receipts. In 2017, California exported $171.9 billion in products; its three largest export markets are Mexico ($26.7 billion), Canada ($16.8 billion), and China ($16.4 billion). California's six largest exports are computer and electronic products, transportation equipment, machinery except electrical, agricultural products, 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 direct travel revenues of $132.4 billion and generated state and local tax revenues of $10.9 billion in 2017.

Budget Outlook

Fiscal Year 2018-19

The Budget assumes continued economic expansion; however, planning and saving for the next recession is the focus of the 2018 Budget Act. Additionally, the potential fiscal impact of federal policy changes continues to be a significant source of uncertainty. To prepare for a downturn of the economy, the Budget emphasizes building reserves and committing to prudent one-time spending. The May 2019 revised estimates project fiscal year 2018-19 will end with General Fund revenue and transfers of $138.0 billion, expenditures of $143.2 billion, and total reserves of $20.1 billion—$14.4 billion in the Budget Stabilization Account (BSA), $4.8 billion in the General Fund's Special Fund for Economic Uncertainties (SFEU), and $900 million in the newly created Safety Net Reserve (SNR). The Governor's additional key priorities in the 2018-19 Budget include reducing debt; paying down unfunded retirement liabilities; improving emergency readiness, response, and recovery capabilities; and combating homelessness.

Fiscal Year 2019-20

The Governor released his proposed 2019-20 budget on January 9, 2019. Noting that in the last several years, California's budget has gone from perpetual multi-billion dollar annual deficits to being balanced and having a robust rainy day fund, the Governor seeks to protect this recovery by making necessary investments for effective government and promoting affordability and opportunity. By the end of fiscal year 2019-20, the Budget projects total reserves of $18.5 billion—$15.3 billion in the BSA, $2.3 billion in the SFEU, and $900 million in the SNR. The 2019-20 Budget estimates General Fund revenue of $144.4 billion ($142.6 billion after transfers) and expenditures of $144.2 billion.

On May 9, 2019, the Governor released the 2019-20 May Revision to the Governor's Budget. The revised estimates projects total reserves of $19.4 billion—$16.5 billion in the BSA, $1.6 billion in the SFEU, $900 million in the SNR, and $400 million in other reserves. The BSA is now expected to reach its constitutional cap of 10% of General Fund revenues in 2020-21—two years earlier than predicted in January.

The 2019-20 revised budget projects General Fund revenue of $146.0 billion ($143.8 billion after transfers) and expenditures of $147.0 billion. The Budget shows increased revenue from personal income taxes and sales and use taxes, and decreased revenue from corporation taxes. Personal income taxes contribute the majority of General Fund revenue at 70.1% ($102.3 billion), sales and use taxes contribute 18.7% ($27.2 billion), and corporation taxes contribute 9.1% ($13.2 billion).

Long-term Financial Planning

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

- The Budget's long-term forecast of General Fund revenues through fiscal year 2022-23 is for continued growth at an average year-over-year rate of 3.0%. Revenue from capital gains is a major component of personal income tax revenues. Capital gains depend on stock market performance and are extremely volatile and difficult to predict. There is significant risk that capital gains revenue could fall below expectations.

- The Budget assumes steady but slowing growth, with increases to real gross domestic product falling below 2.0% by 2023. In 2018, the federal government imposed tariffs on products from China amounting to a total annual trade value of $250.0 billion. These measures were met by tariffs from China on over $50.0 billion worth of U.S. exports. As California is a transport hub, and China is the State's third largest trading partner, the ongoing trade war could have negative effects on the State's economy.

- The 2019-20 Governor's Budget provides $4.8 billion for the Road Repair and Accountability Act of 2017 (Senate Bill 1) to fund various transportation and transit-related projects. This amount includes $1.2 billion for local road repair; $1.2 billion for state highway repair and maintenance; $458 million for local transit; $400 million for bridge and culvert repair and maintenance; $386 million for transit, commuter, and intercity rail capital improvements; $307 million to improve trade corridors; and $250 million to increase productivity on commute corridors.

- The State proposes further addressing the significant long-term liabilities associated with state employee postemployment benefits and helping to ensure its continuing ability to provide future benefits. The State will make supplemental payments of $3.0 billion to the California Public Employees' Retirement System in fiscal year 2019-20 and $2.9 billion to the California State Teachers' Retirement System over the next four years. Through the collective bargaining process, the State and certain bargaining unit employees now prefund other postemployment benefits (OPEB) to pay for future retiree health benefits. The Governor estimates that the prefunding plan will eliminate the unfunded OPEB liability over the next three decades.

- California continues to face a lengthening fire season and catastrophic wildfires. In November 2018, large wildfires struck Butte, Los Angeles, and Ventura counties, burning over 100,000 acres and destroying thousands of structures, including 90% of the Town of Paradise. The Budget estimates the General Fund's share of the recovery costs to be $923 million.

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, 2017. 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, 2017

Christopher P. Morrill

Executive Director/CEO

Principal Officials of the State of California

Executive Branch

Gavin Newsom
Governor

Eleni Kounalakis
Lieutenant Governor

Betty T. Yee
State Controller

Xavier Becerra
Attorney General

Fiona Ma, CPA
State Treasurer

Alex Padilla
Secretary of State

Tony Thurmond
Superintendent of Public Instruction

Ricardo Lara
Insurance Commissioner

Board of Equalization
Ted Gaines, Member, First District
Malia Cohen, Member, Second District
Antonio Vazquez, Member, Third District
Mike Schaefer, Member, Fourth District

Legislative Branch

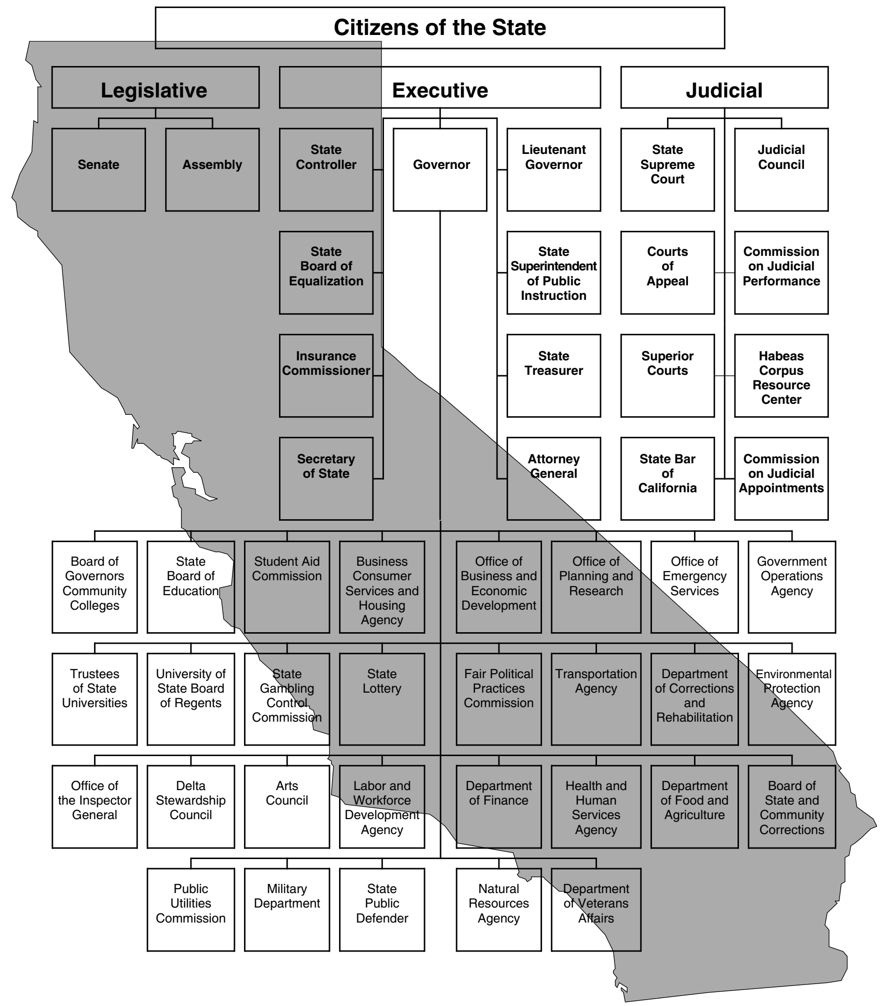
Toni G. Atkins
President pro Tempore, Senate

Anthony Rendon
Speaker of the Assembly

Judicial Branch

Tani G. Cantil-Sakauye
Chief Justice, State Supreme Court

Organization Chart of the State of California



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Financial Section

Elaine M. Howle *State Auditor*

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, 2018, and the related notes to the financial statements, which collectively comprise the State of California's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following:

Government-wide Financial Statements

- Certain governmental funds that, in the aggregate, represent one percent of the assets and deferred outflows, and less than one percent of the revenues of the governmental activities.

- Certain enterprise funds that, in the aggregate, represent 75 percent of the assets and deferred outflows, and 54 percent of the revenues of the business-type activities.

- The University of California and the California Housing Finance Agency that represent 92 percent of the assets and deferred outflows, and 94 percent of the revenues of the discretely presented component units.

Fund Financial Statements

- The 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 Revolving, the Safe Drinking Water State Revolving, and the 1943 Veterans Farm and Home Building funds, that represent 85 percent of the assets and deferred outflows, and 53 percent of the additions, revenues and other financing sources of the aggregate remaining fund information.

- The discretely presented component units noted above.

621 Capitol Mall, Suite 1200 | Sacramento, CA 95814 | 916.445.0255 | 916.327.0019 fax | www.auditor.ca.gov

The related financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those funds and entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Golden State Tobacco Securitization Corporation, the Public Building Construction, the State Lottery, and the 1943 Veterans Farm and Home Building funds were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of June 30, 2018, 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.

Emphasis of a Matter

As described in Note 11 to the financial statements, the State of California implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by certain elements of Statement No. 85, Omnibus 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of California's basic financial statements. The introductory section, combining financial statements and schedules of nonmajor and other funds, 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 and schedules of nonmajor and other funds 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 and schedules of nonmajor and other funds 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 will issue a separate report on our consideration of the State of California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely 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 the effectiveness of the State of California's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of California's internal control over financial reporting and compliance.

CALIFORNIA STATE AUDITOR

Michael Tilden

MICHAEL S. TILDEN, CPA
Deputy State Auditor

May 29, 2019

Management's Discussion and Analysis

The following Management's Discussion and Analysis is required supplementary information to the State of California's financial statements. It describes and analyzes the financial position of the State, providing an overview of the State's activities for the fiscal year ended June 30, 2018. We encourage readers to consider the information that we present here in conjunction with the information presented in the Controller's transmittal letter at the front of this report and in the State's financial statements and notes, which follow this section.

Financial Highlights – Primary Government

Government-wide Highlights

California's economy continued to expand during fiscal year 2017-18, resulting in a longer-than-average recovery period for the State. Amid signs that growth is beginning to slow, the administration has focused on paying down liabilities and continuing to build reserves. For the fiscal year ended June 30, 2018, the State's general revenues increased by $14.4 billion (9.7%) over the prior year—even more than the 5.7% growth experienced in fiscal year 2016-17. Expenses and transfers for the State's governmental activities increased by $12.0 billion (4.6%) and were less than total revenues received, resulting in an $11.0 billion increase in the governmental activities' net position, as restated. Total revenues and transfers for the State's business-type activities also surpassed expenses by $3.5 billion in fiscal year 2017-18.

Net Position – Although current year activity reflects a combined $14.5 billion increase in the primary government's net position, net position at the beginning of the year was restated as a result of the recognition of net other postemployment benefits (OPEB) liabilities associated with the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, (see Note 1 for further detail). The impact on the primary government's beginning net position as a result of this implementation was a decrease of $62.2 billion—$47.8 billion for governmental activities and $14.4 billion for business-type activities. The primary government's beginning net position was also decreased by a $1.5 billion restatement for previously unreported trial courts' net pension liability.

The primary government ended fiscal year 2017-18 with a net deficit position of $70.6 billion, an improvement of $14.5 billion (17.1%) over the previous year. The total net deficit position is reduced by $112.1 billion for net investment in capital assets and by $47.1 billion for restricted net position, yielding a negative unrestricted net position of $229.8 billion. Restricted net position is dedicated for specified uses and is not available to fund current activities. More than 83.2%, or $191.2 billion, of the negative $229.8 billion consists of unfunded, employee-related, long-term liabilities (net pension liability, net OPEB liability, and compensated absences) that are recognized as soon as an obligation occurs, even though payment will occur over many future periods . In addition, the State's outstanding bonded debt consists of $65.6 billion to build capital assets of school districts and other local governmental entities. Bonded debt reduces the State's unrestricted net position; however, local governments, not the State, own the capital assets that would normally offset this reduction.

Fund Highlights

Governmental Funds – As of June 30, 2018, the primary government's governmental funds reported a combined ending fund balance of $45.2 billion, an increase of $9.0 billion over the prior fiscal year. The unrestricted fund balance, comprised of committed, assigned, and unassigned balances, was $9.7 billion, an increase of $5.6 billion over the prior fiscal year's balance of $4.1 billion. The nonspendable and restricted fund balances were $630 million and $34.9 billion, respectively.

Proprietary Funds – As of June 30, 2018, the primary government's proprietary funds reported a combined ending net deficit position of $4.3 billion, an increase of $3.5 billion over the prior fiscal year, as restated. The total net position is reduced by $3.0 billion for net investment in capital assets, expendable restrictions of $12.3 billion, and nonexpendable restrictions of $2 million, yielding a negative unrestricted net position of $19.6 billion.

Noncurrent Assets and Liabilities

As of June 30, 2018, the primary government's noncurrent assets totaled $164.6 billion, of which $144.6 billion is related to capital assets. State highway infrastructure assets of $77.1 billion represent the largest portion of the State's capital assets.

The primary government's noncurrent liabilities totaled $307.5 billion, which consists of $191.2 billion in unfunded employee-related future obligations, $76.7 billion in general obligation bonds, $28.7 billion in revenue bonds, and $10.9 billion in other noncurrent liabilities. During fiscal year 2017-18, the primary government's noncurrent liabilities increased by $72.2 billion (30.7%) over the previously reported noncurrent liabilities. This net increase includes an increase of $60.2 billion for the difference between the recognition of previously unreported net OPEB liability and the elimination of previously reported net OPEB obligation and an increase of $12.0 billion in net pension liability.

Overview of the Financial Statements

This discussion and analysis is an introduction to the section presenting the State's basic financial statements, which includes four components: (1) government-wide financial statements, (2) fund financial statements, (3) discretely presented component units financial statements, and (4) notes to the financial statements. This report also contains required supplementary information, and combining financial statements and schedules intended to furnish additional detail that supports the basic financial statements.

Government-wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the State's finances. The government-wide financial statements do not include fiduciary programs and activities of the primary government and component units because fiduciary resources are not available to support state programs.

The statements provide both short-term and long-term information about the State's financial position to help readers assess the State's economic condition at the end of the fiscal year. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, similar to methods used by most businesses. These statements take into account all revenues and expenses connected with the fiscal year, regardless of when the State received or paid the cash. The government-wide financial statements include two statements: the Statement of Net Position and the Statement of Activities.

- The *Statement of Net Position* presents all of the State's financial and capital resources in a format in which assets and deferred outflows of resources equal liabilities and deferred inflows of resources, plus

net position. Over time, increases or decreases in net position indicate whether the financial position of the State is improving or deteriorating.

- The *Statement of Activities* presents information showing how the State's net position changed during the most recent fiscal year. The State reports changes in net position as soon as the event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, this statement reports revenues and expenses for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

The government-wide financial statements separate into different columns the three types of state programs and activities—governmental activities, business-type activities, and component units.

- *Governmental activities* are mostly supported by taxes, such as personal income and sales and use taxes, and intergovernmental revenues, primarily federal grants. Most services and expenses normally associated with state government fall into this activity category, including general government; education (public K–12 schools and institutions of higher education); health and human services; natural resources and environmental protection; business, consumer services, and housing; transportation; corrections and rehabilitation; and interest on long-term debt.

- *Business-type activities* typically recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business-type activities of the State of California include providing unemployment insurance programs, providing housing loans to California veterans, providing water to local water districts, providing services to California State University students, selling California State Lottery tickets, and selling electric power. These activities are conducted with minimal financial assistance from the governmental activities or general revenues of the State.

- *Component units* are organizations that are legally separate from the State, but for which the State is financially accountable, or whose relationship with the State is so significant that their exclusion would cause the State's financial statements to be misleading or incomplete. Various types of component units are presented; all are legally separate. However, blended component units function as part of the State's operations. Fiduciary component units are primarily the resources and operations of the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System. Discretely presented component units contain some form of accountability either from or to the State.

Most component units prepare their own separately issued financial statements. For information regarding obtaining the financial statements of the individual component units, refer to Note 1A, Reporting Entity.

Fund Financial Statements

The State of California, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal and contractual requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the State may be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- *Governmental funds* are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements. This approach is known as the *flow of current financial resources measurement focus* and the *modified accrual basis of accounting*. These governmental fund statements provide a detailed short-term view of the State's finances, enabling readers to determine whether adequate financial resources exist to meet the State's current needs.

Because governmental fund financial statements provide a narrower focus than do government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate comparison between governmental funds and governmental activities. Primary differences between the government-wide and fund-based statements relate to noncurrent assets, such as land and buildings, and noncurrent liabilities, such as bonded debt and amounts owed for net pension liability, compensated absences, and capital lease obligations. These amounts are reported in the government-wide statements but not in the fund-based statements.

- *Proprietary funds* show activities that operate more like those found in the private sector. The State of California has two proprietary fund types—enterprise funds and internal service funds.
  - *Enterprise funds* record activities for which a fee is charged to external users; they are presented as business-type activities in the government-wide financial statements.
  - *Internal service funds* accumulate and allocate costs internally among the State's various functions. For example, internal service funds provide public buildings construction, information technology, printing, fleet management, and architectural services primarily for state departments. As a result, their activity is considered governmental.
- *Fiduciary funds* account for resources held for the benefit of parties outside the State. Fiduciary funds and the activities of fiduciary component units are not reflected in the government-wide financial statements because the resources of these funds are not available to support state programs. The accounting used for fiduciary funds and similar component units is similar to that used for trusts.

Discretely Presented Component Units Financial Statements

The State has financial accountability for discretely presented component units, which have certain independent qualities and operate in a similar manner to private sector businesses. The activities of the discretely presented component units are classified as enterprise activities.

Notes to the Financial Statements

The notes to the financial statements in this publication provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes

to the financial statements, which describe particular accounts in more detail, immediately follow the discretely presented component units financial statements.

Required Supplementary Information

A section of required supplementary information follows the notes to the basic financial statements in this publication. This section includes several schedules of information for the State's pension and OPEB plans and the State's contributions to those plans; 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 deficit position (governmental and business-type activities) as originally reported at June 30, 2017, decreased by $49.2 billion (230.6%) to $70.6 billion a year later but increased $14.5 billion (17.1%) when adjusted for restatements. As previously mentioned, the net position at the beginning of fiscal year 2017-18 was restated as a result of the recognition of previously unreported net OPEB liability and trial courts' net pension liability.

The primary government's $112.1 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 $47.1 billion of the primary government's net position represents resources that are externally restricted as to how they may be used, such as resources pledged to debt service. The internally-imposed earmarking of resources is not presented in this publication as restricted net position. As of June 30, 2018, the primary government's combined unrestricted net deficit position was $229.8 billion—$213.3 billion for governmental activities and $16.5 billion for business-type activities.

A significant factor contributing to the unrestricted net deficit is that governments recognize a liability on the government-wide Statement of Net Position as soon as an obligation occurs, while financing and budgeting functions focus on when a liability will be paid. As of June 30, 2018, the primary government recognized $191.2 billion (83.2% of the $229.8 billion unrestricted net deficit) in unfunded employee-related obligations—net pension liability, net OPEB liability, and compensated absences. In addition, the primary government recognized $65.6 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities, a common state practice nationwide. As the State does not own these capital assets, neither the assets nor the related bonded debt is included in the portion of net position reported as net investment in capital assets. Instead, the bonded debt is reported as a noncurrent liability that increases the State's unrestricted net deficit position. The State can expect continued deficits in the unrestricted net position of governmental activities as long as it has significant unfunded employee-related obligations and outstanding obligations for school districts and other local governmental entities.

Table 1 presents condensed financial information derived from the Statement of Net Position for the primary government.

Table 1

Net Position – Primary Government – Two-year Comparison
June 30, 2018 and 2017
(amounts in millions)

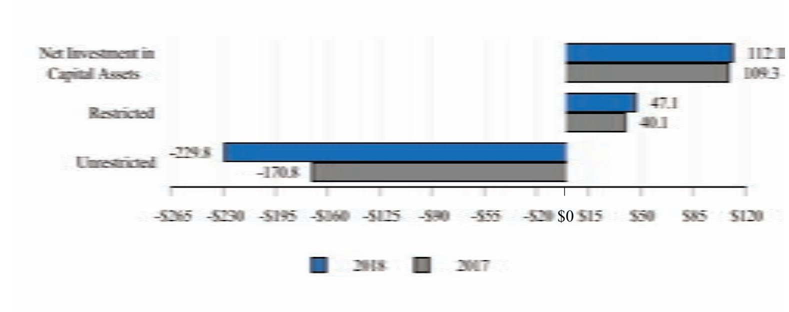
	Governmental Activities		Business-type Activities		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
ASSETS						
Current and other assets	$ 97,941	$ 84,127	$ 30,553	$ 25,972	$ 128,494	$ 110,099
Capital assets	132,708	129,996	11,927	10,670	144,635	140,666
Total assets	**230,649**	**214,123**	**42,480**	**36,642**	**273,129**	**250,765**
DEFERRED OUTFLOWS OF RESOURCES	32,296	17,173	4,471	2,350	36,767	19,523
Total assets and deferred outflows of resources	**$ 262,945**	**$ 231,296**	**$ 46,951**	**$ 38,992**	**$ 309,896**	**$ 270,288**
LIABILITIES						
Noncurrent liabilities	$ 265,780	$ 209,370	$ 41,708	$ 25,888	$ 307,488	$ 235,258
Other liabilities	54,863	47,837	4,230	4,700	59,093	52,537
Total liabilities	**320,643**	**257,207**	**45,938**	**30,588**	**366,581**	**287,795**
DEFERRED INFLOWS OF RESOURCES	10,951	2,714	2,922	1,121	13,873	3,835
Total liabilities and deferred inflows of resources	**331,594**	**259,921**	**48,860**	**31,709**	**380,454**	**291,630**
NET POSITION						
Net investment in capital assets	109,614	107,042	2,470	2,295	112,084	109,337
Restricted	35,053	33,832	12,085	6,309	47,138	40,141
Unrestricted	(213,316)	(169,499)	(16,464)	(1,321)	(229,780)	(170,820)
Total net position (deficit)	**(68,649)**	**(28,625)**	**(1,909)**	**7,283**	**(70,558)**	**(21,342)**
Total liabilities, deferred inflows of resources, and net position	**$ 262,945**	**$ 231,296**	**$ 46,951**	**$ 38,992**	**$ 309,896**	**$ 270,288**

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, 2018 and 2017
(amounts in billions)



Changes in Net Position

The expenses of the primary government totaled $300.7 billion for the fiscal year ended June 30, 2018. Of this amount, $152.3 billion (50.7%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving $148.4 billion to be funded with general revenues (mainly taxes). The primary government's general revenues of $162.9 billion exceeded net unfunded expenses by $14.5 billion, resulting in a 17.1% increase in net position, as restated.

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, 2018 and 2017
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
REVENUES						
Program Revenues:						
Charges for services	$ 32,103	$ 27,011	$ 28,380	$ 26,265	$ 60,483	$ 53,276
Operating grants and contributions	87,813	89,497	2,133	1,805	89,946	91,302
Capital grants and contributions	1,882	3,028	—	61	1,882	3,089
General Revenues:						
Taxes	162,260	148,021	—	—	162,260	148,021
Investment and interest	298	149	—	—	298	149
Miscellaneous	378	326	—	—	378	326
Total revenues	**284,734**	**268,032**	**30,513**	**28,131**	**315,247**	**296,163**
EXPENSES						
Program Expenses:						
General government	18,378	17,400	—	—	18,378	17,400
Education	70,280	67,378	—	—	70,280	67,378
Health and human services	137,829	135,090	—	—	137,829	135,090
Natural resources and environmental protection	8,304	7,342	—	—	8,304	7,342
Business, consumer services, and housing	1,258	1,164	—	—	1,258	1,164
Transportation	14,260	12,947	—	—	14,260	12,947
Corrections and rehabilitation	14,921	13,087	—	—	14,921	13,087
Interest on long-term debt	4,155	4,191	—	—	4,155	4,191
Electric Power	—	—	952	945	952	945
Water Resources	—	—	1,222	1,223	1,222	1,223
State Lottery	—	—	7,007	6,272	7,007	6,272
Unemployment Programs	—	—	12,134	11,908	12,134	11,908
California State University	—	—	9,806	8,001	9,806	8,001
Other enterprise programs	—	—	207	155	207	155
Total expenses	**269,385**	**258,599**	**31,328**	**28,504**	**300,713**	**287,103**
Excess (deficiency) before transfers	**15,349**	**9,433**	**(815)**	**(373)**	**14,534**	**9,060**
Gain on early extinguishment of debt	—	31	—	—	—	31
Transfers	(4,340)	(3,083)	4,340	3,083	—	—
Change in net position	11,009	6,381	3,525	2,710	14,534	9,091
Net position, beginning	**(79,658)***	**(35,006)***	**(5,434)***	**4,573**	**(85,092)**	**(30,433)**
Net position (deficit), ending	**$ (68,649)**	**$ (28,625)**	**$ (1,909)**	**$ 7,283**	**$ (70,558)**	**$ (21,342)**

*Restated

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

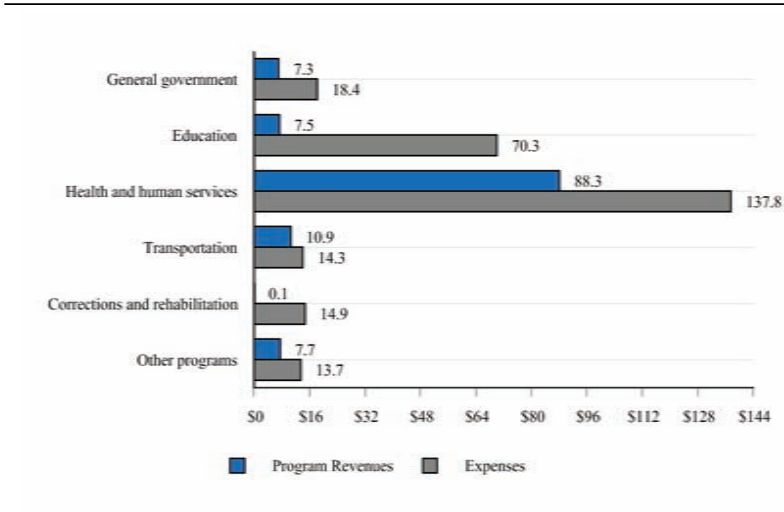
Governmental Activities

During fiscal year 2017-18, governmental activities' expenses and transfers totaled $273.7 billion. Program revenues totaling $121.8 billion, including $89.7 billion received in federal grants and contributions, funded 44.5% of expenses and transfers, leaving $151.9 billion to be funded with general revenues (mainly taxes). General revenues for governmental activities ($162.9 billion) exceeded net unfunded expenses and transfers, resulting in the governmental activities' net deficit position of $68.6 billion, after restatement, for the fiscal year ended June 30, 2018, an improvement of $11.0 billion (13.8%) over the prior year's restated net deficit position of $79.6 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, 2018
(amounts in billions)



For the fiscal year ended June 30, 2018, total governmental activities' revenue was $284.7 billion, an increase of 6.2% over the prior year. General revenues increased by $14.4 billion (9.7%), to $162.9 billion, and program revenues increased by $2.3 billion (1.9%), to $121.8 billion. Personal income taxes increased by $8.7 billion over the prior year primarily due to increased capital gains from a strong stock market, representing a 10.2% increase compared to the fiscal year 2016-17 increase of 6.7%. Motor vehicle excise taxes increased $1.8 billion (36.9%) for the partial-year impact of the Road Repair and Accountability Act of 2017 (Senate Bill 1), which increased existing fuel excise taxes and created two new vehicle charges. Corporation taxes increased by $1.5 billion (13.3%) over the prior year.

Overall expenses for governmental activities increased by $10.8 billion (4.2%) over the prior year. The largest increase in expenditures, $2.9 billion (4.3%), occurred in education as a result of the Proposition 98 minimum funding guarantee; the increased spending was triggered by higher General Fund revenue. Another significant increase, $2.7 billion (2.0%), occurred in health and human services programs; the majority of the increase is attributable to the Department of Health Care Services, which administers the California Medical Assistance (Medi-Cal) program.

Chart 3 presents the percentage of total expenses for each governmental activities program.

Chart 3

Expenses by Program
Year ended June 30, 2018
(as a percent)

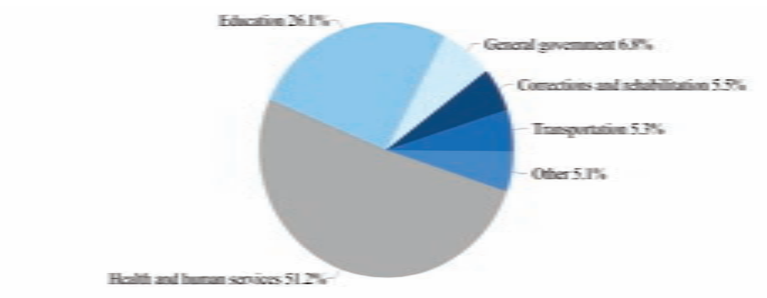
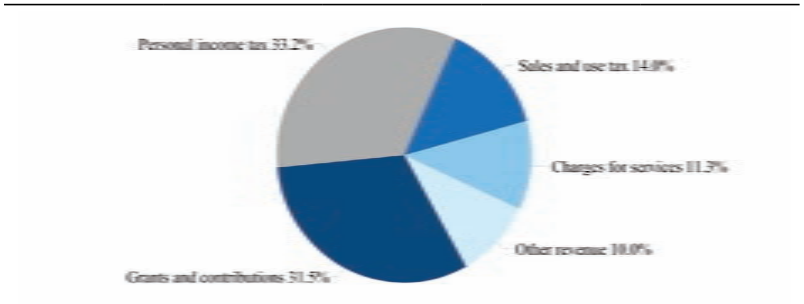


Chart 4 presents the percentage of total revenues by source for each governmental activities program.

Chart 4

Revenues by Source
Year ended June 30, 2018
(as a percent)



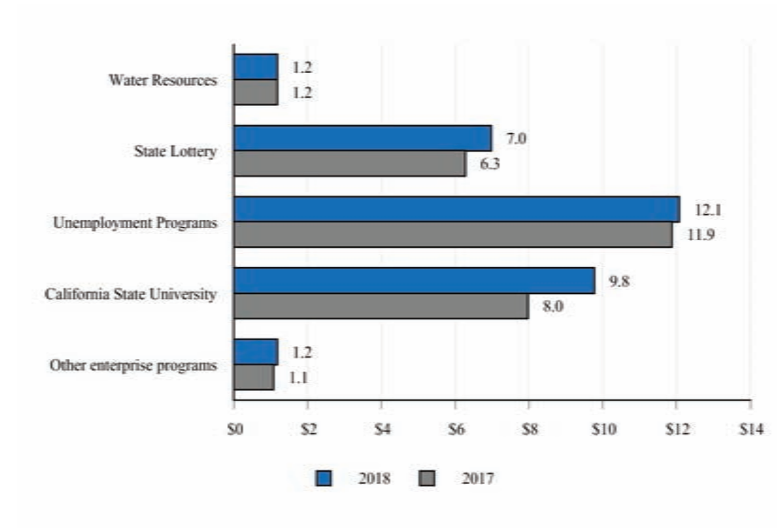
Business-type Activities

As of June 30, 2018, business-type activities' expenses totaled $31.3 billion. Program revenues of $30.5 billion, primarily generated from charges for services, and $4.3 billion in transfers, were sufficient to cover these expenses. As a result, the business-type activities' total net deficit position of $1.9 billion improved by $3.5 billion (64.9%) over the prior year's restated net deficit position of $5.4 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, 2018 and 2017
(amounts in billions)



Fund Financial Analysis

The financial position of the State's governmental funds continued to improve in fiscal year 2017-18, with a combined fund balance increase of $9.0 billion over the prior year's restated ending fund balance. Governmental funds rely heavily on taxes to support the majority of the State's services and programs. All of the State's "Big Three" taxes (personal income, sales and use, and corporation) increased during the fiscal year. Proprietary funds' total net position increased by $3.5 billion during fiscal year 2017-18—with a $3.5 billion increase in enterprise funds, but a $55 million decrease in internal service funds. The majority of the increase in the enterprise funds' net position was in the Unemployment Programs Fund, increasing its fund balance to $7.2 billion, as a result of State's continued low unemployment rate during fiscal year 2017-18, a record low 4.2% in June 2018.

Governmental Funds

As of June 30, 2018, the governmental funds' Balance Sheet reported $107.9 billion in assets, $62.7 billion in liabilities and deferred inflows of resources, and $45.2 billion in fund balance. Total assets of governmental funds increased by 20.5%, while total liabilities and deferred inflows of resources increased by 21.3%, resulting in a total fund balance increase of $9.0 billion (25.0%) over the prior year's restated balance.

Within the governmental funds' total fund balance, $630 million is classified as nonspendable, as this amount consists of long-term interfund receivables, loans receivable, and legal or contractual requirements. Additionally, $34.9 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, $8.1 billion is classified as committed for specific purposes and $26 million is classified as assigned for specific purposes. The remaining unassigned balance of the governmental funds is a positive $1.6 billion—an improvement of $3.6 billion over the prior fiscal year. This is the first year since fiscal year 2010-11—when the State began using the current fund balance classifications for governmental funds as required by GASB Statement No. 54—that all governmental funds are reporting positive fund balances in all classifications.

The Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds reported $284.7 billion in revenues, $281.1 billion in expenditures, and a net $5.4 billion in receipts from other financing sources. The ending fund balance of the governmental funds for the fiscal year ended June 30, 2018, was $45.2 billion, a $9.0 billion increase over the prior year's restated ending fund balance of $36.2 billion.

Governmental funds' revenue consists primarily of taxes (57.0%) and intergovernmental revenue (32.6%). Personal income taxes accounted for 58.2% of tax revenues and increased by $8.7 billion over the prior fiscal year. Sales and use taxes accounted for 24.5% of tax revenues and increased by $1.0 billion over the prior fiscal year. Corporation taxes accounted for 7.8% of tax revenues and increased by $1.5 billion over the prior fiscal year. Intergovernmental revenue, primarily from the federal government, decreased by $2.8 billion (2.9%) from the prior fiscal year.

Governmental funds' expenditures increased by $12.5 billion (4.7%) over the prior fiscal year, primarily for health and human services, education, correctional programs, and transportation. The increase in health and human services expenditures of $3.6 billion (2.7%) is due to increased spending on Medi-Cal. Education expenditures increased by $2.7 billion (4.0%) over the prior fiscal year to comply with constitutional requirements (Proposition 98) that provide a minimum funding guarantee to support California's K-12 schools and community colleges; the minimum funding guarantee increased as a result of increased General Fund revenue in fiscal year 2017-18. Expenditures for correctional programs increased by $2.4 billion (19.5%) due to the State's commitment to provide quality health care and mental health services to inmates. Transportation expenditures increased by $2.2 billion (14.4%) as a result of additional maintenance and rehabilitation of state highways and local streets and roads, and on transit-related projects required by Senate Bill 1.

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, 2018 and 2017
(amounts in billions)

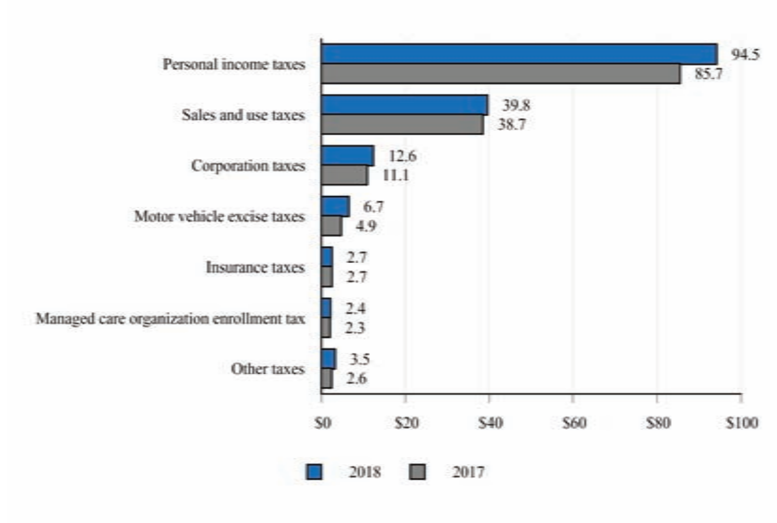
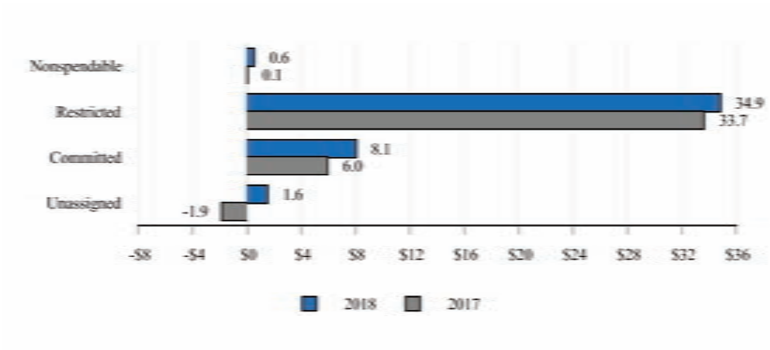


Chart 7 presents a two-year comparison of the components of the governmental funds' balance.

Chart 7

Governmental Funds – Components of Fund Balance – Two-year Comparison
Years ended June 30, 2018 and 2017
(amounts in billions)



Note: Assigned fund balance was $26 million, which rounds to zero when presented in billions.

The State's major governmental funds are the General Fund, the Federal Fund, the Transportation Fund, the Environmental and Natural Resources Fund, and the Health Care Related Programs Fund. The General Fund ended the fiscal year with a fund balance of $12.2 billion, an increase of $6.4 billion over the prior year's fund balance. The Federal Fund, the Transportation Fund, the Environmental and Natural Resources Fund, and the Health Care Related Programs Fund ended the fiscal year with fund balances of $229 million, $9.3 billion, $11.5 billion, and $730 million, respectively. The nonmajor governmental funds ended the fiscal year with a total fund balance of $11.2 billion.

General Fund: As shown on the Balance Sheet, the General Fund (the State's main operating fund) ended fiscal year 2017-18 with assets of $39.2 billion; liabilities and deferred inflows of resources of $27.0 billion; and nonspendable, restricted, and committed fund balances of $560 million, $9.8 billion, and $171 million, respectively, leaving the General Fund with a positive unassigned fund balance of $1.6 billion. Total assets of the General Fund increased by $12.8 billion (48.7%) over the prior fiscal year, while total liabilities and deferred inflows of resources increased by $6.5 billion (31.4%). The General Fund's unassigned fund balance increased by $3.6 billion (186.6%) and is positive for the first time since fiscal year 2010-11, when the State's began using the current fund balance classifications for governmental funds as required by GASB Statement No. 54.

As shown on the Statement of Revenue, Expenditures, and Changes in Fund Balances, the General Fund had an excess of revenues over expenditures of $11.4 billion ($135.6 billion in revenues and $124.2 billion in expenditures). Approximately $130.5 billion (96.2%) of General Fund revenue is derived from the State's largest three taxes—personal income taxes ($92.8 billion), sales and use taxes ($25.1 billion), and corporation taxes ($12.6 billion). As a result of fund classifications made to comply with generally accepted governmental accounting principles, a total of $335 million in revenue, mostly from unemployment

programs, is included in the General Fund. These revenues are not considered General Fund revenues for any budgetary purposes or for the State's Budgetary/Legal Basis Annual Report.

During fiscal year 2017-18, total General Fund revenue increased by $10.5 billion (8.4%). The increase is a result of increases in personal income taxes of $8.6 billion (10.2%), corporation taxes of $1.5 billion (13.2%), and sales and use taxes of $170 million (0.7%). General Fund expenditures increased by $8.0 billion (6.9%). The largest increases were in health and human services, correctional programs, and education expenditures, which were up $3.2 billion, $2.4 billion, and $1.9 billion, respectively. The General Fund ended the fiscal year with a fund balance of $12.2 billion, an improvement of $6.4 billion from the prior year's ending fund balance of $5.8 billion. The General Fund's ending fund balance includes $9.4 billion restricted for budget stabilization if the Governor must declare a budget emergency during an economic downturn.

Federal Fund: The Federal Fund reports federal grant revenues and the related expenditures to support grant programs. The largest of these programs is for health and human services, which accounted for $74.8 billion (83.9%) of the total $89.2 billion in fund expenditures. The Medical Assistance program and the Temporary Assistance for Needy Families program are included in this program area. Education and transportation programs also constituted a large part of the fund's expenditures, amounting to $7.4 billion (8.3%) and $4.9 billion (5.5%) of the total, respectively. The Federal Fund's revenues decreased by $2.8 billion, which was approximately the same amount of decrease in the combined expenditures and transfers, resulting in only a $1 million fund balance increase over the prior year's ending fund balance of $228 million, to $229 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 increased by $3.4 billion (34.6%) and its expenditures increased by $2.7 billion (25.3%), as a result of the increased motor vehicle excise tax and related expenditure requirements created by Senate Bill 1. Other financing sources provided net receipts of $282 million. The Transportation Fund ended the fiscal year with a $9.3 billion fund balance, an increase of $256 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 $2.3 billion (49.4%) mainly from cap-and-trade auction proceeds, but its expenditures increased by only $103 million (1.7%). Other financing sources provided net receipts of $1.9 billion, mainly from bond proceeds. The Environmental and Natural Resources Fund ended the fiscal year with a $11.5 billion fund balance, an increase of $2.6 billion (28.8%) over the prior year.

Health Care Related Programs Fund: The Health Care Related Programs Fund accounts for fees, taxes, intergovernmental revenue, bond proceeds, transfers from other state funds, and other revenue used for the Medi-Cal program, medical research, and other health care-related programs. The Health Care Related Program Fund's revenues increased by $1.2 billion (12.4%) and expenditures increased by $1.5 billion (14.5%). Other financing sources provided net receipts of $801 million . The Health Care Related Program Fund ended the fiscal year with a $730 million fund balance, an increase of $10 million over the prior year.

Proprietary Funds

The net position at the beginning of the year for many of the State's proprietary funds was restated as a result of the recognition of net OPEB liabilities associated with the implementation of GASB Statement No. 75. The cumulative impact on the proprietary funds' beginning net position because of this implementation was a decrease of $16.1 billion—$14.4 billion for enterprise funds and $1.7 billion for internal service funds.

Enterprise Funds: The total net deficit position of the enterprise funds at June 30, 2018, was $1.9 billion —a $3.5 billion improvement over the prior year's restated net deficit position of $5.4 billion. The Unemployment Programs Fund accounted for the majority of this increase to end the fiscal year with a net position of $7.2 billion. The State Lottery Fund and the California State University Fund increased their net deficit positions by $31 million and $74 million, respectively, while the nonmajor enterprise funds increased net position by $169 million.

As shown on the proprietary funds' Statement of Net Position, total assets and deferred outflows of resources for the enterprise funds were $47.9 billion as of June 30, 2018. Of this amount, current assets totaled $16.3 billion, noncurrent assets totaled $27.1 billion, and deferred outflows of resources totaled $4.5 billion. The total liabilities and deferred inflows of resources for the enterprise funds was $49.8 billion. The three largest liabilities of the enterprise funds are $15.6 billion in net OPEB liability, $14.3 billion in revenue bonds payable, and $10.1 billion in net pension liability. During the 2017-18 fiscal year, the State repaid all loans from the U.S. Department of Labor that covered prior-year deficits in the Unemployment Programs Fund; and, as of June 30, 2018, the Unemployment Programs Fund had a balance on deposit with the U.S. Treasury of $3.0 billion.

Total net position consisted of four segments: net investment in capital assets of $2.5 billion, nonexpendable restricted net position of $2 million, restricted expendable net position of $12.1 billion, and unrestricted net deficit of $16.5 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 $27.0 billion, operating expenses of $28.1 billion, and net revenues from other transactions of $246 million. The largest sources of operating revenue were unemployment and disability insurance receipts of $15.5 billion in the Unemployment Programs Fund and lottery ticket sales of $7.0 billion collected by the State Lottery Fund. The unemployment and disability insurance receipts in the Unemployment Programs Fund increased by $1.1 billion (7.8%) over the prior fiscal year.The largest operating expenses were distributions of $11.8 billion to beneficiaries by the Unemployment Programs Fund, personal services of $6.8 billion by the California State University Fund, and lottery prizes of $4.5 billion distributed by the State Lottery Fund. The largest increase in operating expenses was the California State University Fund personal services costs which increased $1.6 billion (31.6%) over the prior fiscal year.

Internal Service Funds: The total net deficit of the internal service funds was $2.4 billion as of June 30, 2018. The net position consists of three segments: net investment in capital assets of $509 million, restricted expendable net position of $194 million, and unrestricted net deficit of $3.1 billion.

Fiduciary Funds

The State of California has four types of fiduciary funds: private purpose trust funds, pension and other employee benefit trust funds, investment trust funds, and agency funds. The private purpose trust funds ended the fiscal year with a net position of $8.7 billion. The pension and other employee benefit trust funds ended the fiscal year with a net position of $605.5 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with a net position of $22.5 billion. Agency funds act as clearing accounts and thus do not have a net position.

For the fiscal year ended June 30, 2018, the fiduciary funds' combined net position was $636.7 billion, a $47.3 billion increase over the prior year restated net position. The net position increased primarily because contributions received and investment income in pension and other employee benefit trust funds exceeded payments made to participants, despite a 20.4% decrease in net investment income from the prior fiscal year.

General Fund Budget Highlights

The original General Fund budget of $126.0 billion was increased by $1.6 billion during fiscal year 2017-18. This increase is mainly attributed to funding for health and human services, corrections and rehabilitation, and natural resources and environmental protection.

The funding increase in health and human services was due to a combination of health care cost inflation, program expansions, and caseload growth. In addition, the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 (Proposition 56) increased General Fund health care costs to support new growth in the Medi-Cal program in fiscal year 2017-18.

The increase in corrections and rehabilitation was mainly the result of additional funding for the California Department of Corrections and Rehabilitation (CDCR). Expenditures for the CDCR increased due to several factors, including increases in employee compensation costs, the activation of a new health care facility, and costs associated with expanding capacity to reduce prison overcrowding.

Funding for the California Department of Forestry and Fire Protection, which is responsible for providing fire response, accounted for the increase in natural resources and environmental protection. This increase in expenditures was driven by the increasing magnitude of fires, labor costs, and additional development in state responsibility areas.

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, 2018
(amounts in millions)

	Original	Final	Increase/ (Decrease)
Budgeted amounts			
Business, consumer services, and housing	$ 59	$ 61	$ 2
Transportation	5	5	—
Natural resources and environmental protection	2,226	2,651	425
Health and human services	35,011	35,981	970
Corrections and rehabilitation	11,242	11,719	477
Education	65,067	64,957	(110)
General government:			
Tax relief	420	425	5
Debt service	4,779	4,779	—
Other general government	7,184	7,075	(109)
Total	**$ 125,993**	**$ 127,653**	**$ 1,660**

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2018, the State's investment in capital assets for its governmental and business-type activities amounted to $144.6 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, 2018, the State's capital assets increased $4.0 billion, or 2.8% 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, 2018 and 2017
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	$ 20,208	$ 19,716	$ 271	$ 258	$ 20,479	$ 19,974
State highway infrastructure	77,068	75,071	—	—	77,068	75,071
Collections – nondepreciable	23	23	25	22	48	45
Buildings and other depreciable property	31,700	31,115	14,696	13,718	46,396	44,833
Intangible assets – amortizable	2,223	2,076	431	421	2,654	2,497
Less: accumulated depreciation/amortization	(15,221)	(14,304)	(6,089)	(5,616)	(21,310)	(19,920)
Construction/development in progress	16,289	15,871	2,475	1,750	18,764	17,621
Intangible assets – nonamortizable	418	428	118	117	536	545
Total	**$ 132,708**	**$ 129,996**	**$ 11,927**	**$ 10,670**	**$ 144,635**	**$ 140,666**

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 bridges and roadways). Under the modified approach, the State does not report depreciation expense for its bridges and roads but capitalizes all costs that add to their capacity and efficiency. All maintenance and preservation costs are expensed. Under the modified approach, the State maintains an asset management system to demonstrate that the infrastructure is preserved at or above established condition levels. During fiscal year 2017-18, the actual amount spent on preservation was 54.9% of the estimated budgeted amount needed to maintain the infrastructure assets at established condition levels. Although the amount spent fell short of the budgeted amount, the assessed condition of the State's bridges and roadways is better than the established condition baselines, with 95.3% of bridge deck area judged to be of fair or better quality and 82.2% of lane miles judged to be of fair or better quality in the last completed pavement-condition survey. The State is responsible for maintaining 13,003 bridges and 50,346 lane miles.

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, 2018, the State had total bonded debt outstanding of $111.0 billion. Of this amount, $80.3 billion (72.4%) represents general obligation bonds, which are backed by the full faith and credit of the State. The current portion of general obligation bonds outstanding is $3.6 billion and the long-term portion is

$76.7 billion. The remaining $30.7 billion (27.6%) of bonded debt outstanding represents revenue bonds, which are secured solely by specified revenue sources. The current portion of revenue bonds outstanding is $2.0 billion and the long-term portion is $28.7 billion.

During the fiscal year, the State issued a total of $8.6 billion in new general obligation bonds to fund various capital projects and other voter-approved costs related to K-12 schools and higher education facilities, transportation improvements and high-speed rail, water quality and environmental protection, and other public purposes.

Table 5 presents a summary of all the primary government's long-term obligations for governmental and business-type activities.

Table 5

Long-term Obligations – Primary Government – Two-year Comparison
Years ended June 30, 2018 and 2017
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Government-wide noncurrent liabilities						
General obligation bonds	$ 76,063	$ 75,329	$ 668	$ 667	$ 76,731	$ 75,996
Revenue bonds payable	15,559	16,088	13,164	13,869	28,723	29,957
Total bonded debt	91,622	91,417	13,832	14,536	105,454	105,953
Net pension liability	88,027	77,278	10,067	8,787	98,094	86,065
Net other postemployment benefits liability/obligation	73,717	28,181	15,619	978	89,336	29,159
Mandated cost claims payable	1,911	2,453	—	—	1,911	2,453
Loans payable	—	—	—	385	—	385
Compensated absences payable	3,593	3,511	191	205	3,784	3,716
Workers' compensation benefits payable	3,874	3,642	4	4	3,878	3,646
Capital lease obligations	412	359	290	310	702	669
Commercial paper	860	1,158	743	147	1,603	1,305
Other noncurrent liabilities	1,515	1,372	962	921	2,477	2,293
Total noncurrent liabilities	**265,531**	**209,371**	**41,708**	**26,273**	**307,239**	**235,644**
Current portion of long-term obligations	5,467	5,940	2,052	2,289	7,519	8,229
Total long-term obligations	**$ 270,998**	**$ 215,311**	**$ 43,760**	**$ 28,562**	**$ 314,758**	**$ 243,873**

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

During fiscal year 2017-18, the State implemented GASB Statement No. 75, which resulted in the elimination of the June 30, 2017 net other postemployment benefits (OPEB) obligation of $29.1 billion and the recognition of a net OPEB liability of $89.3 billion at June 30, 2018—a net increase of $60.2 billion in long-term obligations. Another large increase in long-term obligations during the fiscal year was a $12.0 billion increase in net pension liability, comprised of a $1.9 billion beginning balance restatement for previously unreported trial courts' net pension liability and a current-year net increase of $10.1 billion because the State does not fully fund pension benefits. All other long-term obligations had a net decrease of $1.3 billion from the prior year, with the majority of the decrease in bonded debt, mandated cost claims payable, and loans payable.

Note 9, Long-term Obligations, and Notes 10 through 16 include additional information on the State's long-term obligations.

During fiscal year 2017-18, the State's general obligation credit ratings from Fitch Ratings, Standard and Poor's Rating Services, and Moody's Investors Service remained unchanged at "AA-", "AA-", and "Aa3", respectively.

Economic Condition and Future Budgets

The Economy for the Fiscal Year Ending June 30, 2018

California continued to experience economic growth, for the ninth year in a row, during the year ended June 30, 2018. The State's real gross domestic product (GDP) totaled nearly $3.0 trillion, an increase of 6.3%, during fiscal year 2017-18. In comparison, GDP for the United States grew by 5.4% during the same period.

California's unemployment rate decreased to 4.2% in June 2018—the lowest in decades—compared to 4.8% in June 2017. Total nonfarm employment increased by 339,500 jobs during fiscal year 2017-18, with all of California's 11 major industry sectors experiencing job growth. The largest number of job gains were in professional and business services, educational and health services, and construction.

California's personal income grew 5.0% in fiscal year 2017-18, exceeding the national increase of 4.5%. Personal income in California has grown an average of 5.0% a year since 2010, while national personal income has grown an average of 3.9%. The State's record low unemployment rate is a contributing factor in the growth of personal income. In addition, effective January 1, 2018, California's minimum wage increased to either $10.50 or $11.00 per hour, depending on the number of employees of a business. The minimum wage will continue to increase each year until it reaches $15.00 per hour for all businesses in 2023.

California's real estate market showed mixed signals at the end of the fiscal year. The median price of homes in California increased 8.5% over the prior year, to a record high of $602,760, well over twice the national median price of $273,800. Conversely, 30-year fixed mortgage rates increased to 4.57% in June 2018, compared to 3.90% in June 2017, and single-family home sales declined 7.3% from the prior fiscal year—the largest decrease in nearly four years. In California, low inventory and competition for homes has driven prices up and affordability down. As of June 2018, commercial construction permits increased 13.2% from the prior year, and the number of residential building permits issued increased by 10.0% to over 120,000 units. However, ongoing residential production continues to fall below the projected need to accommodate population growth.

Economic Outlook for Fiscal Year 2017-18 as of March 31, 2019

California's economy continued to grow, but at a slower pace, during the first nine months of the fiscal year beginning July 1, 2018. The State's unemployment rate increased to 4.3% in March 2019. Steady job growth, along with increased labor-force participation is expected to keep the unemployment rate near 4.3% through 2022. California added 175,700 nonfarm jobs since June 30, 2018, with 10 out of 11 major industry sectors experiencing job growth. California's personal income for the quarter ending December 2018 was 2.0% higher than in June 2018, but lower than the 2.6% increase during the same quarter in 2017.

Swings in oil prices, higher international tariffs, and increasing wages contributed to faster-than-expected inflation in 2018. Inflation in the State rose 3.3% in fiscal year 2017-18, and the California Department of Finance projects that it will increase by 3.8% in fiscal year 2018-19 and 3.4% in fiscal year 2019-20. In comparison, national inflation rose 2.3% in fiscal year 2017-18 and is expected to increase by 2.5% in fiscal year 2018-19 and 2.4% in fiscal year 2019-20.

In California's real estate industry, the housing market showed signs of weakness as home price growth slowed consistently throughout 2018. The median home price in March 2019 was $565,880, a 6.1% decrease from June 2018. Additionally, single-family home sales for March 2019 totaled 397,210, a decrease of 6.3% from March 2018. The State's housing market is expected to continue slowing as a result of tighter mortgage lending, higher interest rates, and increased tariffs that could increase the cost of building homes.

California's 2018-19 Budget

California's 2018-19 Budget Act was enacted on June 27, 2018. The Budget Act appropriated $201.4 billion —$138.7 billion from the General Fund, $58.5 billion from special funds, and $4.2 billion from bond funds. The General Fund's budgeted expenditures increased by $11.6 billion (9.2%) over the prior-year budget. The General Fund's revenues were projected to be $133.3 billion after a $4.4 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 69.0% of total revenue in fiscal year 2018-19. California's major taxes (personal income, sales and use, and corporation) are projected to supply approximately 97.3% of the General Fund's resources in fiscal year 2018-19. The General Fund was initially projected to end fiscal year 2018-19 with $15.9 billion in total reserves—$13.7 billion in the BSA, $2.0 billion in the General Fund's Special Fund for Economic Uncertainties (SFEU), and $200 million in the new Safety Net Reserve (SNR). In addition to the required minimum annual transfer to the BSA, Proposition 2 requires the General Fund to make an equivalent minimum annual amount of debt reduction payments; the 2018-19 spending plan included $1.7 billion of debt reduction expenditures.

The 2018-19 spending plan increased total State expenditures by $13.0 billion over the 2017-18 level, primarily in education, transportation, and health and human services. General Fund spending increased by $1.5 billion in education to meet the Proposition 98 guaranteed minimum funding level for K-12 schools and community colleges, a $760 million increase for universities, and an increase of $655 million for childcare and preschool programs.

The Budget included a $4.7 billion increase in transportation spending due, in large part, to the increase in fuel excise taxes and vehicle charges attributed to Senate Bill 1 in its first full year of implementation. The funds will be used to maintain and repair transportation infrastructure and complete transit-related projects. For fiscal year 2018-19, the General Fund's spending for health programs increased by $2.9 billion, primarily due to significant growth in projected spending on Medi-Cal, including a shift in costs to the General Fund from other state and federal fund sources.

Actual General Fund cash receipts through April 30, 2019, were $4.0 billion (3.5%) greater than the Governor's Budget estimates for the first 10 months of fiscal year 2018-19, and disbursements were $1.1 billion (0.9%) greater than estimated. As a result, the General Fund's need for temporary borrowing was $2.9 billion less than projected, resulting in a balance, as of April 30, 2019, of $2.6 billion in outstanding loans comprised entirely of internal borrowing from other funds.

In May 2019, the revised 2019-20 Governor's Budget provided updated estimates of fiscal year 2018-19 General Fund revenues, expenditures, and reserves. The revised estimates project General Fund revenue of $138.0 billion, expenditures of $143.2 billion, and total year-end reserves of $20.1 billion—$14.4 billion

in the BSA, $4.8 billion in the SFEU, and $900 million in the SNR—which is $4.2 billion more than projected in June 2018 for the enacted budget.

California's 2019-20 Budget

The Governor released his proposed 2019-20 budget on January 9, 2019. The Governor's Budget assumes moderate growth; however, growing uncertainty related to the global political and economic climate, federal policies, rising cost of living, and duration of the current economic expansion require that the Budget be practical. The proposed budget estimates that a moderate recession could result in a nearly $70.0 billion revenue loss and a $40.0 billion budget deficit over three years. The Governor's Budget takes a careful economic approach to maintaining the State's fiscal health by allocating $13.6 billion toward building more budget resiliency and paying down the State's unfunded pension liabilities. Additionally, the Budget makes investments to promote opportunities that make living in California more affordable for its citizens and strengthens the State's emergency readiness, response, and recovery capabilities.

The 2019-20 Governor's Budget projects General Fund revenues of $144.4 billion ($142.6 billion after transfers), an increase of $4.7 billion (3.4%) over January's estimated 2018-19 revenues. General Fund expenditures are budgeted at $144.2 billion, an increase of $109 million (0.1%) over January's estimated 2018-19 totals. Most of the increase in expenditures is attributable to health and human services and planned increases in housing production. The Budget proposes a transfer of $1.8 billion from the General Fund to the BSA. After this transfer, the balance in the BSA would be $15.3 billion. Combined with the projected balance of $2.3 billion in the SFEU and $900 million in the SNR, the State's total reserves at the end of fiscal year 2019-20 would be $18.5 billion.

The 2019-20 spending plan prioritizes paying down the State's retirement liabilities. The Budget includes a $3.0 billion supplemental contribution to CalPERS and proposes to dedicate all of the Proposition 2 debt payments ($1.8 billion) toward paying down the State's unfunded OPEB and pension liabilities.

The Legislative Analyst's Office (LAO), California's nonpartisan fiscal and policy advisor, states that the Governor's budget proposal reflects a budget situation that is better than it expected. The LAO estimates that even after taking into account various constitutional spending requirements, caseload growth, and inflation, the administration has $20.6 billion in available discretionary resources to allocate among a variety of priorities, including one-time spending and debt repayments. As most of the surplus is expected to consist of one-time funding, the LAO agrees that the Governor's emphasis on paying down debt, building reserves, and restricting most new spending to one-time outlays is appropriate.

In May 2019, the revised 2019-20 Governor's Budget provided updated estimates of fiscal year 2019-20 General Fund revenues, expenditures, and reserves. The revised estimates project General Fund revenues of $146.0 billion ($143.8 billion after transfers), an increase of $4.4 billion (3.1%) over May's estimated 2018-19 revenues. General Fund expenditures are budgeted at $147.0 billion, an increase of $3.8 billion (2.6%) over May's estimated 2018-19 totals. The Budget proposes a transfer of $2.2 billion from the General Fund to the BSA. After this transfer, the balance in the BSA would be $16.5 billion. Combined with the projected balance of $1.6 billion in the SFEU, $900 million in the SNR, and $400 million in other reserves, the State's total reserves at the end of fiscal year 2019-20 would be $19.4 billion.

Requests for Information

The State Controller's Office designed this financial report to provide interested parties with a general overview of the State of California's finances. Address questions concerning the information provided in this report or requests for additional information via email to the State Controller's Office, State Accounting and Reporting Division at StateGovReports@sco.ca.gov. This report is also available on the State Controller's Office website at www.sco.ca.gov.

Basic Financial Statements

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Government-wide Financial Statements

Statement of Net Position

June 30, 2018
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and pooled investments	$ 47,470,591	$ 6,501,147	$ 53,971,738	$ 2,905,037
Amount on deposit with U.S. Treasury	—	2,970,373	2,970,373	—
Investments	494,505	2,750,013	3,244,518	7,458,829
Restricted assets:				
Cash and pooled investments	440,303	1,295,898	1,736,201	347,283
Investments	—	—	—	49,102
Due from other governments	—	155,541	155,541	—
Net investment in direct financing leases	23,589	11,384	34,973	—
Receivables (net)	21,673,854	2,072,187	23,746,041	4,834,661
Internal balances	(309,029)	309,029	—	—
Due from primary government	—	—	—	237,372
Due from other governments	21,853,537	279,633	22,133,170	133,472
Prepaid items	233,767	66,169	299,936	4,445
Inventories	72,489	16,038	88,527	244,706
Recoverable power costs (net)	—	109,000	109,000	—
Other current assets	29,219	7,248	36,467	440,413
Total current assets	91,982,825	16,543,660	108,526,485	16,655,320
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	176,851	729,400	906,251	39,908
Investments	—	352,066	352,066	67,679
Loans receivable	—	2,054,876	2,054,876	—
Investments	—	1,961,682	1,961,682	33,799,835
Net investment in direct financing leases	265,937	218,229	484,166	—
Receivables (net)	2,046,378	448,140	2,494,518	2,398,005
Loans receivable	3,468,095	4,727,643	8,195,738	3,087,842
Recoverable power costs (net)	—	1,631,000	1,631,000	—
Long-term prepaid charges	1,370	1,860,013	1,861,383	142
Capital assets:				
Land	20,208,641	271,240	20,479,881	1,347,708
State highway infrastructure	77,067,674	—	77,067,674	—
Collections – nondepreciable	22,627	24,604	47,231	544,051
Buildings and other depreciable property	31,700,263	14,696,314	46,396,577	53,850,588
Intangible assets – amortizable	2,222,889	431,102	2,653,991	1,607,137
Less: accumulated depreciation/amortization	(15,220,711)	(6,089,314)	(21,310,025)	(26,811,356)
Construction/development in progress	16,289,087	2,474,761	18,763,848	3,004,984
Intangible assets – nonamortizable	417,669	118,412	536,081	5,411
Other noncurrent assets	—	25,612	25,612	377,142
Total noncurrent assets	138,666,770	25,935,780	164,602,550	73,319,076
Total assets	**230,649,595**	**42,479,440**	**273,129,035**	**89,974,396**
DEFERRED OUTFLOWS OF RESOURCES	32,295,813	4,471,312	36,767,125	4,763,120
Total assets and deferred outflows of resources	**$ 262,945,408**	**$ 46,950,752**	**$ 309,896,160**	**$ 94,737,516**

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	$ 28,077,598	$ 529,802	$ 28,607,400	$ 3,137,105
Due to component units	237,372	—	237,372	—
Due to other governments	9,438,510	154,151	9,592,661	—
Revenues received in advance	2,043,266	366,580	2,409,846	1,512,088
Tax overpayments	6,240,122	—	6,240,122	—
Deposits	442,450	—	442,450	1,107,909
Contracts and notes payable	3,633	—	3,633	13,353
Unclaimed property liability	985,801	—	985,801	—
Interest payable	1,221,406	64,459	1,285,865	28,017
Securities lending obligations	—	—	—	1,209,769
Benefits payable	—	508,722	508,722	—
Current portion of long-term obligations	5,466,955	2,051,597	7,518,552	4,104,731
Other current liabilities	705,162	554,573	1,259,735	1,418,517
Total current liabilities	54,862,275	4,229,884	59,092,159	12,531,489
Noncurrent liabilities:				
Loans payable	248,542	—	248,542	1,037
Lottery prizes and annuities	—	712,236	712,236	—
Compensated absences payable	3,593,097	191,000	3,784,097	333,772
Workers' compensation benefits payable	3,874,233	4,147	3,878,380	487,528
Commercial paper and other borrowings	859,695	742,748	1,602,443	2,926
Capital lease obligations	412,444	290,145	702,589	405,977
General obligation bonds payable	76,062,632	668,125	76,730,757	—
Revenue bonds payable	15,558,641	13,164,196	28,722,837	22,634,129
Mandated cost claims payable	1,911,013	—	1,911,013	—
Net other postemployment benefits liability	73,717,443	15,618,786	89,336,229	19,169,577
Net pension liability	88,027,149	10,066,991	98,094,140	10,085,998
Other noncurrent liabilities	1,515,366	249,830	1,765,196	2,355,691
Total noncurrent liabilities	265,780,255	41,708,204	307,488,459	55,476,635
Total liabilities	**320,642,530**	**45,938,088**	**366,580,618**	**68,008,124**
DEFERRED INFLOWS OF RESOURCES	10,951,388	2,922,069	13,873,457	6,929,318
Total liabilities and deferred inflows of resources	**$ 331,593,918**	**$ 48,860,157**	**$ 380,454,075**	**$ 74,937,442**

(continued)

Statement of Net Position (continued)

June 30, 2018
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
NET POSITION				
Net investment in capital assets	$ 109,614,321	$ 2,469,723	$ 112,084,044	$ 14,156,347
Restricted:				
Nonexpendable – endowments	—	1,708	1,708	6,888,846
Expendable:				
Endowments and gifts	—	—	—	12,384,775
General government	3,819,332	149,678	3,969,010	—
Education	638,621	103,463	742,084	1,911,126
Health and human services	2,876,923	1,963,389	4,840,312	—
Natural resources and environmental protection	5,187,743	2,800,511	7,988,254	—
Business, consumer services, and housing	4,006,045	22,356	4,028,401	—
Transportation	9,090,734	6,866	9,097,600	—
Corrections and rehabilitation	28,382	65,877	94,259	—
Unemployment programs	—	6,971,597	6,971,597	—
Indenture	—	—	—	620,505
Statute	—	—	—	1,751,828
Other purposes	9,405,422	—	9,405,422	16,888
Total expendable	35,053,202	12,083,737	47,136,939	16,685,122
Unrestricted	(213,316,033)	(16,464,573)	(229,780,606)	(17,930,241)
Total net position (deficit)	**(68,648,510)**	**(1,909,405)**	**(70,557,915)**	**19,800,074**
Total liabilities, deferred inflows of resources, and net position	**$ 262,945,408**	**$ 46,950,752**	**$ 309,896,160**	**$ 94,737,516**

(concluded)

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Statement of Activities

Year Ended June 30, 2018

(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	$ 18,378,216	$ 5,726,900	$ 1,586,619	$ —	$ (11,064,697)		$ (11,064,697)	
Education	70,280,444	37,147	7,422,025	—	(62,821,272)		(62,821,272)	
Health and human services	137,828,737	12,968,379	75,321,724	—	(49,538,634)		(49,538,634)	
Natural resources and environmental protection	8,304,162	6,319,879	362,249	—	(1,622,034)		(1,622,034)	
Business, consumer services, and housing	1,258,104	957,885	43,944	—	(256,275)		(256,275)	
Transportation	14,259,461	6,053,140	3,008,504	1,882,595	(3,315,222)		(3,315,222)	
Corrections and rehabilitation	14,921,295	39,887	67,562	—	(14,813,846)		(14,813,846)	
Interest on long-term debt	4,154,485	—	—	—	(4,154,485)		(4,154,485)	
Total governmental activities	269,384,904	32,103,217	87,812,627	1,882,595	(147,586,465)		(147,586,465)	
Business-type activities:								
Electric Power	952,000	952,000	—	—		$ —	—	
Water Resources	1,221,866	1,221,866	—	—		—	—	
State Lottery	7,006,591	6,975,168	—	—		(31,423)	(31,423)	
Unemployment Programs	12,133,531	15,594,045	—	—		3,460,514	3,460,514	
California State University	9,806,114	3,387,420	2,006,533	—		(4,412,161)	(4,412,161)	
State Water Pollution Control Revolving	32,335	86,789	46,304	—		100,758	100,758	
Safe Drinking Water State Revolving	21,994	22,675	79,828	—		80,509	80,509	
Housing Loan	57,088	52,735	—	—		(4,353)	(4,353)	
Other enterprise programs	96,078	86,911	—	—		(9,167)	(9,167)	
Total business-type activities	31,327,597	28,379,609	2,132,665	—		(815,323)	(815,323)	
Total primary government	**$ 300,712,501**	**$ 60,482,826**	**$ 89,945,292**	**$ 1,882,595**	**$ (147,586,465)**	**$ (815,323)**	**$ (148,401,788)**	
Component Units								
University of California	35,229,304	23,321,094	9,972,697	144,998				$ (1,790,515)
California Housing Finance Agency	130,742	81,924	—	—				(48,818)
Nonmajor component units	2,211,654	1,074,325	685,361	14,578				(437,390)
Total component units	**$ 37,571,700**	**$ 24,477,343**	**$ 10,658,058**	**$ 159,576**				**$ (2,276,723)**
General revenues:								
Personal income taxes					$ 94,460,551	$ —	$ 94,460,551	$ —
Sales and use taxes					39,784,494	—	39,784,494	—
Corporation taxes					12,608,756	—	12,608,756	—
Motor vehicle excise tax					6,680,858	—	6,680,858	—
Insurance taxes					2,754,056	—	2,754,056	—
Managed care organization enrollment tax					2,397,531	—	2,397,531	—
Other taxes					3,573,848	—	3,573,848	—
Investment and interest income (loss)					297,782	—	297,782	2,500,161
Escheat					378,180	—	378,180	—
Other					—	—	—	3,326,055
Transfers					(4,339,995)	4,339,995	—	—
Total general revenues and transfers					**158,596,061**	**4,339,995**	**162,936,056**	**5,826,216**
Change in net position					11,009,596	3,524,672	14,534,268	3,549,493
Net position (deficit) – beginning, restated					**(79,658,106)**	**(5,434,077)**	**(85,092,183)**	**16,250,581**
Net position (deficit) – ending					**$ (68,648,510)**	**$ (1,909,405)**	**$ (70,557,915)**	**$ 19,800,074**

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

Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2018

(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Health Care Related Programs	Nonmajor Governmental	Total
ASSETS							
Cash and pooled investments	$ 16,898,352	$ 286,580	$ 6,669,276	$ 9,295,371	$ 2,337,846	$ 10,265,117	$ 45,752,542
Investments	—	—	—	—	—	494,505	494,505
Receivables (net)	16,930,904	81,870	1,434,462	463,831	3,371,114	1,284,990	23,567,171
Due from other funds	3,429,655	—	1,743,556	121,974	24,486	1,125,975	6,445,646
Due from other governments	1,346,744	19,457,729	2,680	6,139	927,968	95,200	21,836,460
Interfund receivables	552,739	—	1,755,668	2,236,995	550,200	1,458,343	6,553,945
Loans receivable	35,697	225,717	—	231,335	23,000	2,735,536	3,251,285
Other assets	3,707	—	13,391	—	—	12,120	29,218
Total assets	**$ 39,197,798**	**$ 20,051,896**	**$ 11,619,033**	**$ 12,355,645**	**$ 7,234,614**	**$ 17,471,786**	**$ 107,930,772**
LIABILITIES							
Accounts payable	$ 1,913,451	$ 686,325	$ 539,315	$ 249,035	$ 29,542	$ 517,351	$ 3,935,019
Due to other funds	5,944,148	16,598,568	381,669	23,069	6,451,325	605,336	30,004,115
Due to component units	124,954	—	6,754	—	—	105,664	237,372
Due to other governments	2,869,939	2,424,808	379,732	196,063	16,196	3,942,644	9,829,382
Interfund payables	6,231,963	—	315,348	126,665	—	135,963	6,809,939
Revenues received in advance	650,871	61,749	17,895	197,597	5,511	150,723	1,084,346
Tax overpayments	6,240,122	—	—	—	—	—	6,240,122
Deposits	3,102	—	2,872	927	—	433,594	440,495
Unclaimed property liability	985,801	—	—	—	—	—	985,801
Other liabilities	389,684	34,525	574,176	9,645	1,964	141,210	1,151,204
Total liabilities	**25,354,035**	**19,805,975**	**2,217,761**	**803,001**	**6,504,538**	**6,032,485**	**60,717,795**
DEFERRED INFLOWS OF RESOURCES	1,656,859	17,267	57,080	37,770	—	211,973	1,980,949
Total liabilities and deferred inflows of resources	**27,010,894**	**19,823,242**	**2,274,841**	**840,771**	**6,504,538**	**6,244,458**	**62,698,744**
FUND BALANCES							
Nonspendable	559,644	—	—	—	—	69,868	629,512
Restricted	9,807,729	228,654	9,294,367	5,112,157	627,108	9,789,262	34,859,277
Committed	171,020	—	49,825	6,402,717	102,968	1,341,852	8,068,382
Assigned	—	—	—	—	—	26,346	26,346
Unassigned	1,648,511	—	—	—	—	—	1,648,511
Total fund balances	**12,186,904**	**228,654**	**9,344,192**	**11,514,874**	**730,076**	**11,227,328**	**45,232,028**
Total liabilities, deferred inflows of resources, and fund balances	**$ 39,197,798**	**$ 20,051,896**	**$ 11,619,033**	**$ 12,355,645**	**$ 7,234,614**	**$ 17,471,786**	**$ 107,930,772**

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

(amounts in thousands)

Total fund balances – governmental funds		**$ 45,232,028**
Amounts reported for governmental activities in the Statement of Net Position are different from those in the Governmental Funds Balance Sheet because:		
• The following capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Land	20,206,561	
State highway infrastructure	77,067,674	
Collections – nondepreciable	22,627	
Buildings and other depreciable property	31,063,376	
Intangible assets – amortizable	2,151,760	
Less: accumulated depreciation/amortization	(14,712,382)	
Construction/development in progress	15,305,452	
Intangible assets – nonamortizable	417,669	
		131,522,737
• State revenues that are earned and measurable, but not available within 12 months of the end of the reporting period, are reported as deferred inflows of resources in the funds.		1,980,949
• Internal service funds are used by management to charge the costs of certain activities, such as building construction and architectural services, procurement, and technology services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position, excluding amounts for activity between the internal service funds and governmental funds.		(10,598,967)
• Bond premiums/discounts and prepaid insurance charges are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Position.		(5,874,364)
• Deferred inflows and outflows of resources related to pension and OPEB transactions are not reported in the funds.		20,484,703
• Deferred inflows and outflows of resources resulting from bond refunding gains and losses, respectively, are amortized over the life of the bonds and are not reported in the funds.		438,081
• General obligation bonds and related accrued interest totaling $75,216,385, revenue bonds totaling $6,522,482, and commercial paper totaling $859,695 are not due and payable in the current period and are not reported in the funds.		(82,598,562)
• The following liabilities are not due and payable in the current period and are not reported in the funds:		
Compensated absences	(3,456,370)	
Capital leases	(481,261)	
Net pension liability	(86,608,104)	
Net other postemployment benefits liability	(71,369,628)	
Mandated cost claims	(1,911,013)	
Workers' compensation	(3,829,948)	
Proposition 98 funding guarantee	(340,003)	
Pollution remediation obligations	(1,141,189)	
Other noncurrent liabilities	(97,599)	
		(169,235,115)
Net position of governmental activities		**$ (68,648,510)**

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Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2018

(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Health Care Related Programs	Nonmajor Governmental	Total
REVENUES							
Personal income taxes	$ 92,808,996	$ —	$ —	$ —	$ —	$ 1,675,447	$ 94,484,443
Sales and use taxes	25,090,956	—	712,895	—	—	13,973,218	39,777,069
Corporation taxes	12,597,928	—	—	—	—	—	12,597,928
Motor vehicle excise taxes	101,307	—	6,406,668	58,742	—	114,141	6,680,858
Insurance taxes	2,563,904	—	—	—	190,152	—	2,754,056
Managed care organization enrollment tax	—	—	—	—	2,397,531	—	2,397,531
Other taxes	614,421	—	—	173,944	—	2,759,817	3,548,182
Intergovernmental	—	89,697,344	—	—	2,394,468	812,657	92,904,469
Licenses and permits	6,193	—	4,881,585	507,182	—	3,366,660	8,761,620
Charges for services	389,297	—	150,978	130,560	36	304,443	975,314
Fees	44,302	—	956,451	2,586,480	5,708,896	3,191,017	12,487,146
Penalties	248,828	97	8,177	200,272	7,038	596,913	1,061,325
Investment and interest	264,675	—	74,768	118,178	32,158	117,639	607,418
Escheat	378,177	—	—	—	—	4,616	382,793
Other	516,036	—	117,109	3,216,894	354,140	1,114,560	5,318,739
Total revenues	**135,625,020**	**89,697,441**	**13,308,631**	**6,992,252**	**11,084,419**	**28,031,128**	**284,738,891**
EXPENDITURES							
Current:							
General government	5,669,626	1,571,618	565,613	128,545	3,868	11,039,119	18,978,389
Education	61,331,083	7,424,246	12,699	5,846	280,400	848,353	69,902,627
Health and human services	36,130,003	74,847,506	2,450	89,920	11,259,371	15,689,025	138,018,275
Natural resources and environmental protection	2,338,402	369,165	257,762	4,766,332	193	256,024	7,987,878
Business, consumer services, and housing	68,550	39,297	122,957	108,489	—	850,072	1,189,365
Transportation	144,046	4,879,706	11,946,227	187,226	—	11,835	17,169,040
Corrections and rehabilitation	12,960,903	67,562	—	—	—	1,637,059	14,665,524
Capital outlay	405,930	—	—	147,131	—	59,708	612,769
Debt service:							
Bond and commercial paper retirement	2,467,541	9,830	412,436	870,053	331,080	4,507,916	8,598,856
Interest and fiscal charges	2,723,232	1,563	14,624	9,948	289	1,212,048	3,961,704
Total expenditures	**124,239,316**	**89,210,493**	**13,334,768**	**6,313,490**	**11,875,201**	**36,111,159**	**281,084,427**
Excess (deficiency) of revenues over (under) expenditures	11,385,704	486,948	(26,137)	678,762	(790,782)	(8,080,031)	3,654,464
OTHER FINANCING SOURCES (USES)							
General obligation bonds and commercial paper issued	—	—	1,738,610	1,616,985	628,855	1,298,915	5,283,365
Refunding debt issued	—	—	1,062,740	838,695	—	4,355,420	6,256,855
Payment to refund long-term debt	—	—	(1,017,036)	(716,219)	—	(1,567,949)	(3,301,204)
Premium on bonds issued	169,262	—	146,473	161,501	514	558,570	1,036,320
Remarketing bonds issued	—	—	325,000	—	—	100,000	425,000
Payment to remarket long-term debt	—	—	(325,000)	—	—	(100,000)	(425,000)
Capital leases	405,930	—	—	—	—	—	405,930
Transfers in	660,597	—	8,401	45,787	181,720	3,370,091	4,266,596
Transfers out	(6,244,975)	(486,173)	(1,657,123)	(49,481)	(10,048)	(107,794)	(8,555,594)
Total other financing sources (uses)	**(5,009,186)**	**(486,173)**	**282,065**	**1,897,268**	**801,041**	**7,907,253**	**5,392,268**
Net change in fund balances	6,376,518	775	255,928	2,576,030	10,259	(172,778)	9,046,732
Fund balances (deficit) – beginning	**5,810,386**	**227,879**	**9,088,264**	**8,938,844**	**719,817**	**11,400,106 ***	**36,185,296**
Fund balances – ending	**$ 12,186,904**	**$ 228,654**	**$ 9,344,192**	**$ 11,514,874**	**$ 730,076**	**$ 11,227,328**	**$ 45,232,028**

* 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		**$**	**9,046,732**

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

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

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

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

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

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

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

(continued)

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

Compensated absences	(82,052)	
Capital leases	(64,793)	
Net pension liability	2,546,822	
Net other postemployment benefits liability	(2,502,899)	
Mandated cost claims	542,026	
Workers' compensation	(229,292)	
Proposition 98 funding guarantee	100,000	
Pollution remediation obligations	(171,796)	
Other noncurrent liabilities	(88,199)	
		49,817

Change in net position of governmental activities	**$**	**11,009,596**

(concluded)

Statement of Net Position

Proprietary Funds

June 30, 2018

(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	$ —	$ 731,382	$ 428,696	$ 3,304,229	$ 814,235	$ 1,222,605	$ 6,501,147	$ 1,718,049
Amount on deposit with U.S. Treasury	—	—	—	2,970,373	—	—	2,970,373	—
Investments	—	—	48,234	—	2,701,779	—	2,750,013	—
Restricted assets:								
Cash and pooled investments	658,000	—	—	—	—	637,898	1,295,898	440,303
Due from other governments	—	—	—	—	—	155,541	155,541	—
Net investment in direct financing leases	—	—	—	—	11,384	—	11,384	493,644
Receivables (net)	—	97,140	550,014	1,191,096	192,753	41,184	2,072,187	87,632
Due from other funds	8,000	4,229	4,034	25,050	4,950	14,866	61,129	841,909
Due from other governments	—	53,636	—	36,823	—	189,174	279,633	17,077
Prepaid items	—	—	—	—	66,078	91	66,169	233,767
Inventories	—	5,437	7,292	—	—	3,309	16,038	72,489
Recoverable power costs (net)	109,000	—	—	—	—	—	109,000	—
Other current assets	—	—	7,248	—	—	—	7,248	—
Total current assets	775,000	891,824	1,045,518	7,527,571	3,791,179	2,264,668	16,295,760	3,904,870
Noncurrent assets:								
Restricted assets:								
Cash and pooled investments	582,000	147,297	—	—	103	—	729,400	176,851
Investments	302,000	50,066	—	—	—	—	352,066	—
Loans receivable	—	—	—	—	—	2,054,876	2,054,876	—
Investments	—	—	738,736	—	1,204,731	18,215	1,961,682	—
Net investment in direct financing leases	—	—	—	—	218,229	—	218,229	7,996,250
Receivables (net)	—	—	—	79,766	368,374	—	448,140	—
Interfund receivables	—	95,129	—	1,052,664	—	17,517	1,165,310	32,576
Loans receivable	—	10,924	—	—	70,647	4,646,072	4,727,643	216,810
Recoverable power costs (net)	1,631,000	—	—	—	—	—	1,631,000	—
Long-term prepaid charges	—	1,858,668	1,345	—	—	—	1,860,013	719
Capital assets:								
Land	—	162,457	18,798	—	88,713	1,272	271,240	2,080
Collections – nondepreciable	—	—	—	—	24,604	—	24,604	—
Buildings and other depreciable property	—	5,185,367	291,312	28,572	9,171,853	19,210	14,696,314	636,887
Intangible assets – amortizable	—	39,483	—	244,118	145,820	1,681	431,102	71,129
Less: accumulated depreciation/amortization	—	(2,185,494)	(112,804)	(53,564)	(3,718,982)	(18,470)	(6,089,314)	(508,329)
Construction/development in progress	—	1,396,750	—	—	1,077,824	187	2,474,761	983,635
Intangible assets – nonamortizable	—	111,439	—	—	6,973	—	118,412	—
Other noncurrent assets	—	—	—	—	20,476	5,136	25,612	—
Total noncurrent assets	2,515,000	6,872,086	937,387	1,351,556	8,679,365	6,745,696	27,101,090	9,608,608
Total assets	**3,290,000**	**7,763,910**	**1,982,905**	**8,879,127**	**12,470,544**	**9,010,364**	**43,396,850**	**13,513,478**
DEFERRED OUTFLOWS OF RESOURCES	99,000	401,026	62,049	133,337	3,752,587	23,313	4,471,312	733,002
Total assets and deferred outflows of resources	**$ 3,389,000**	**$ 8,164,936**	**$ 2,044,954**	**$ 9,012,464**	**$ 16,223,131**	**$ 9,033,677**	**$ 47,868,162**	**$ 14,246,480**

(continued)

Statement of Net Position (continued)

Proprietary Funds

June 30, 2018
(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	$ 184,962	$ 66,116	$ —	$ 271,560	$ 5,119	$ 529,757	$ 540,458
Due to other funds	—	53,216	385,956	217,269	136	12,255	668,832	277,903
Due to other governments	—	118,940	—	34,614	—	597	154,151	12,141
Revenues received in advance	—	—	2,177	37,105	327,235	63	366,580	958,920
Deposits	—	—	—	—	—	—	—	1,955
Contracts and notes payable	—	—	—	—	—	—	—	22,575
Interest payable	23,000	10,685	—	—	—	30,774	64,459	148,490
Benefits payable	—	—	—	508,722	—	—	508,722	—
Current portion of long-term obligations	806,000	179,334	668,401	—	301,797	96,065	2,051,597	612,382
Other current liabilities	—	—	241	56,814	497,363	155	554,573	17,966
Total current liabilities	831,000	547,137	1,122,891	854,524	1,398,091	145,028	4,898,671	2,592,790
Noncurrent liabilities:								
Interfund payables	628	60,910	13,798	—	156,283	17,004	248,623	941,810
Lottery prizes and annuities	—	—	712,236	—	—	—	712,236	—
Compensated absences payable	—	26,926	—	55,177	99,898	8,999	191,000	145,414
Workers' compensation benefits payable	—	—	2,458	—	—	1,689	4,147	44,285
Commercial paper and other borrowings	—	580,672	—	—	162,076	—	742,748	—
Capital lease obligations	—	—	—	—	290,145	—	290,145	—
General obligation bonds payable	—	28,090	—	—	—	640,035	668,125	—
Revenue bonds payable	2,542,000	2,739,607	—	—	6,134,207	1,748,382	13,164,196	8,880,040
Net other postemployment benefits liability	8,000	912,912	218,073	517,915	13,918,525	43,361	15,618,786	2,347,815
Net pension liability	5,372	630,912	140,043	343,505	8,899,962	47,197	10,066,991	1,419,045
Revenues received in advance	—	—	—	—	10,149	—	10,149	—
Other noncurrent liabilities	—	97,316	—	—	110,664	31,701	239,681	27,948
Total noncurrent liabilities	2,556,000	5,077,345	1,086,608	916,597	29,781,909	2,538,368	41,956,827	13,806,357
Total liabilities	**3,387,000**	**5,624,482**	**2,209,499**	**1,771,121**	**31,180,000**	**2,683,396**	**46,855,498**	**16,399,147**
DEFERRED INFLOWS OF RESOURCES	2,000	1,335,026	24,868	50,619	1,504,986	4,570	2,922,069	245,932
Total liabilities and deferred inflows of resources	**3,389,000**	**6,959,508**	**2,234,367**	**1,821,740**	**32,684,986**	**2,687,966**	**49,777,567**	**16,645,079**
NET POSITION								
Net investment in capital assets	—	826,871	197,306	219,127	1,225,523	896	2,469,723	509,253
Restricted:								
Nonexpendable – endowments	—	—	—	—	1,708	—	1,708	—
Expendable:								
Construction	—	—	—	—	18,348	—	18,348	193,925
Debt service	—	378,557	—	—	27,974	211,650	618,181	—
Security for revenue bonds	—	—	—	—	—	2,210,416	2,210,416	—
Lottery	—	—	55,950	—	—	—	55,950	—
Unemployment programs	—	—	—	6,971,597	—	—	6,971,597	—
Other purposes	—	—	—	—	57,141	2,152,104	2,209,245	—
Total expendable	—	378,557	55,950	6,971,597	103,463	4,574,170	12,083,737	193,925
Unrestricted	—	—	(442,669)	—	(17,792,549)	1,770,645	(16,464,573)	(3,101,777)
Total net position (deficit)	**—**	**1,205,428**	**(189,413)**	**7,190,724**	**(16,461,855)**	**6,345,711**	**(1,909,405)**	**(2,398,599)**
Total liabilities, deferred inflows of resources, and net position	**$ 3,389,000**	**$ 8,164,936**	**$ 2,044,954**	**$ 9,012,464**	**$ 16,223,131**	**$ 9,033,677**	**$ 47,868,162**	**$ 14,246,480**

(concluded)

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

Proprietary Funds

Year Ended June 30, 2018

(amounts in thousands)

	Electric Power	Water Resources	Business-type Activities – Enterprise Funds: State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Governmental Activities: Internal Service Funds
OPERATING REVENUES								
Unemployment and disability insurance	$ —	$ —	$ —	$ 15,535,487	$ —	$ —	$ 15,535,487	$ —
Lottery ticket sales	—	—	6,965,792	—	—	—	6,965,792	—
Power sales	—	88,148	—	—	—	—	88,148	—
Student tuition and fees	—	—	—	—	2,220,797	—	2,220,797	—
Services and sales	—	1,118,365	—	—	575,908	94,442	1,788,715	3,335,466
Investment and interest	—	—	—	—	—	134,270	134,270	14,683
Rent	—	—	—	—	—	—	—	426,219
Grants and contracts	—	—	—	—	77,792	—	77,792	—
Other	—	—	—	—	229,550	1,744	231,294	—
Total operating revenues	**—**	**1,206,513**	**6,965,792**	**15,535,487**	**3,104,047**	**230,456**	**27,042,295**	**3,776,368**
OPERATING EXPENSES								
Lottery prizes	—	—	4,476,580	—	—	—	4,476,580	—
Power purchases (net of recoverable power costs)	(8,000)	342,115	—	—	—	—	334,115	—
Personal services	—	374,955	101,055	247,796	6,801,999	52,141	7,577,946	1,137,783
Supplies	—	—	12,658	—	1,532,795	42,364	1,587,817	24,510
Services and charges	8,000	103,093	701,133	70,859	—	43,260	926,345	2,147,934
Depreciation	—	80,101	18,311	10,567	355,263	390	464,632	52,390
Scholarships and fellowships	—	—	—	—	891,148	—	891,148	—
Distributions to beneficiaries	—	—	—	11,804,309	—	—	11,804,309	—
Interest expense	—	—	—	—	—	31,056	31,056	416,069
Amortization of long-term prepaid charges	—	—	—	—	—	—	—	179
Other	—	—	—	—	—	9,536	9,536	—
Total operating expenses	**—**	**900,264**	**5,309,737**	**12,133,531**	**9,581,205**	**178,747**	**28,103,484**	**3,778,865**
Operating income (loss)	—	306,249	1,656,055	3,401,956	(6,477,158)	51,709	(1,061,189)	(2,497)
NONOPERATING REVENUES (EXPENSES)								
Donations and grants	—	—	—	—	2,006,533	126,132	2,132,665	—
Private gifts	—	—	—	—	61,386	—	61,386	—
Investment and interest income (loss)	952,000	15,353	9,252	58,558	67,351	18,399	1,120,913	4,241
Interest expense and fiscal charges	(952,000)	(105,429)	(31,967)	—	(224,909)	(28,748)	(1,343,053)	(37)
Lottery payments for education	—	—	(1,664,887)	—	—	—	(1,664,887)	—
Other	—	(216,173)	124	—	154,636	255	(61,158)	(5,397)
Total nonoperating revenues (expenses)	**—**	**(306,249)**	**(1,687,478)**	**58,558**	**2,064,997**	**116,038**	**245,866**	**(1,193)**
Income (loss) before capital contributions and transfers	—	—	(31,423)	3,460,514	(4,412,161)	167,747	(815,323)	(3,690)
Transfers in	—	—	—	—	4,338,333	1,662	4,339,995	8,945
Transfers out	—	—	—	—	—	—	—	(59,942)
Change in net position	—	—	(31,423)	3,460,514	(73,828)	169,409	3,524,672	(54,687)
Total net position (deficit) – beginning	**—**	**1,205,428**	**(157,990)***	**3,730,210 ***	**(16,388,027)***	**6,176,302 ***	**(5,434,077)**	**(2,343,912)***
Total net position (deficit) – ending	**$ —**	**$ 1,205,428**	**$ (189,413)**	**$ 7,190,724**	**$ (16,461,855)**	**$ 6,345,711**	**$ (1,909,405)**	**$ (2,398,599)**

* Restated

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2018

(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	$ 8,000	$ 1,222,810	$ 6,939,646	$ 15,511,212	$ 2,796,368	$ 357,355	$ 26,835,391	$ 16,577
Receipts from interfund services provided	—	—	—	1,037	—	3,826	4,863	4,407,261
Payments to suppliers	(4,000)	(421,068)	(234,403)	(70,889)	(1,524,764)	(61,058)	(2,316,182)	(1,532,921)
Payments to employees	(14,000)	(374,955)	(63,997)	(245,174)	(5,176,140)	(56,732)	(5,930,998)	(1,089,764)
Payments for interfund services used	—	—	(26,033)	(18,131)	—	(907)	(45,071)	(7,319)
Payments for Lottery prizes	—	—	(4,713,465)	—	—	—	(4,713,465)	—
Claims paid to other than employees	—	—	(480,513)	(11,752,892)	—	—	(12,233,405)	(506,839)
Other receipts (payments)	23,000	59,083	50	38,621	(630,296)	(806,385)	(1,315,927)	(448,350)
Net cash provided by (used in) operating activities	**13,000**	**485,870**	**1,421,285**	**3,463,784**	**(4,534,832)**	**(563,901)**	**285,206**	**838,645**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Changes in notes receivable and capital leases receivable	—	—	—	—	(30,844)	—	(30,844)	—
Changes in interfund receivables	—	—	—	(818,663)	—	(17,517)	(836,180)	(457,602)
Changes in interfund payables and loans payable	—	—	—	(385,137)	(155,908)	15,000	(526,045)	783,380
Receipt of bond charges	918,000	—	—	—	—	—	918,000	—
Proceeds from general obligation bonds	(719,000)	—	—	—	—	110,257	(608,743)	—
Retirement of general obligation bonds	—	—	—	—	—	(85,660)	(85,660)	—
Proceeds from revenue bonds	—	—	—	—	—	527,000	527,000	—
Retirement of revenue bonds	—	—	—	—	(15,149)	(41,350)	(56,499)	—
Interest received	—	—	—	—	27,644	—	27,644	—
Interest paid	(176,000)	—	—	—	(20,953)	(43,386)	(240,339)	(37)
Transfers in	—	—	—	—	3,303,623	1,662	3,305,285	8,945
Transfers out	—	—	—	—	—	—	—	(59,942)
Grants received	—	—	—	—	2,146,698	119,554	2,266,252	—
Lottery payments for education	—	—	(1,701,168)	—	—	—	(1,701,168)	—
Net cash provided by (used in) noncapital financing activities	**23,000**	**—**	**(1,701,168)**	**(1,203,800)**	**5,255,111**	**585,560**	**2,958,703**	**274,744**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Acquisition of capital assets	—	(716,441)	(29,923)	(1,833)	(890,328)	(335)	(1,638,860)	(894,845)
Proceeds from sale of capital assets	—	—	108	—	5,159	2	5,269	3,438
Proceeds from notes payable and commercial paper	—	500,484	—	—	—	—	500,484	—
Principal paid on notes payable and commercial paper	—	(66,976)	—	—	—	—	(66,976)	—
Proceeds from capital leases	—	—	—	—	19,054	—	19,054	—
Payment on capital leases	—	—	—	—	(413,793)	—	(413,793)	—
Retirement of general obligation bonds	—	(34,235)	—	—	—	—	(34,235)	—
Proceeds from revenue bonds	—	(39,760)	—	—	168,039	—	128,279	615,418
Retirement of revenue bonds	—	(138,570)	—	—	—	—	(138,570)	(806,025)
Interest paid	—	(79,462)	—	—	—	—	(79,462)	—
Grants received	—	—	—	—	60,773	—	60,773	—
Net cash provided by (used in) capital and related financing activities	**—**	**(574,960)**	**(29,815)**	**(1,833)**	**(1,051,096)**	**(333)**	**(1,658,037)**	**(1,082,014)**
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchase of investments	—	(202,547)	(42,539)	—	(9,359,378)	(6,055)	(9,610,519)	—
Proceeds from maturity and sale of investments	—	211,911	55,267	(2,958,643)	9,130,461	5,804	6,444,800	—
Change in loans receivable	—	1,010	—	—	—	—	1,010	—
Earnings on investments	32,000	14,650	22,560	58,558	67,757	16,278	211,803	4,241
Net cash provided by (used in) investing activities	**32,000**	**25,024**	**35,288**	**(2,900,085)**	**(161,160)**	**16,027**	**(2,952,906)**	**4,241**
Net increase (decrease) in cash and pooled investments	68,000	(64,066)	(274,410)	(641,934)	(491,977)	37,353	(1,367,034)	35,616
Cash and pooled investments – beginning	**1,172,000**	**942,745**	**703,106**	**3,946,163**	**1,306,315**	**1,823,150 ***	**9,893,479**	**2,299,587**
Cash and pooled investments – ending	**$ 1,240,000**	**$ 878,679**	**$ 428,696**	**$ 3,304,229**	**$ 814,338**	**$ 1,860,503**	**$ 8,526,445**	**$ 2,335,203**

* Restated

(continued)

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2018

(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)	$ —	$ 306,249	$ 1,656,055	$ 3,401,956	$ (6,477,158)	$ 51,709	$ (1,061,189)	$ (2,497)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation	—	80,101	18,311	10,567	355,263	390	464,632	52,390
Provisions and allowances	—	—	12,847	—	—	768	13,615	—
Amortization of premiums and discounts	—	—	—	—	—	(300)	(300)	(95,734)
Amortization of long-term prepaid charges and credits	—	(890,707)	—	—	—	—	(890,707)	179
Other	—	59,083	33	—	(55,144)	(11,786)	(7,814)	12,618
Change in account balances:								
Receivables	—	9,535	(60,276)	(6,070)	(15,543)	(733)	(73,087)	(64,543)
Due from other funds	—	—	(1,426)	(23,672)	15,143	(581)	(10,536)	(30,324)
Due from other governments	—	(18,383)	—	2,082	—	(2,207)	(18,508)	(5,526)
Prepaid items	—	—	3,532	—	(7,915)	(79)	(4,462)	(15,757)
Inventories	—	(427)	1,497	—	—	(437)	633	7,312
Net investment in direct financing leases	—	—	—	—	—	—	—	497,726
Recoverable power costs (net)	19,000	—	—	—	—	—	19,000	—
Other current assets	—	—	(649)	—	—	(2,022)	(2,671)	—
Loans receivable	—	—	—	—	—	(604,081)	(604,081)	—
Deferred outflow of resources	(7,000)	—	—	(55,419)	(404,597)	(6,069)	(473,085)	(238,476)
Accounts payable	—	712,174	11,388	(1)	2,364	2,362	728,287	121,398
Due to other funds	—	(14,233)	(22,886)	34,560	—	7,849	5,290	134,418
Due to component units	—	23,590	—	—	—	—	23,590	—
Due to other governments	—	—	—	(2,052)	—	573	(1,479)	745
Deposits	—	—	—	—	344	—	344	393
Contracts and notes payable	—	—	—	—	—		—	3,557
Interest payable	—	—	—	—	—	426	426	47,295
Revenues received in advance	—	—	(549)	(18,205)	9,608	8	(9,138)	132,288
Other current liabilities	—	—	186	10,609	12,828	661	24,284	(2,654)
Benefits payable	—	—	—	51,417	18,954	(6,391)	63,980	—
Lottery prizes and annuities	—	—	(236,884)	—	—	—	(236,884)	—
Compensated absences payable	—	—	—	5,498	(33,995)	(305)	(28,802)	2,574
Other noncurrent liabilities	1,000	218,888	40,106	2,611	557,425	(1,664)	818,366	46,503
Deferred inflow of resources	—	—	—	49,903	1,487,591	8,008	1,545,502	234,760
Total adjustments	13,000	179,621	(234,770)	61,828	1,942,326	(615,610)	1,346,395	841,142
Net cash provided by (used in) operating activities	**$ 13,000**	**$ 485,870**	**$ 1,421,285**	**$ 3,463,784**	**$ (4,534,832)**	**$ (563,901)**	**$ 285,206**	**$ 838,645**

(concluded)

	Electric Power	Water Resources	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
Noncash investing, capital, and financing activities:								
State's contribution for pension benefits and OPEB	$ —	$ —	$ —	$ —	$ 1,034,710	$ —	$ 1,034,710	$ —
Long-term debt retirement from bond issuance	—	531,255	—	—	—	—	531,255	—
Amortization/defeasance of bond premium and discount	61,000	50,505	—	—	30,100	—	141,605	—
Issuance of notes receivable through proceeds from long-term debt	—	—	—	—	48,706	—	48,706	—
Amortization of deferred loss on refundings	30,000	10,151	—	—	6,198	—	46,349	—
Unclaimed lottery prizes directly allocated to another entity	—	—	36,049	—	—	—	36,049	—
Interest accreted on annuitized prizes	—	—	31,967	—	—	—	31,967	—
Unrealized loss on investments	—	—	29,851	—	—	—	29,851	—
Interest accreted on zero coupon bonds	—	—	15,991	—	—	—	15,991	—
Contributed capital assets	—	—	—	—	15,580	—	15,580	—
Change in accrued capital asset purchases	—	—	—	—	14,133	—	14,133	—
Acquisition of capital assets through long-term debt	—	—	—	—	8,055	—	8,055	—
Other miscellaneous noncash transactions	—	—	—	—	3,846	1,678	5,524	—

 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 Fiduciary Net Position

Fiduciary Funds and Similar Component Units

June 30, 2018

(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment	Agency
ASSETS				
Cash and pooled investments	$ 119,640	$ 1,906,458	$ 22,653,745	$ 4,379,084
Investments, at fair value:				
Short-term	—	28,915,319	—	—
Equity securities	4,419,457	294,024,596	—	—
Debt securities	2,644,621	152,614,259	—	—
Real estate	256,325	67,527,332	—	—
Securities lending collateral	—	27,956,202	—	—
Other	1,271,428	66,397,337	—	—
Total investments	8,591,831	637,435,045	—	—
Receivables (net)	16,742	16,338,633	—	4,617,460
Due from other funds	2,293	789,660	—	22,810,213
Due from other governments	—	7	—	35,854
Interfund receivable	—	—	—	248,541
Loans receivable	—	2,727,864	—	3,636
Other assets	207,205	778,284	—	37,048
Total assets	**8,937,711**	**659,975,951**	**22,653,745**	**$ 32,131,836**
DEFERRED OUTFLOWS OF RESOURCES	—	252,235	—	
Total assets and deferred outflows of resources	**8,937,711**	**660,228,186**	**22,653,745**	
LIABILITIES				
Accounts payable	52,141	3,364,074	—	$ 20,749,043
Due to other governments	—	—	104,785	9,441,520
Tax overpayments	—	—	—	487
Benefits payable	—	433,985	—	—
Revenues received in advance	—	—	—	728
Deposits	207,205	—	—	1,197,406
Securities lending obligations	—	27,931,478	—	—
Loans payable	—	2,731,737	—	—
Other liabilities	1,128	20,237,009	—	742,652
Total liabilities	**260,474**	**54,698,283**	**104,785**	**$ 32,131,836**
DEFERRED INFLOWS OF RESOURCES	—	61,049	—	
Total liabilities and deferred inflows of resources	**260,474**	**54,759,332**	**104,785**	
NET POSITION				
Restricted for pension and other postemployment benefits	—	588,953,464	—	
Held in trust for:				
Deferred compensation participants	—	16,504,402	—	
Pool participants	—	—	22,548,960	
Individuals, organizations, or other governments	8,677,237	10,988	—	
Total net position	**$ 8,677,237**	**$ 605,468,854**	**$ 22,548,960**	

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

Statement of Changes in Fiduciary Net Position

Fiduciary Funds and Similar Component Units

Year Ended June 30, 2018

(amounts in thousands)

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

* Restated

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

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

Discretely Presented Component Units Financial Statements

Statement of Net Position

Discretely Presented Component Units – Enterprise Activity

June 30, 2018

(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
ASSETS				
Current assets:				
Cash and pooled investments	$ 696,900	$ 945,923	$ 1,262,214	$ 2,905,037
Investments	6,870,127	14,342	574,360	7,458,829
Restricted assets:				
Cash and pooled investments	—	—	347,283	347,283
Investments	—	—	49,102	49,102
Receivables (net)	4,156,224	142,558	535,879	4,834,661
Due from primary government	237,372	—	—	237,372
Due from other governments	133,472	—	—	133,472
Prepaid items	—	447	3,998	4,445
Inventories	244,706	—	—	244,706
Other current assets	404,652	401	35,360	440,413
Total current assets	12,743,453	1,103,671	2,808,196	16,655,320
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	—	—	39,908	39,908
Investments	—	—	67,679	67,679
Investments	31,363,609	312,378	2,123,848	33,799,835
Receivables (net)	2,164,823	—	233,182	2,398,005
Loans receivable	—	2,737,351	350,491	3,087,842
Long-term prepaid charges	—	—	142	142
Capital assets:				
Land	1,191,128	—	156,580	1,347,708
Collections – nondepreciable	531,156	—	12,895	544,051
Buildings and other depreciable property	51,748,617	1,322	2,100,649	53,850,588
Intangible assets – amortizable	1,596,914	—	10,223	1,607,137
Less: accumulated depreciation/amortization	(25,673,962)	(728)	(1,136,666)	(26,811,356)
Construction/development in progress	2,931,254	—	73,730	3,004,984
Intangible assets – nonamortizable	—	—	5,411	5,411
Other noncurrent assets	327,573	2,895	46,674	377,142
Total noncurrent assets	66,181,112	3,053,218	4,084,746	73,319,076
Total assets	**78,924,565**	**4,156,889**	**6,892,942**	**89,974,396**
DEFERRED OUTFLOWS OF RESOURCES	4,649,403	23,778	89,939	4,763,120
Total assets and deferred outflows of resources	**$ 83,573,968**	**$ 4,180,667**	**$ 6,982,881**	**$ 94,737,516**

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
LIABILITIES				
Current liabilities:				
Accounts payable	$ 2,316,426	$ 48,063	$ 772,616	$ 3,137,105
Revenues received in advance	1,429,221	—	82,867	1,512,088
Deposits	860,585	245,524	1,800	1,107,909
Contracts and notes payable	—	—	13,353	13,353
Interest payable	—	23,908	4,109	28,017
Securities lending obligations	1,209,769	—	—	1,209,769
Current portion of long-term obligations	3,820,815	34,183	249,733	4,104,731
Other current liabilities	1,157,861	109,851	150,805	1,418,517
Total current liabilities	10,794,677	461,529	1,275,283	12,531,489
Noncurrent liabilities:				
Compensated absences payable	315,659	2,373	15,740	333,772
Workers' compensation benefits payable	455,963	—	31,565	487,528
Loans payable	—	—	1,037	1,037
Commercial paper and other borrowings	—	—	2,926	2,926
Capital lease obligations	168,537	—	237,440	405,977
Revenue bonds payable	20,787,219	1,401,024	445,886	22,634,129
Net other postemployment benefits liability	18,862,265	78,177	229,135	19,169,577
Net pension liability	9,775,120	54,928	255,950	10,085,998
Other noncurrent liabilities	1,602,493	211,803	541,395	2,355,691
Total noncurrent liabilities	51,967,256	1,748,305	1,761,074	55,476,635
Total liabilities	**62,761,933**	**2,209,834**	**3,036,357**	**68,008,124**
DEFERRED INFLOWS OF RESOURCES	6,841,722	18,198	69,398	6,929,318
Total liabilities and deferred inflows of resources	**69,603,655**	**2,228,032**	**3,105,755**	**74,937,442**
NET POSITION				
Net investment in capital assets	13,578,222	594	577,531	14,156,347
Restricted:				
Nonexpendable – endowments	5,590,596	—	1,298,250	6,888,846
Expendable:				
Endowments and gifts	12,372,902	—	11,873	12,384,775
Education	865,216	—	1,045,910	1,911,126
Indenture	—	620,505	—	620,505
Statute	—	1,379,541	372,287	1,751,828
Other purposes	—	—	16,888	16,888
Total expendable	13,238,118	2,000,046	1,446,958	16,685,122
Unrestricted	(18,436,623)	(48,005)	554,387	(17,930,241)
Total net position	**13,970,313**	**1,952,635**	**3,877,126**	**19,800,074**
Total liabilities, deferred inflows of resources, and net position	**$ 83,573,968**	**$ 4,180,667**	**$ 6,982,881**	**$ 94,737,516**

(concluded)

Statement of Activities

Discretely Presented Component Units – Enterprise Activity

Year Ended June 30, 2018

(amounts in thousands)

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

* Restated

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

Notes to the Financial Statements – Index

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Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

A. Reporting Entity

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

1. Blended Component Units

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

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

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

2. Fiduciary Component Units

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

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

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

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

3. Discretely Presented Component Units

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

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

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

State legislation created various nonmajor component units to provide certain services outside the primary government and to provide certain private and public entities with a low-cost source of financing for programs deemed to be in the public interest. California State University Auxiliary Organizations are considered component units because they exist entirely or almost entirely for the direct benefit of the universities. The remaining nonmajor component units are considered component units because the majority of members of their governing boards are appointed by or are members of the primary government, and the primary government can impose its will on the entity; or the entity provides a specific financial benefit to or imposes a financial burden on the primary government. For information regarding obtaining copies of the financial statements of these component units, email the State Controller's Office, State Accounting and Reporting Division at StateGovReports@sco.ca.gov.

The nonmajor consolidated component unit segments are:

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

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

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

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

Other component units, which include the following entities:

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

4. Joint Venture

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

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

5. Related Organizations

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

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

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

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

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

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

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

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

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

B. Government-wide and Fund Financial Statements

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

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

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

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

The State reports the following major governmental funds:

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

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

The *Transportation Fund* accounts for fuel taxes, including the State's diesel, motor vehicle, and fuel use taxes; bond proceeds; automobile registration fees; and other revenues that are restricted for transportation purposes, including highway and passenger rail construction and transportation safety programs.

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

The *Health Care Related Programs Fund* accounts for fees, taxes, intergovernmental revenue, bond proceeds, transfers from other state funds, and other revenue used for the Medi-Cal program, medical research, and other health and human services programs.

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

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

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

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

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

The State reports the following major enterprise funds:

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

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

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

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

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

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

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

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

The State has the following four fiduciary fund types:

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

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

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

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

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

1. Government-wide Financial Statements

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

2. Fund Financial Statements

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

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

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

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

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

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

D. Cash and Investments

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

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

E. Receivables

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

F. Inventories

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

G. Net Investment in Direct Financing Leases

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

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

H. Long-term Prepaid Charges

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

I. Capital Assets

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

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

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

Buildings and other depreciable or amortizable capital assets are depreciated using the straight-line method with no salvage value for governmental activities. Generally, buildings and other improvements are depreciated over 40 years, equipment is depreciated over five years, and intangible assets are amortized over 10 to 20 years. Depreciable or amortizable assets of business-type activities are depreciated or amortized using the straight-line method over their estimated useful or service lives, ranging from 1 to 100 years.

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

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

J. Long-term Obligations

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

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

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

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

K. Compensated Absences

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

L. Deferred Outflows and Deferred Inflows of Resources

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

1. Deferred Outflows of Resources

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

Deferred outflows of resources consist of the following transactions:

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

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

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

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

2. Deferred Inflows of Resources

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

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

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

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

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

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

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

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

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

M. Nonmajor Enterprise Segment Information

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

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

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

N. Net Position and Fund Balance

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

1. Net Position

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

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

Restricted net position results from transactions with purpose restrictions and is designated as either *nonexpendable* or *expendable*. *Nonexpendable restricted* net position is subject to externally imposed restrictions that must be retained in perpetuity. *Expendable restricted* net position is subject to externally imposed restrictions that can be fulfilled by actions of the State. As of June 30, 2018, the government-wide financial statements show restricted net position for the primary government of $47.1 billion, of which $8.1 billion is due to enabling legislation.

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

2. Fund Balance

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

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

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

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

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

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

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

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

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

3. Stabilization Arrangements

a. Budget Stabilization Account

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

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

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

b. Special Fund for Economic Uncertainties

State law established the Special Fund for Economic Uncertainties (SFEU) as a contingency reserve to help the State meet its General Fund obligations in the event of declining revenues or unanticipated expenditures. A control section of the State's Budget Act establishes the annual reserve balance of the SFEU, but that amount would be reduced if certain constitutionally defined excess revenue limits are met during the fiscal year. In addition, SFEU funds may be set aside in a separate account and committed for disaster response operation costs incurred by state agencies as a result of a proclamation of a state of emergency by the Governor. The SFEU is a discretionary budget reserve and is available without additional legislative action to meet the cash needs of the General Fund and to eliminate any General Fund deficit at the end of a fiscal year. The SFEU is reported in the General Fund, and at June 30, 2018, the SFEU represented $1.2 billion of the unassigned balance of the General Fund.

O. Restatement of Beginning Fund Balances and Net Position

1. Fund Financial Statements

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

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

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

The beginning net position of the *enterprise funds* decreased by $12.7 billion. This decrease is comprised of a $14.4 billion decrease due to the recognition of net OPEB liability and deferred outflows of resources in all applicable funds resulting from the implementation of GASB Statement No. 75, a $1.7 billion increase for the reclassification of the Safe Drinking Water State Revolving Fund from the Environmental and Natural Resources Fund, and a $4 million decrease for the reclassification of a program previously reported in other enterprise programs to a nonmajor governmental fund.

Enterprise Funds (amounts in thousands)	**Net Position (Deficit) June 30, 2017 (previously reported)**	**GASB Statement No. 75 Implementation**	**Other Restatements**	**Net Position (Deficit) Beginning of Year (restated)**
State Lottery	$ (2,838)	$ (155,152)	$ —	$ (157,990)
Unemployment Programs	4,064,646	(334,436)	—	3,730,210
California State University	(2,464,323)	(13,923,704)	—	(16,388,027)
Safe Drinking Water State Revolving	—	—	1,728,875	1,728,875
Housing Loan	123,728	(25,184)	—	98,544
Other enterprise programs	283,058	(3,039)	(4,539)	275,480
	$ 2,004,271	**$ (14,441,515)**	**$ 1,724,336**	**$ (10,712,908)**

The beginning net position of the *private purpose trust funds* increased by $106 thousand. The increase is comprised of a $114 thousand increase due to the implementation of GASB Statement No. 75 and an $8 thousand decrease for the reclassification of a program previously reported in other private purpose trust funds to a nonmajor governmental fund.

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

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

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

recognition of net pension liability and deferred outflows and inflows of resources due to GASB Statements No. 68 and No. 71 by an other component unit.

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

2. Government-wide Financial Statements

The beginning net position of *governmental activities* decreased by $51.0 billion. In addition to the amounts described in the previous section for governmental funds and internal service funds, the restatement includes a $46.0 billion decrease due to the recognition of net OPEB liability and deferred outflows of resources resulting from the implementation of GASB Statement No. 75, a $1.5 billion decrease due to the recognition of trial courts' net pension liability and deferred outflows and inflows of resources, and a $61 million decrease for overstated capital assets.

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

P. Guaranty Deposits

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

NOTE 2: BUDGETARY AND LEGAL COMPLIANCE

A. Budgeting and Budgetary Control

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

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

legal basis-reported General Fund, Transportation Funds, and the Environmental and Natural Resources Funds.

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

B. Legal Compliance

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

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

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

NOTE 3: DEPOSITS AND INVESTMENTS

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

A. Primary Government

1. Control of State Funds

The State's pooled investment program and certain funds of the primary government are allowed by state statutes, bond resolutions, and investment policy resolutions to invest in U. S. government securities, federal

agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, other debt securities, repurchase agreements, reverse repurchase agreements, and other investments.

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

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

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

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

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

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

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

2. Valuation of State Investments

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

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

Table 1

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

		Fair Value Measurements Using	
	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Pooled Investments			
U.S. Treasury bills and notes	$ 42,226,466	$ 42,226,466	$ —
U.S. Agency bonds and discount notes	14,087,600	14,087,600	—
Supranational debentures and discount notes	1,781,759	1,781,759	—
Small Business Administration loans	815,955	815,955	—
Mortgage-backed securities	29,847	29,847	—
Certificates of deposit	15,819,664	—	15,819,664
Bank notes	899,730	—	899,730
Commercial paper	7,521,009	—	7,521,009
Total pooled investments at fair value	**83,182,030**	**$ 58,941,627**	**$ 24,240,403**
Other primary government investments			
U.S. Treasuries and agencies	2,806,092	$ 688,512	$ 2,117,580
Commercial paper	30,106	—	30,106
Corporate debt securities	1,111,111	—	1,111,111
Repurchase agreements	9,928	—	9,928
Other	1,046,932	271,468	775,464
Total other primary government investments at fair value	**5,004,169**	**$ 959,980**	**$ 4,044,189**
Investments measured at the net asset value (NAV)			
Money market funds/2a-7 money market funds	354,097		
Total investments measured at the NAV	**354,097**		
Other investment instruments			
Guaranteed investment contracts[1]	200,000		
Total other investment instruments	**200,000**		
Funds outside primary government included in pooled investments			
Less: investment trust funds	22,653,745		
Less: other trust and agency funds	2,157,996		
Less: discretely presented component units and related organizations	2,663,740		
Total primary government investments	**$ 61,264,815**		

[1] Reported at carrying value.

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

3. Oversight of Investing Activities

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

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

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

As of June 30, 2018, structured notes and medium-term asset-backed securities comprised approximately 2.0% of the pooled investments. A portion of the structured notes was callable agency securities, which represented 0.4% of the pooled investments. The asset-backed securities consist of mortgage-backed securities, Small Business Administration (SBA) pools, and asset-backed commercial paper. The mortgage-backed securities, called *real estate mortgage investment conduits* (REMICs), are securities backed by pools of mortgages. The REMICs in the State's portfolio have a fixed principal payment schedule. A portion of the asset-backed securities consisted of floating-rate SBA notes. For floating-rate SBA notes held in the portfolio during the fiscal year, the interest received by the State Treasurer's pooled investment program rose or fell as the underlying index rate rose or fell. The structure of the floating-rate SBA notes in the State Treasurer's pooled investment program portfolio provided a hedge against the risk of increasing interest rates. A portion of the asset-backed portfolio holdings were short-term, asset-backed commercial paper (ABCP), which represented 0.8% of the pooled investments.

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

Table 2

Authorized Investments

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

4. Risk of Investments

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

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

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

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

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

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

a. Interest Rate Risk

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

Table 3

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

	Fair Value at Year End	Weighted Average Maturity (in years)
Pooled investments		
U.S. Treasury bills and notes	$ 42,226,466	0.76
U.S. Agency bonds and discount notes	14,087,600	0.47
Supranational debentures and discount notes	1,781,759	0.66
Small Business Administration loans	815,955	0.25
Mortgage-backed securities	29,847	2.18
Certificates of deposit	15,819,664	0.24
Bank notes	899,730	0.26
Commercial paper	7,521,009	0.17
Total pooled investments	**83,182,030**	
Other primary government investments		
U.S. Treasuries and agencies	2,806,092	2.67
Commercial paper	30,106	2.38
Guaranteed investment contracts	200,000	3.83
Corporate debt securities	1,111,111	0.93
Repurchase agreements	9,928	0.01
Other	1,401,029	1.89
Total other primary government investments	**5,558,266**	
Funds outside primary government included in pooled investments		
Less: investment trust funds	22,653,745	
Less: other trust and agency funds	2,157,996	
Less: discretely presented component units and related organizations	2,663,740	
Total primary government investments	**$ 61,264,815**	

b. Credit Risk

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

Table 4

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

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

c. Custodial Credit Risk

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

d. Concentration of Credit Risk

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

B. Fiduciary Funds

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

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

C. Discretely Presented Component Units

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

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

NOTE 4: ACCOUNTS RECEIVABLE

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

Table 5

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

	Taxes	Licenses, Permits, and Fees	Lottery Retailers	Unemployment Programs	California State University	Other	Total
Current governmental activities							
General Fund	$ 16,082,177	$ —	$ —	$ —	$ —	$ 848,727	$ 16,930,904
Federal Fund	—	—	—	—	—	81,870	81,870
Transportation Fund	743,785	623,651	—	—	—	67,026	1,434,462
Environmental and Natural Resources Fund	14,744	413,444	—	—	—	35,643	463,831
Health Care Related Programs Fund	533,243	2,837,763	—	—	—	108	3,371,114
Nonmajor governmental funds	414,073	451,423	—	—	—	419,494	1,284,990
Internal service funds	—	—	—	—	—	87,632	87,632
Adjustment:							
Unavailable revenue[1]	(1,473,427)	(42,089)	—	—	—	(465,433)	(1,980,949)
Total current governmental activities	**$ 16,314,595**	**$ 4,284,192**	**$ —**	**$ —**	**$ —**	**$ 1,075,067**	**$ 21,673,854**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ 1,473,427**	**$ 42,089**	**$ —**	**$ —**	**$ —**	**$ 530,862** [2]	**$ 2,046,378**
Current business-type activities							
Water Resources Fund	$ —	$ —	$ —	$ —	$ —	$ 97,140	$ 97,140
State Lottery Fund	—	—	550,014	—	—	—	550,014
Unemployment Programs Fund	—	—	—	1,191,096	—	—	1,191,096
California State University	—	—	—	—	192,753	—	192,753
Nonmajor enterprise funds	—	—	—	—	—	41,184	41,184
Total current business-type activities	**$ —**	**$ —**	**$ 550,014**	**$ 1,191,096**	**$ 192,753**	**$ 138,324**	**$ 2,072,187**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ —**	**$ —**	**$ —**	**$ 79,766**	**$ 368,374**	**$ —**	**$ 448,140**

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

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

NOTE 5: RESTRICTED ASSETS

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

Table 6

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

	Cash and Pooled Investments	Investments	Due From Other Governments	Loans Receivable	Total
Primary government					
Debt service	$ 2,025,717	$ 352,066	$ 155,541	$ 2,054,876	$ 4,588,200
Construction	565,792	—	—	—	565,792
Operations	50,000	—	—	—	50,000
Other	943	—	—	—	943
Total primary government	**2,642,452**	**352,066**	**155,541**	**2,054,876**	**5,204,935**
Discretely presented component units					
Debt service	332,709	116,781	—	—	449,490
Other	54,482	—	—	—	54,482
Total discretely presented component units	**387,191**	**116,781**	**—**	**—**	**503,972**
Total restricted assets	**$ 3,029,643**	**$ 468,847**	**$ 155,541**	**$ 2,054,876**	**$ 5,708,907**

NOTE 6: NET INVESTMENT IN DIRECT FINANCING LEASES

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

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

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

Table 7

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

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

NOTE 7: CAPITAL ASSETS

Table 8 summarizes the capital activity for the primary government.

Table 8

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

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets not being depreciated/amortized				
Land	$ 19,747,642 *	$ 524,276	$ 63,277	$ 20,208,641
State highway infrastructure	75,071,022	2,041,662	45,010	77,067,674
Collections	22,627	—	—	22,627
Construction/development in progress	15,672,898 *	3,376,535	2,760,346	16,289,087
Intangible assets	416,546 *	1,207	84	417,669
Total capital assets not being depreciated/amortized	**110,930,735**	**5,943,680**	**2,868,717**	**114,005,698**
Capital assets being depreciated/amortized				
Buildings and improvements	25,204,997 *	439,838	46,984	25,597,851
Infrastructure	741,322 *	3,336	19	744,639
Equipment and other depreciable assets	5,194,107 *	343,729	180,063	5,357,773
Intangible assets	2,096,002 *	161,411	34,524	2,222,889
Total capital assets being depreciated/amortized	**33,236,428**	**948,314**	**261,590**	**33,923,152**
Less accumulated depreciation/amortization for:				
Buildings and improvements	8,868,855 *	633,802	32,606	9,470,051
Infrastructure	394,457 *	16,226	—	410,683
Equipment and other depreciable assets	4,109,162 *	387,423	174,397	4,322,188
Intangible assets	848,190 *	196,391	26,792	1,017,789
Total accumulated depreciation/amortization	**14,220,664**	**1,233,842**	**233,795**	**15,220,711**
Total capital assets being depreciated/amortized, net	**19,015,764**	**(285,528)**	**27,795**	**18,702,441**
Governmental activities, capital assets, net	**$ 129,946,499**	**$ 5,658,152**	**$ 2,896,512**	**$ 132,708,139**
Business-type activities				
Capital assets not being depreciated/amortized				
Land	$ 258,295	$ 12,945	$ —	$ 271,240
Collections	22,086	2,518	—	24,604
Construction/development in progress	1,750,443	1,543,183	818,865	2,474,761
Intangible assets	117,068	1,603	259	118,412
Total capital assets not being depreciated/amortized	**2,147,892**	**1,560,249**	**819,124**	**2,889,017**
Capital assets being depreciated/amortized				
Buildings and improvements	12,389,703	893,665	652	13,282,716
Infrastructure	429,533	30,565	107	459,991
Equipment and other assets	898,378	92,969	37,740	953,607
Intangible assets	420,480	11,536	914	431,102
Total capital assets being depreciated/amortized	**14,138,094**	**1,028,735**	**39,413**	**15,127,416**
Less accumulated depreciation/amortization for:				
Buildings and improvements	4,776,344	383,439	599	5,159,184
Infrastructure	119,356	23,642	93	142,905
Equipment and other assets	549,233	84,072	35,418	597,887
Intangible assets	171,302	18,670	634	189,338
Total accumulated depreciation/amortization	**5,616,235**	**509,823**	**36,744**	**6,089,314**
Total capital assets being depreciated/amortized, net	**8,521,859**	**518,912**	**2,669**	**9,038,102**
Business-type activities, capital assets, net	**$ 10,669,751**	**$ 2,079,161**	**$ 821,793**	**$ 11,927,119**

* Restated

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

Table 9

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

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

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

Table 10

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

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

NOTE 8: ACCOUNTS PAYABLE

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

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

Table 11

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

	General Government	Education	Health and Human Services	Natural Resources and Environmental Protection	Transportation	Other	Total
Governmental activities							
General Fund	$ 232,976	$ 178,622	$ 796,708	$ 305,252	$ 96	$ 399,797	$ 1,913,451
Federal Fund	77,909	71,797	284,320	26,347	210,284	15,668	686,325
Transportation Fund	5,504	8,860	—	1,045	522,825	1,081	539,315
Environmental and Natural Resources Fund	1,285	3,515	18	226,354	17,851	12	249,035
Health Care Related Programs Fund	509	441	28,592	—	—	—	29,542
Nonmajor governmental funds	357,030	12,231	125,287	7,394	1,331	14,078	517,351
Internal service funds	283,138	—	225,951	16,091	—	15,278	540,458
Adjustment:							
Fiduciary funds	882,802	1,488,737	21,174,560	—	56,022	—	23,602,121
Total governmental activities	**$ 1,841,153**	**$ 1,764,203**	**$ 22,635,436**	**$ 582,483**	**$ 808,409**	**$ 445,914**	**$ 28,077,598**
Business-type activities							
Electric Power Fund	$ —	$ —	$ —	$ 2,000	$ —	$ —	$ 2,000
Water Resources Fund	—	—	—	184,962	—	—	184,962
State Lottery Fund	66,116	—	—	—	—	—	66,116
California State University	—	271,560	—	—	—	—	271,560
Nonmajor enterprise funds	156	450	502	611	—	3,400	5,119
Adjustment:							
Fiduciary funds	—	—	—	—	—	45	45
Total business-type activities	**$ 66,272**	**$ 272,010**	**$ 502**	**$ 187,573**	**$ —**	**$ 3,445**	**$ 529,802**

NOTE 9: LONG-TERM OBLIGATIONS

As of June 30, 2018, the primary government had long-term obligations totaling $315.0 billion. Of that amount, $7.5 billion is due within one year. For governmental activities, the largest change is attributed to the implementation of GASB Statement No. 75, which caused a $49.7 billion restatement of the beginning net other postemployment benefits (OPEB) liability after incorporating the existing net OPEB obligation of $28.2 billion. The inclusion of trial courts' pensions to the governmental activities' long-term obligations as of June 30, 2018, caused a $1.9 billion restatement of the beginning net pension liability. During the fiscal year, the net OPEB liability decreased by $4.2 billion, resulting in an ending balance of $73.7 billion. Overall, governmental activities had a net increase in long-term obligations of $4.3 billion. Significant increases included $8.8 billion in net pension liability and $863 million in general obligation bonds payable. Other significant decreases included $749 million in mandated cost claims payable, $603 million in Proposition 98 funding guarantee, and $516 million in revenue bonds payable.

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

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

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

For business-type activities, the largest change in long-term obligations is attributed to the implementation of GASB Statement No. 75, which caused a $15.5 billion restatement of the beginning net OPEB liability. Overall, business-type activities had a net decrease in long-term obligations of $300 million. Significant decreases included $857 million in net OPEB liability, $636 million in revenue bonds payable, and $385 million in loans payable to the U.S. Department of Labor for prior-year shortfalls in the Unemployment Programs Fund. Other significant increases included $1.3 billion in net pension liability and $602 million in commercial paper payable.

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

Table 12

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due Within One Year	Noncurrent Liabilities
Governmental activities						
Loans payable adjustment for fiduciary funds	$ —	$ 248,542	$ —	$ 248,542	$ —	$ 248,542
Compensated absences payable	3,520,573	1,554,342	1,469,980	3,604,935	11,838	3,593,097
Workers' compensation benefits payable	4,037,655	731,241	465,506	4,303,390	429,157	3,874,233
Commercial paper and other borrowings	1,158,080	1,310,985	1,609,370	859,695	—	859,695
Capital lease obligations	416,468	130,521	65,728	481,261	68,817	412,444
General obligation bonds outstanding	73,837,840	8,444,045	8,121,395	74,160,490	3,309,065	70,851,425
Premiums	4,962,277	942,938	402,677	5,502,538	291,331	5,211,207
Total general obligation bonds payable	78,800,117	9,386,983	8,524,072	79,663,028	3,600,396	76,062,632
Revenue bonds outstanding	15,402,175	2,326,975	2,885,071	14,844,079	683,521	14,160,558
Accreted interest	524,844	45,928	—	570,772	—	570,772
Premiums	956,826 *	167,016	171,954	951,888	122,573	829,315
Discounts	(3,945) *	—	(1,461)	(2,484)	(480)	(2,004)
Total revenue bonds payable	16,879,900	2,539,919	3,055,564	16,364,255	805,614	15,558,641
Mandated cost claims payable	2,963,072	139,045	888,091	2,214,026	303,013	1,911,013
Net other postemployment benefits liability	77,869,501 *	5,758,016	9,910,074	73,717,443	—	73,717,443
Net pension liability	79,218,377 *	39,745,372	30,936,600	88,027,149	—	88,027,149
Other long-term obligations:						
Proposition 98 funding guarantee	1,043,283	—	603,280	440,003	100,000	340,003
Pollution remediation obligations	969,860	296,545	123,066	1,143,339	93,523	1,049,816
Other	62,894	173,390	56,140	180,144	54,597	125,547
Total other long-term obligations	2,076,037	469,935	782,486	1,763,486	248,120	1,515,366
Total governmental activities	**$ 266,939,780**	**$ 62,014,901**	**$ 57,707,471**	**$ 271,247,210**	**$ 5,466,955**	**$ 265,780,255**
Business-type activities						
Loans payable	$ 385,137	$ —	$ 385,137	$ —	$ —	$ —
Lottery prizes and annuities	1,613,494	4,508,548	4,749,514	1,372,528	660,292	712,236
Compensated absences payable	369,994	163,353	192,680	340,667	149,667	191,000
Workers' compensation benefits payable	3,639	508	—	4,147	—	4,147
Commercial paper and other borrowings	147,765	670,127	68,015	749,877	7,129	742,748
Capital lease obligations	353,453	3,125	46,650	309,928	19,783	290,145
General obligation bonds outstanding	701,740	106,805	119,895	688,650	25,975	662,675
Premiums	3,433	3,451	113	6,771	—	6,771
Discounts	(1,419)	—	(98)	(1,321)	—	(1,321)
Total general obligation bonds payable	703,754	110,256	119,910	694,100	25,975	668,125
Revenue bonds outstanding	13,653,173	940,720	1,564,085	13,029,808	1,078,455	11,951,353
Premiums	1,303,197	149,248	162,397	1,290,048	76,721	1,213,327
Discounts	(512)	—	(28)	(484)	—	(484)
Total revenue bonds payable	14,955,858	1,089,968	1,726,454	14,319,372	1,155,176	13,164,196
Net other postemployment benefits liability	16,476,119 *	1,253,935	2,111,268	15,618,786	—	15,618,786
Net pension liability	8,786,887	4,497,659	3,217,555	10,066,991	—	10,066,991
Other long-term obligations	263,727	47,209	27,531	283,405	33,575	249,830
Total business-type activities	**$ 44,059,827**	**$ 12,344,688**	**$ 12,644,714**	**$ 43,759,801**	**$ 2,051,597**	**$ 41,708,204**

* Restated

NOTE 10: PENSION TRUSTS

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

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

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

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

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

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

Fifty-eight county superior courts (trial courts) are included in the primary government. Either CalPERS or the counties administer the pension plans in which the trial courts participate.

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' plans and CalSTRS' plans, and changes to the plans' fiduciary net positions have been determined on the same basis as reported by the plans.

The University of California, a discretely presented component unit, administers the University of California Retirement System (UCRS), which consists of two defined benefit plans funded with University and employee contributions, and four defined contribution plans with options to participate in internally or externally managed investment portfolios generally funded with employee non-elective and elective

contributions. The State does not directly contribute to the UCRS. Additional information on the UCRS can be found in the University's separately issued financial statements on its website at www.ucop.edu.

A. California Public Employees' Retirement System

1. Public Employees' Retirement Fund (PERF)

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

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

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

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

The four basic types of retirement are:

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

- Industrial Disability Retirement – This benefit is available for eligible safety members, industrial employees, CHP employees, and peace officers and firefighters who are unable to perform the usual duties of their current position due to job-related illness or injury.

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

Table 13

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

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

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

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

Table 14

Contribution Rates – PERF Plans
June 30, 2017

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

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

Table 15

Actuarial Methods and Assumptions – PERF Plans

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

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

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

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

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

Table 16

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

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

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

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

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

Table 17

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

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

	State Safety			State Peace Officers and Firefighters		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2016	$ 11,029,720	$ 8,306,636	$ 2,723,084	$ 40,368,725	$ 26,682,426	$ 13,686,299
Changes recognized for the measurement period:						
Service cost	497,129	—	497,129	980,897	—	980,897
Interest on total pension liability	827,412	—	827,412	3,018,186	—	3,018,186
Changes of assumptions	673,183	—	673,183	2,608,751	—	2,608,751
Difference between expected and actual experience	(109,901)	—	(109,901)	(286,527)	—	(286,527)
Plan to plan resource movement	—	295	(295)	—	1,628	(1,628)
Employer contributions	—	433,232	(433,232)	—	1,427,240	(1,427,240)
Employee contributions	—	231,364	(231,364)	—	399,945	(399,945)
Net investment income	—	926,106	(926,106)	—	2,954,170	(2,954,170)
Benefit payments, including refunds of employee contributions	(538,735)	(538,735)	—	(1,938,026)	(1,938,026)	—
Administrative expense	—	(12,264)	12,264	—	(39,395)	39,395
Net changes	**1,349,088**	**1,039,998**	**309,090**	**4,383,281**	**2,805,562**	**1,577,719**
Balance at June 30, 2017 (Measurement Date)	**$ 12,378,808**	**$ 9,346,634**	**$ 3,032,174**	**$ 44,752,006**	**$ 29,487,988**	**$ 15,264,018**

(continued)

Table 17 (continued)

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

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

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

(concluded)

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

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

Table 18

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

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

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

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

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

Table 19

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

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

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

Table 20

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

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

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

2. Single-employer Plans

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

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

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

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

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

Judges' – The four basic types of retirement are:

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

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

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

Legislators' – The three basic types of retirement are:

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

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

Table 21

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

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

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

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

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

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

Table 22

Contribution Rates – Single-employer Plans
June 30, 2017

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

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

Table 23

Actuarial Methods and Assumptions – Single-employer Plans

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

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

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

Judges' II – 6.65%

Legislators' – 5.25%

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

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

Table 24

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

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

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

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

Table 25

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

	Judges'			Judges' II			Legislators'			Total Single-employer Plans		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2016 (Valuation Date)	$ 3,794,944	$ 39,794	$ 3,755,150	$ 1,207,549	$ 1,172,952	$ 34,597	$ 102,220	$ 119,050	$ (16,830)	$ **5,104,713**	$ **1,331,796**	$ **3,772,917**
Changes recognized for the measurement period:												
Service cost	22,733	—	22,733	97,679	—	97,679	639	—	639	**121,051**	**—**	**121,051**
Interest on total pension liability	115,067	—	115,067	85,654	—	85,654	5,291	—	5,291	**206,012**	**—**	**206,012**
Difference between expected and actual experience	(366,200)	—	(366,200)	(26,382)	—	(26,382)	(5,998)	—	(5,998)	**(398,580)**	**—**	**(398,580)**
Changes of assumptions	(107,670)	—	(107,670)	69,233	—	69,233	7,857	—	7,857	**(30,580)**	**—**	**(30,580)**
Employer contributions	—	204,475	(204,475)	—	67,102	(67,102)	—	517	(517)	**—**	**272,094**	**(272,094)**
Employee contributions	—	3,398	(3,398)	—	25,076	(25,076)	—	94	(94)	**—**	**28,568**	**(28,568)**
Net investment income	—	424	(424)	—	115,058	(115,058)	—	5,047	(5,047)	**—**	**120,529**	**(120,529)**
Benefit payments, including refunds of employee contributions	(200,440)	(200,440)	—	(22,406)	(22,406)	—	(7,249)	(7,249)	—	**(230,095)**	**(230,095)**	**—**
Administrative expense	—	(1,771)	1,771	—	(1,682)	1,682	—	(575)	575	**—**	**(4,028)**	**4,028**
Other miscellaneous income	—	2,395	(2,395)	—	—	—	—	—	—	**—**	**2,395**	**(2,395)**
Net changes	**(536,510)**	**8,481**	**(544,991)**	**203,778**	**183,148**	**20,630**	**540**	**(2,166)**	**2,706**	**(332,192)**	**189,463**	**(521,655)**
Balance at June 30, 2017 (Measurement Date)	**$ 3,258,434**	**$ 48,275**	**$ 3,210,159**	**$ 1,411,327**	**$ 1,356,100**	**$ 55,227**	**$ 102,760**	**$ 116,884**	**$ (14,124)**	**$ 4,772,521**	**$ 1,521,259**	**$ 3,251,262**
Reported in governmental activities												**$ 3,251,262**

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

Table 26

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

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

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

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

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

Table 27

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

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

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

Table 28

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

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

B. California State Teachers' Retirement System

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

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

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

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

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

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

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

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

Table 29

Actuarial Methods and Assumptions – CalSTRS

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

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

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

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

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

Table 30

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

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

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

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

Table 31

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

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

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

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

Table 32

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

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

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

Table 33

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

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

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

C. Trial Court Pension Plans

***Plan Description*:** The 58 trial courts are reported as part of the primary government. Twenty-two of the trial courts provide pension benefits to their respective employees through cost-sharing multiple employer defined benefit plans administered by their respective county public employee retirement systems. Thirty-six of the trial courts participate in county retirement plans administered by CalPERS. Only the pension information related to the 22 courts that participate in county public employee retirement systems' pension plans is presented for the year ended June 30, 2018. Information pertaining to the 36 trial courts that participate in county retirement plans administered by CalPERS will be presented in future reporting years.

***Benefits Provided, Contributions, and Employees Covered by Benefit Terms*:** To obtain information on eligibility terms, benefits provided, contributions, and actuarial assumptions from individual trial court pension actuarial valuation reports, email the State Controller's Office, State Accounting and Reporting Division at StateGovReports@sco.ca.gov.

***Net Pension Liability Actuarial Methods and Assumptions*:** The net pension liability of 16 trial courts was measured as of each individual plan's measurement date, by applying update procedures and rolling forward the total pension liability determined by the actuarial valuation as of each individual plan's valuation date, based on the actuarial methods and assumptions used by each plan. For five of the trial court plans, the net pension liability was measured as of December 31, 2017 (measurement date), and 11 plans had a measurement date of June 30, 2017. Three of the plans had an actuarial valuation date of December 31, 2016; two had an actuarial valuation date of January 1, 2017; and the remaining 11 plans were valued as of June 30, 2016.

For six trial courts, the net pension liability was measured as of the same date the total pension liability was valued for each individual plan. One of the trial court plans had an actuarial valuation and measurement date of December 31, 2017, and the remaining five plans had an actuarial valuation and measurement date of June 30, 2017.

***Discount Rates*:** The discount rates used to measure the total pension liability of each trial court ranged from 6.92% to 7.50% as of the respective measurement date.

***Pension Accounting Elements*:** For the trial court pension plans, the State reported total pension liability of $8.7 billion and fiduciary net position of $6.9 billion, which resulted in a net pension liability of $1.8 billion as of June 30, 2018. For the fiscal year ended June 30, 2018, the State recognized pension expense of $241 million. At June 30, 2018, the State reported deferred outflows of resources of $638 million and deferred inflows of resources of $326 million. The reported deferred outflows of resources included $216 million from pension contributions the trial courts made subsequent to the measurement date; the contributions will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS

The State provides medical and prescription drug benefits to annuitants and their dependents under the Public Employees' Medical and Hospital Care Act, and dental benefits under the State Employees' Dental Care Act, through the State of California Retiree Health Benefits Program (Retiree Health Benefits Program). The Retiree Health Benefits Program consists of a number of defined benefit other postemployment benefit (OPEB) plans, to which the State contributes as an employer. The State also offers life insurance, long-term care, and vision benefits to retirees; however, because these benefits are completely paid for by the retirees, the State has no liability. The design of health and dental benefit plans can be amended by the CalPERS Board of Administration and the California Department of Human Resources, respectively. CalPERS is a fiduciary component unit of the State, and its 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.

Fifty-eight county superior courts (trial courts) are included in the primary government. The trial courts offer OPEB outside of the Retiree Health Benefits Program and have separately issued actuarial valuation reports. Additional information related to the trial courts is provided in section B.

For the purpose of measuring net OPEB liability, deferred outflows and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net positions of the Retiree Health Benefits Program and the trial court OPEB plans, and changes to the plans' fiduciary net positions have 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 Retiree Health Benefit Trust (UCRHBT), which consists of single-employer OPEB plans that provide medical, dental, and vision benefits to eligible retirees and their dependents. The costs of medical and dental benefits are shared between the University and participating retirees. These costs are funded on a pay-as-you-go basis, and the University does not contribute toward the cost of other benefits available to retirees. The State does not directly contribute to the UCRHBT. Additional information on the UCRHBT can be found in the University's separately issued financial statements on its website at www.ucop.edu.

A. Retiree Health Benefits Program

***Plan Description*:** Employer and retiree contributions to the Retiree Health Benefits Program (the Program) are established and amended by state law for different groups of employees. Through the collective bargaining process and through state law, certain bargaining units and judicial employees (valuation groups) have begun prefunding retiree healthcare and dental benefits. Assets are held in separate state subaccounts by valuation group within the California Employers' Retiree Benefit Trust Fund (CERBTF), an agent multiple-employer trust administered by CalPERS for the prefunding of health, dental, and other non-pension benefits. In accordance with California Government Code section 22940, assets accumulated in the CERBTF will be invested and are not available to pay benefits until the earlier of 2046, or the date the funded ratio of the subaccount of a particular valuation group reaches at least 100% of the actuarially determined liability for the valuation group, and then only for the purposes of paying benefits of annuitants and dependents associated with that valuation group.

The Program has 25 different valuation groups that include different categories of employees. Valuation groups that have accumulated prefunding assets in a CERBTF subaccount are reported as separate OPEB plans. As of the June 30, 2018 reporting date, these valuation groups included Bargaining Units 5, 6, 9, 10, 12, 16, and the Judicial Branch. The OPEB plans for Bargaining Units 5, 6, 9, and 12 are each reported discretely. The OPEB plans for Bargaining Units 10, 16, and the Judicial Branch are collectively reported as "Other Funded Plans." The remaining valuation groups for which the State made contributions through the CERBTF on a "pay-as-you-go" basis to fund benefit payments are collectively reported as the "Unfunded Plan." Prefunding contributions to the CERBTF are nonrefundable, and state employees have no claims or rights to the assets. CalPERS reports on the CERBTF as part of its separately issued annual financial statements, which can be obtained from CalPERS on its website at www.CalPERS.ca.gov.

The OPEB plans have common benefit terms and are valued using common actuarial methods and assumptions, with the exception of certain demographic and economic assumptions that are specific to certain valuation groups. The valuation groups also have different prefunding contribution rates determined through collective bargaining and state law.

***Benefits Provided*:** Benefit terms are governed by state law and can be amended by the Legislature. To be eligible for OPEB benefits, annuitants must retire within 120 days of separation from employment. Survivors of eligible annuitants may also enroll within 60 days of the annuitant's death. Dependents of annuitants that are enrolled or eligible to enroll at the time of the annuitant's death qualify for benefits.

Annuitants who qualify for premium-free Medicare Part A, either on their own or through a spouse, must enroll in Medicare Part B coverage as soon as they qualify for Medicare Part A. The annuitant must then enroll in a Medicare supplemental insurance plan sponsored by CalPERS, which lowers the costs of retirees' health care premiums and provides some coverage beyond Medicare.

Employees Covered by Benefit Terms: Detailed information about the number of employees covered within the OPEB plans is provided in the *State of California Retiree Health Benefits Program GASB Nos. 74 and 75 Actuarial Valuation Report as of June 30, 2017* (June 30, 2017 Actuarial Valuation Report), on the State Controller's Office website, at www.SCO.ca.gov.

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

Table 34

Number of Employees by Type Covered by Benefit Terms – Retiree Health Benefits Program
June 30, 2017

OPEB Plan	Inactive employees or beneficiaries currently receiving benefits	Active Employees	Total
Bargaining Unit 5 Plan	6,365	7,745	14,110
Bargaining Unit 6 Plan	22,646	31,408	54,054
Bargaining Unit 9 Plan	6,328	12,222	18,550
Bargaining Unit 12 Plan	9,447	12,535	21,982
Other Funded Plans	3,992	6,990	10,982
Unfunded Plan	134,088	201,674	335,762
Total	**182,866**	**272,574**	**455,440**

Note: Inactive employees that are entitled to, but not receiving benefits are not currently being tracked.

***Contributions*:** The contribution requirements of plan members and the State are established and may be amended by the Legislature, and can be subject to collective bargaining. In accordance with the California Government Code, the State generally pays 100% of the health insurance premium cost for annuitants, plus 90% of the additional premium required for the enrollment of annuitants' family members. The State generally pays all or a portion of the dental insurance premium cost for annuitants, depending on the completed years of credited state service at retirement and the dental coverage selected by the annuitant, as specified in the California Government Code. The State funds the cost of providing health and dental insurance to annuitants primarily on a "pay-as-you-go" basis, with a modest amount of prefunding for members of Bargaining Units 5, 6, 9, 12, and other funded plans. See Table 37 for details on the fiduciary net positions of the OPEB plans. The maximum 2017 monthly State contribution was $707 for one-party coverage, $1,349 for two-party coverage, and $1,727 for family coverage. For the fiscal year ended June 30, 2017, the State contributed $2.4 billion toward annuitants' health and dental benefits.

***Actuarial Methods and Assumptions*:** Projections of benefits for financial reporting purposes for the OPEB plans include the types of benefits provided at the time of each valuation and the established pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective.

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

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

Table 35

Actuarial Methods and Assumptions – Retiree Health Benefits Program

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

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

Healthcare-related assumptions such as plan participation, aging factors, adjustments for disabled members, and adjustments for children of current retirees and survivors are based on the 2015 experience study performed by Gabriel, Roeder, Smith and Company (GRS) for the period from 2007 to 2014. Other healthcare assumptions such as member healthcare plan selection, coverage and continuance, select and ultimate healthcare cost trend rates, and per capita claim costs and expenses, are based on the most current information available. To obtain a copy of the GRS experience study email the State Controller's Office, State Accounting and Reporting Division, at StateGovReports@sco.ca.gov.

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

Table 36 shows the long-term expected real rate of return by asset class.

Table 36

Long-term Expected Real Rate of Return by Asset Class

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

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

***Discount Rates*:** The discount rates used to measure the total OPEB liability for each valuation group were based on blended rates. The blended rate used to measure the June 30, 2016 total OPEB liability for each valuation group consists of the 20-Bond G.O. Index rate of 2.85% as of June 30, 2016, as reported by Bond Buyer Index (general obligation, 20 years to maturity, mixed quality), when prefunding assets are not available to pay benefits, and 7.28% when prefunding assets are available to pay benefits. The blended rate used to measure the June 30, 2017 total OPEB liability for each valuation group consists of the 20-year Municipal G.O. Bond AA Index rate of 3.56% as of June 30, 2017, as reported by Fidelity Index, when prefunding assets are not available to pay benefits, and 7.28% when prefunding assets are available to pay benefits. The cash flow projections used to calculate the blended discount rates were developed assuming that prefunding agreements in which actuarially determined normal costs are shared between employees and the State will continue and that the required contributions will be made on time and as scheduled in future years. The prefunding agreements are subject to legislatively approved collective bargaining and state law. Detailed information on the blended discount rates by valuation group is available in the June 30, 2017 Actuarial Valuation Report.

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

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

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

Table 37

Changes in Net OPEB Liability
(amounts in thousands)

	Bargaining Unit 5 Plan			Bargaining Unit 6 Plan			Bargaining Unit 9 Plan		
	Total OPEB Liability	**Plan Fiduciary Net Position**	**Net OPEB Liability**	**Total OPEB Liability**	**Plan Fiduciary Net Position**	**Net OPEB Liability**	**Total OPEB Liability**	**Plan Fiduciary Net Position**	**Net OPEB Liability**
Balance at June 30, 2016	$ 4,764,812	$ 135,701	$ 4,629,111	$ 15,990,189	$ —	$ 15,990,189	$ 4,640,159	$ —	$ 4,640,159
Changes recognized for the measurement period:									
Service cost	168,057	—	168,057	609,551	—	609,551	166,173	—	166,173
Interest on total OPEB liability	179,397	—	179,397	574,853	—	574,853	154,495	—	154,495
Changes of assumptions	(474,646)	—	(474,646)	(1,637,897)	—	(1,637,897)	(475,991)	—	(475,991)
Employer contributions	—	172,971	(172,971)	—	472,277	(472,277)	—	117,659	(117,659)
Employee contributions	—	12,783	(12,783)	—	23,181	(23,181)	—	—	—
Net investment income	—	21,109	(21,109)	—	15,089	(15,089)	—	3,630	(3,630)
Benefit payments	(95,517)	(95,517)	—	(325,344)	(325,344)	—	(82,449)	(82,449)	—
Administrative expense	—	(95)	95	—	(48)	48	—	(11)	11
Other miscellaneous income	—	(290)	290	—	—	—	—	—	—
Net changes	(222,709)	110,961	(333,670)	(778,837)	185,155	(963,992)	(237,772)	38,829	(276,601)
Balance at June 30, 2017 (Measurement Date)	**$ 4,542,103**	**$ 246,662**	**$ 4,295,441**	**$ 15,211,352**	**$ 185,155**	**$ 15,026,197**	**$ 4,402,387**	**$ 38,829**	**$ 4,363,558**

(continued)

Table 37 (continued)

Changes in Net OPEB Liability (continued)
(amounts in thousands)

	Bargaining Unit 12 Plan			Other Funded Plans			Unfunded Plan		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2016	$ 4,540,951	$ 7,186	$ 4,533,765	$ 2,116,405	$ 4,836	$ 2,111,569	$ 64,144,931	$ —	$ 64,144,931
Changes recognized for the measurement period:									
Service cost	167,689	—	167,689	92,991	—	92,991	2,805,040	—	2,805,040
Interest on total OPEB liability	154,036	—	154,036	74,923	—	74,923	2,112,139	—	2,112,139
Changes of assumptions	(433,966)	—	(433,966)	(197,059)	—	(197,059)	(6,610,919)	—	(6,610,919)
Employer contributions	—	111,936	(111,936)	—	57,262	(57,262)	—	1,457,705	(1,457,705)
Employee contributions	—	1,076	(1,076)	—	2,323	(2,323)	—	—	—
Net investment income	—	872	(872)	—	1,589	(1,589)	—	—	—
Benefit payments	(110,860)	(110,860)	—	(46,820)	(46,820)	—	(1,457,705)	(1,457,705)	—
Administrative expense	—	(4)	4	—	(7)	7	—	—	—
Other miscellaneous income	—	—	—	—	—	—	—	—	—
Net changes	(223,101)	3,020	(226,121)	(75,965)	14,347	(90,312)	(3,151,445)	—	(3,151,445)
Balance at June 30, 2017 (Measurement Date)	**$ 4,317,850**	**$ 10,206**	**$ 4,307,644**	**$ 2,040,440**	**$ 19,183**	**$ 2,021,257**	**$ 60,993,486**	**$ —**	**$ 60,993,486**

(continued)

Table 37 (continued)

Changes in Net OPEB Liability (continued)
(amounts in thousands)

	Total: Total OPEB Liability	Total: Plan Fiduciary Net Position	Total: Net OPEB Liability
Balance at June 30, 2016	$ 96,197,447	$ 147,723	$ 96,049,724
Changes recognized for the measurement period:			
Service cost	4,009,501	—	4,009,501
Interest on total OPEB liability	3,249,843	—	3,249,843
Changes of assumptions	(9,830,478)	—	(9,830,478)
Employer contributions	—	2,389,810	(2,389,810)
Employee contributions	—	39,363	(39,363)
Net investment income	—	42,289	(42,289)
Benefit payments	(2,118,695)	(2,118,695)	—
Administrative expense	—	(165)	165
Other miscellaneous income	—	(290)	290
Net changes	(4,689,829)	352,312	(5,042,141)
Balance at June 30, 2017 (Measurement Date)	**$ 91,507,618**	**$ 500,035**	**$ 91,007,583**

Reported in governmental activities	$ 72,084,987
Reported in business-type activities	15,618,786
Reported by discretely presented component units	138,611
Not reported in government-wide Statement of Net Position [1]	3,165,199
Total net OPEB liability	**$ 91,007,583**

(concluded)

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

***Sensitivity of the Net OPEB Liability to Changes in Blended Discount Rates*:** Table 38 shows the net OPEB liability for each plan as of the measurement date, calculated using their respective blended discount rates ranging from 3.56% to 4.22%, as well as what the net OPEB liability would be if it were calculated using rates that are one percentage-point lower or one percentage-point higher than the blended discount rates.

Table 38

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

OPEB Plan	Blended Rate	Blended Discount Rates -1%	Blended Discount Rates	Blended Discount Rates +1%
Bargaining Unit 5 Plan	4.22%	$ 5,218,068	$ 4,295,441	$ 3,580,665
Bargaining Unit 6 Plan	4.07%	18,029,523	15,026,197	12,689,574
Bargaining Unit 9 Plan	3.87%	5,161,339	4,363,558	3,727,267
Bargaining Unit 12 Plan	3.92%	5,052,582	4,307,644	3,711,953
Other Funded Plans	3.99% to 4.04%	2,371,172	2,021,257	1,740,212
Unfunded Plan	3.56% to 4.14%	71,864,678	60,993,486	52,331,297
Total		**$ 107,697,362**	**$ 91,007,583**	**$ 77,780,968**

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

Table 39

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

OPEB Plan	Healthcare Cost Trend Rates -1%	Healthcare Cost Trend Rates	Healthcare Cost Trend Rates +1%
Bargaining Unit 5 Plan	$ 3,541,740	$ 4,295,441	$ 5,281,792
Bargaining Unit 6 Plan	12,553,881	15,026,197	18,237,804
Bargaining Unit 9 Plan	3,676,765	4,363,558	5,241,071
Bargaining Unit 12 Plan	3,683,452	4,307,644	5,097,332
Other Funded Plans	1,719,951	2,021,257	2,403,307
Unfunded Plan	51,703,522	60,993,486	72,899,768
Total	**$ 76,879,311**	**$ 91,007,583**	**$ 109,161,074**

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

OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB: The State recognized OPEB expense for the OPEB plans of $5.7 billion for the fiscal year ended June 30, 2018. Deferred inflows of resources are recognized for changes of assumptions and for the difference between expected and actual experience. Net deferred inflows of resources are recognized for the aggregate difference (positive and negative) between projected and actual earnings on the OPEB plans' investments occurring in different measurement periods.

As of June 30, 2018, the State reported OPEB expense and deferred outflows and deferred inflows of resources as shown in Table 40.

Table 40

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

Description	Bargaining Unit 5 Plan	Bargaining Unit 6 Plan	Bargaining Unit 9 Plan	Bargaining Unit 12 Plan	Other Funded Plans	Unfunded Plan	Total
OPEB Expense	$ 250,737	$ 902,637	$ 237,277	$ 244,835	$ 132,300	$ 3,890,463	$ 5,658,249
Deferred Outflows of Resources:							
Employer contributions subsequent to the measurement date	152,424	432,403	87,888	104,412	54,571	1,461,843	2,293,541
Deferred Inflows of Resources:							
Changes of assumptions	405,468	1,388,607	394,738	358,803	164,822	5,584,203	8,296,641
Net difference between projected and actual earnings on OPEB plan investments	5,968	5,745	1,481	217	528	—	13,939

The $2.3 billion reported as deferred outflows of resources resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2019.

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

Table 41

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

	Year Ending June 30					
OPEB Plan	**2019**	**2020**	**2021**	**2022**	**2023**	**Thereafter**
Bargaining Unit 5	$ (70,670)	$ (70,670)	$ (70,670)	$ (70,670)	$ (69,178)	$ (59,578)
Bargaining Unit 6	(250,727)	(250,727)	(250,727)	(250,724)	(249,290)	(142,157)
Bargaining Unit 9	(81,624)	(81,624)	(81,624)	(81,621)	(69,726)	—
Bargaining Unit 12	(75,218)	(75,218)	(75,218)	(75,215)	(58,151)	—
Other Funded Plans	(32,370)	(32,370)	(32,370)	(22,970)	(21,248)	(24,022)
Unfunded Plan	(1,026,716)	(990,065)	(930,775)	(899,623)	(890,843)	(846,181)
Total	**$ (1,537,325)**	**$ (1,500,674)**	**$ (1,441,384)**	**$ (1,400,823)**	**$ (1,358,436)**	**$ (1,071,938)**

B. Trial Court OPEB Plans

***Plan Description*:** The 58 trial courts are reported as part of the primary government, but each trial court may utilize a separate OPEB plan, where OPEB is offered to employees, and obtain a separate actuarial valuation report for GASB Statement No. 75 reporting purposes. One trial court (Los Angeles) participates in an agent multiple-employer defined benefit OPEB plan, three trial courts (Alameda, Orange, and San Diego) participate in county administered cost-sharing multiple-employer defined benefit OPEB plans, and forty-nine trial courts participate in single-employer defined benefit OPEB plans. Five trial courts (Fresno, Mendocino, Modoc, San Benito, and Stanislaus) do not have an OPEB plan.

***Benefits Provided, Contributions, and Employees Covered by Benefit Terms*:** To obtain information on eligibility terms, benefits provided, contributions, and actuarial assumptions from individual trial court OPEB actuarial valuation reports, email the State Controller's Office, State Accounting and Reporting Division at StateGovReports@sco.ca.gov.

***Net OPEB Liability Actuarial Methods and Assumptions*:** The beginning total OPEB liability for each trial court plan was determined either by rolling back the total OPEB liability to the beginning of the measurement period, or rolling forward the total OPEB liability calculated in previous valuations. For two of the trial court valuations, the net OPEB liability was measured as of December 31, 2017 (measurement date), and the remaining 51valuations had a measurement date of June 30, 2017. One of the courts had an actuarial valuation date of December 31, 2017, while the remaining 52 courts were valued as of June 30, 2017.

Table 42 shows selected actuarial assumptions for the trial court OPEB plans, by plan type.

Table 42

Actuarial Methods and Assumptions – Trial Court OPEB Plans

	Single-Employer Defined Benefit OPEB Plans	Agent Multiple-Employer Defined Benefit OPEB Plan	Cost-Sharing Multiple-Employer Defined Benefit OPEB Plans
Valuation date:	June 30, 2017	June 30, 2017	Two plans as of June 30, 2017. One plan as of December 31, 2017.
Actuarial assumptions:			
Discount rate	Blended and single rates ranging from 3.56% to 7.28%.	Blended rate of 3.62%.	Single rates ranging from 7.00% to 7.25%.
Healthcare cost trend rates	Initial rate of 6.80% in 2018, gradually decreasing to an ultimate rate of 4.40% over 57 years per the Society of Actuaries Getzen model.	Initial rate of 6.80% in 2018, gradually decreasing to an ultimate rate of 4.40% over 57 years per the Society of Actuaries Getzen model.	Initial rates ranging from 6.50% to 7.50%, decreasing gradually to ultimate rates ranging from 4.00% to 4.50% in 2026 and later years.

***Discount Rates*:** The discount rates used to measure the total OPEB liability were based on either a single or a blended rate for each trial court. The blended rates used to measure the June 30, 2017 total OPEB liability consist of the 20-year Municipal G.O. Bond AA Index rate of 3.56% as of June 30, 2017, when prefunding assets are not available to pay benefits, and full funding discount rates ranging from 4.95% to 7.28% when prefunding assets are available to pay benefits. Single rates range from 4.95% to 7.28%. The projections of cash flows used to determine the discount rates assumed that plan contributions will be made according to funding policy, benefits will be paid out of OPEB trusts until assets are depleted, and employer contributions will first be applied to employee service costs in each period.

***OPEB Accounting Elements*:** For the trial court OPEB plans, the State reported total OPEB liability of $1.8 billion and fiduciary net position of $216 million, which resulted in a net OPEB liability of $1.6 billion as of June 30, 2018, reported in governmental activities. For the fiscal year ended June 30, 2018, the State recognized OPEB expense of $108 million. At June 30, 2018, the State reported deferred outflows of resources of $49 million and deferred inflows of resources of $156 million. Deferred outflows of resources included $46 million from OPEB contributions made subsequent to the measurement date, which will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2019.

NOTE 12: COMMERCIAL PAPER AND OTHER LONG-TERM BORROWINGS

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

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

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

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

NOTE 13: LEASES

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

The total present value of net minimum capital lease payments for the primary government is $791 million. Note 9, Long-term Obligations, reports current additions and deductions for these capital lease obligations. The California State University, an enterprise fund, and the State Public Works Board (SPWB), an internal service fund, entered into lease-purchase agreements amounting to a present value of net minimum lease payments of $155 million, which are included in the capital lease commitments. This amount represents 19.6% of the total present value of minimum capital lease payments of the primary government. Also included in the capital lease commitments are lease-purchase agreements to acquire equipment. Total assets related to capital leases have a net carrying value of $254 million for governmental activities and $199 million for business-type activities.

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

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

Table 43 summarizes future minimum lease commitments of the primary government.

Table 43

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

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

NOTE 14: COMMITMENTS

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

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

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

As of June 30, 2018, the primary government encumbered expenditures of $1.2 billion for the General Fund, $2.5 billion for the Transportation Fund, $1.4 billion for the Environmental and Natural Resources Fund, $13 million for the Health Care Related Programs Fund, and $1.0 billion for the nonmajor governmental funds. See Note 2A, Budgeting and Budgetary Control, for an explanation of the primary government's policy concerning encumbrances.

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

NOTE 15: GENERAL OBLIGATION BONDS

The State Constitution permits the primary government to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds vote of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used first to support the public school system and public institutions of higher education; the General Fund can then

be used to service the debt on outstanding general obligation bonds. Enterprise funds and certain other funds reimburse the General Fund for any debt service that it provides on their behalf. General obligation bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included as a liability of such funds in the financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such enterprise funds.

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

A. Variable-rate General Obligation Bonds

The State issues both fixed and variable-rate general obligation bonds. As of June 30, 2018, the State had $3.1 billion in variable-rate general obligation bonds outstanding, consisting of $925 million in daily-rate bonds with credit enhancement, $1.2 billion in weekly-rate bonds with credit enhancement, and $1.0 billion in weekly- or monthly- index floating rate bonds without credit enhancement. The interest rates associated with the credit-enhanced bonds are determined by the remarketing agents to be the lowest rate that would allow the bonds to sell on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest rates associated with the unenhanced index floating rate bonds are determined either by a rate based on the Securities Industry and Financial Markets Association (SIFMA) Index rate or a predetermined percentage of the London Interbank Offered Rate (LIBOR) then in effect plus a pre-determined spread. The interest on variable-rate bonds is generally paid on the first business day of each calendar month.

The credit-enhanced bonds are secured by letters of credit that secure payment of principal and interest on the bonds. The State has entered into different credit agreements with various banks (credit providers) for one or more series of credit-enhanced bonds. Under these credit agreements, the credit providers agree to pay all principal and interest payments to the bondholders up to a commitment amount identified in the applicable credit agreement; the State is then required to reimburse the credit providers for the amounts paid. In return, the credit providers are compensated with commitment fees that are calculated as a percentage of the applicable commitment amount. The bondholders have the right to tender the bonds daily if the bonds are in a daily-rate mode and weekly if the bonds are in a weekly-rate mode. Upon a tender, the remarketing agent will attempt to remarket the tendered bond to a new investor. If the remarketing of the tendered bond is unsuccessful, the bond will be purchased by the applicable credit provider and become a bank bond and accrue interest at higher rates, which cannot exceed 11% as permitted by law until remarketed, redeemed, or paid at maturity. If a bond cannot be remarketed and remains a bank bond for a period ranging from 45 days to 90 days, the bond will be subject to amortization payments in equal installments under the terms stated in the applicable credit agreement. The amortization period may exceed the expiration date of the applicable credit agreement. A bank bond may be remarketed at any time during the amortization period. There were no bank bonds during fiscal year 2017-18.

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

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

B. Mandatory Tender Bonds

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

C. Build America Bonds

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

D. Debt Service Requirements

Table 44 shows the debt service requirements for all general obligation bonds as of June 30, 2018. The estimated debt service requirements for the $3.1 billion variable-rate general obligation bonds are calculated using the actual interest rates in effect on June 30, 2018. For mandatory tender bonds, the debt service requirements shown in Table 44 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 44

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

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

E. General Obligation Bond Defeasances

1. Current Year Activity

On September 12, 2017, the primary government issued $1.7 billion in general obligation bonds to current and advance refund $2.0 billion in outstanding general obligation bonds maturing in 2018 to 2038. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $478 million and resulted in an economic gain of $381 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 2.39% per year over the life of the new bonds.

On October 26, 2017, the primary government issued $872 million in general obligation bonds to advance refund $1.0 billion in outstanding general obligation bonds maturing in 2019 to 2038. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $267 million and resulted in an economic gain of $211 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 2.17% per year over the life of the new bonds.

On March 15, 2018, the primary government issued $664 million in general obligation bonds to current refund $744 million in outstanding general obligation bonds maturing in 2024 to 2029. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $137 million and resulted in an economic gain of $114 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 2.81% per year over the life of the new bonds.

On April 25, 2018, the primary government issued $1.2 billion in general obligation bonds to advance refund $1.2 billion in outstanding general obligation bonds maturing in 2032 to 2038. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $354 million and resulted in an economic gain of $258 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 3.91% per year over the life of the new bonds.

2. Outstanding Balance

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

NOTE 16: REVENUE BONDS

A. Governmental Activities

The State Treasurer is authorized by state law to issue Federal Highway Grant Anticipation Revenue Vehicles (GARVEE bonds). The purpose of these bonds is to accelerate the funding and construction of critical transportation infrastructure projects to provide congestion relief benefits to the public significantly sooner than with traditional funding mechanisms. These bonds are secured and payable from the annual federal appropriation for the State's federal-aid transportation projects. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. Total principal and interest remaining on the bonds is $23 million, payable through 2020. In addition, the California Alternative Energy and Advanced Transportation Financing Authority is authorized to issue Clean Renewable Energy Bonds to fund the acquisition and installation of certain transportation-related solar energy facilities located throughout the State. Both of these bonds finance activity in the Transportation Fund and are included in the governmental activities column of the government-wide Statement of Net Position.

The Golden State Tobacco Securitization Corporation (GSTSC), a blended component unit, as authorized by state law, has issued asset-backed bonds to purchase 100% of the State's rights to future revenues from the Master Settlement Agreement with participating tobacco companies. These bonds are secured by and payable solely from future Tobacco Settlement Revenue and interest earned on that revenue. The primary government has no legal liability for the payment of principal and interest on the bonds. The Legislature has annually granted a General Fund appropriation for payment of debt service in the event tobacco settlement revenues and other available amounts prove insufficient to make these payments during the next fiscal year. However, the use of the appropriated monies has never been required. Total principal and interest

remaining on all asset-backed bonds is $14.6 billion, payable through 2047. All of the Tobacco Settlement Revenue and interest has been pledged in support of these asset-backed bonds. Principal and interest paid in the current year totaled $2.4 billion, while Tobacco Settlement Revenue and interest earned totaled $434 million. These bonds are included in the governmental activities column of the government-wide Statement of Net Position.

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

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

B. Business-type Activities

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

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

C. Discretely Presented Component Units

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

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

Table 45 shows outstanding revenue bonds of the primary government and the discretely presented component units.

Table 45

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

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

Table 46 shows the debt service requirements for fixed-rate and variable-rate bonds. It excludes unamortized premiums and discounts that are included in Table 45.

Table 46

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

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

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

D. Revenue Bond Defeasances

1. Current Year – Governmental Activities

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

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

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

2. Current Year – Business-type Activities

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

3. Outstanding Balances

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

NOTE 17: RISK MANAGEMENT

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

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

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

Table 47 shows the changes in the self-insurance claims liability for the primary government.

Table 47

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

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

NOTE 18: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Short-term interfund receivables and payables result from the time lag between the dates on which goods and services are delivered and the dates on which payments between entities are made. In addition, the majority of the fiduciary funds' amount due from the General Fund, the Federal Trust Fund, and the Health Care Related Programs Fund is to pay for Medi-Cal and other health-care related expenditures accrued in the Health Care Deposit Fund.

Table 48 shows the amounts due from and due to other funds.

Table 48

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

Due From	Due To: General Fund	Transportation Fund	Environmental and Natural Resources Fund	Health Care Related Programs Fund	Nonmajor Governmental Funds	Electric Power Fund
Governmental funds						
General Fund	$ —	$ 253,677	$ 4,137	$ —	$ 341,204	$ —
Federal Fund	677,936	1,431,205	39,117	19,793	8,192	—
Transportation Fund	—	—	4,137	—	306,639	—
Environmental and Natural Resources Fund	10,742	—	—	—	110	—
Health Care Related Programs Fund	2,096,839	—	16	—	14,409	—
Nonmajor governmental funds	414,338	15,926	23,028	—	19,639	—
Total governmental funds	**3,199,855**	**1,700,808**	**70,435**	**19,793**	**690,193**	**—**
Enterprise funds						
Water Resources Fund	157	—	—	—	—	—
State Lottery Fund	153	—	—	—	385,803	—
Unemployment Programs Fund	217,269	—	—	—	—	—
California State University Fund	—	—	—	—	136	—
Nonmajor enterprise funds	1,742	—	8,260	—	2,023	—
Total enterprise funds	**219,321**	**—**	**8,260**	**—**	**387,962**	**—**
Internal service funds	10,479	42,748	43,279	4,693	47,820	8,000
Total due from other funds	**$ 3,429,655**	**$ 1,743,556**	**$ 121,974**	**$ 24,486**	**$ 1,125,975**	**$ 8,000**

Due From	Due To: Water Resources Fund	State Lottery Fund	Unemployment Programs Fund	California State University Fund	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total Due To Other Funds
Governmental funds								
General Fund	$ —	$ 1,272	$ —	$ 4,949	$ —	$ 535,862	$ 4,803,047	$ 5,944,148
Federal Fund	—	—	9,631	—	8,740	61,044	14,342,910	16,598,568
Transportation Fund	—	—	—	—	—	8,572	62,321	381,669
Environmental and Natural Resources Fund	—	—	—	—	60	12,157	—	23,069
Health Care Related Programs Fund	—	—	—	—	—	125	4,339,936	6,451,325
Nonmajor governmental funds	—	—	—	1	—	90,346	42,058	605,336
Total governmental funds	**—**	**1,272**	**9,631**	**4,950**	**8,800**	**708,106**	**23,590,272**	**30,004,115**
Enterprise funds								
Water Resources Fund	—	—	—	—	—	53,059	—	53,216
State Lottery Fund	—	—	—	—	—	—	—	385,956
Unemployment Programs Fund	—	—	—	—	—	—	—	217,269
California State University Fund	—	—	—		—	—	—	136
Nonmajor enterprise funds	—	—	—	—	—	185	45	12,255
Total enterprise funds	**—**	**—**	**—**	**—**	**—**	**53,244**	**45**	**668,832**
Internal service funds	4,229	2,762	15,419	—	6,066	80,559	11,849	**277,903**
Total due from other funds	**$ 4,229**	**$ 4,034**	**$ 25,050**	**$ 4,950**	**$ 14,866**	**$ 841,909**	**$ 23,602,166**	**$ 30,950,850**

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 48, annual enacted budgets provide for long-term loans from many of the State's special funds—mainly the Transportation Fund, the Environmental and Natural Resources Fund, and nonmajor governmental funds—to the General Fund. The $1.7 billion in Transportation Fund loans payable from the General Fund also includes $471 million in deferred Proposition 42 transfers for traffic congestion relief.

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

Table 49 shows the primary government's interfund receivables and payables.

Table 49

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

	Interfund Payables										
Interfund Receivables	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**	**Health Care Related Programs Fund**	**Nonmajor Governmental Funds**	**Water Resources Fund**	**Unemployment Programs Fund**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Fiduciary Funds**	**Total Interfund Payables**
Governmental funds											
General Fund	$ —	$ 1,744,220	$ 1,790,776	$ 421,120	$ 1,201,745	$ —	$ 860,600	$ 13,407	$ 9,863	$ 190,232	$ 6,231,963
Transportation Fund	—	—	123,967	35,861	83,665	—	53,358	1,142	1,156	16,199	315,348
Environmental and Natural Resources Fund	106,570	10,000	—	—	7,406	—	—	—	2,689	—	126,665
Nonmajor governmental funds	133,707	1,448	340	98	175	—	147	3	—	45	135,963
Total governmental funds	**240,277**	**1,755,668**	**1,915,083**	**457,079**	**1,292,991**	**—**	**914,105**	**14,552**	**13,708**	**206,476**	**6,809,939**
Enterprise funds											
Electric Power Fund	—	—	265	77	136	—	114	2	—	34	628
Water Resources Fund	—	—	25,666	7,425	13,181	—	11,047	237	—	3,354	60,910
State Lottery Fund	—	—	5,814	1,681	2,986	—	2,503	54	—	760	13,798
California State University Fund	—	—	65,855	19,050	33,821	—	28,345	606	—	8,606	156,283
Nonmajor enterprise funds	15,000	—	844	244	434	—	364	8	—	110	17,004
Total enterprise funds	15,000	—	98,444	28,477	50,558	—	42,373	907	—	12,864	248,623
Internal service funds	297,462	—	223,468	64,644	114,794	95,129	96,186	2,058	18,868	29,201	941,810
Total interfund receivables	**$ 552,739**	**$ 1,755,668**	**$ 2,236,995**	**$ 550,200**	**$ 1,458,343**	**$ 95,129**	**$ 1,052,664**	**$ 17,517**	**$ 32,576**	**$ 248,541**	**$ 8,000,372**

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

Table 50

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

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

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B. Interfund Transfers

Transfers move money collected by one fund to another fund, which then disburses it as required by law. The General Fund and certain other funds transfer money to support various programs accounted for in other funds. The largest transfer from the General Fund was $4.3 billion to the California State University, an enterprise fund. The General Fund also transferred $1.7 billion to nonmajor governmental funds, mainly for support of trial courts, local governments, and health care related programs. The Transportation Fund transferred $1.6 billion in weight fee revenues to the Transportation Debt Service Fund, a nonmajor governmental fund, for transportation-related debt service costs. The Federal Fund transferred $472 million to the General Fund for administration of the Unemployment Insurance Program.

Table 51 shows interfund transfers of the primary government.

Table 51

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

	Transferred To								
Transferred From	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**	**Health Care Related Programs Fund**	**Nonmajor Governmental Funds**	**California State University Fund**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Total Transfers To Other Funds**
Governmental funds									
General Fund	$ —	$ —	$ 853	$ 168,610	$ 1,737,179	$ 4,338,333	$ —	$ —	$ 6,244,975
Federal Fund	472,385	—	—	—	13,788	—	—	—	486,173
Transportation Fund	84,392	—	16,744	—	1,555,987	—	—	—	1,657,123
Environmental and Natural Resources Fund	37,664	2,424	—	—	6,703	—	—	2,690	49,481
Health Care Related Programs Fund	48	—	—	—	10,000	—	—	—	10,048
Nonmajor governmental funds	46,064	5,977	28,190	13,110	12,791	—	1,662	—	107,794
Total governmental funds	**640,553**	**8,401**	**45,787**	**181,720**	**3,336,448**	**4,338,333**	1,662	**2,690**	**8,555,594**
Internal service funds	20,044	—	—	—	33,643	—	—	6,255	**59,942**
Total transfers from other funds	**$ 660,597**	**$ 8,401**	**$ 45,787**	**$ 181,720**	**$ 3,370,091**	**$ 4,338,333**	**$ 1,662**	**$ 8,945**	**$ 8,615,536**

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

A. Fund Balances

Table 52 shows the composition of the governmental fund balances.

Table 52

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

	General Fund	Federal Fund	Transportation Fund	Environmental and Natural Resources Fund	Health Care Related Programs Fund	Nonmajor Governmental Funds
Nonspendable						
Long-term interfund receivables	$ 552,739	$ —	$ —	$ —	$ —	$ —
Long-term loans receivable	6,905	—	—	—	—	—
Other	—	—	—	—	—	69,868
Total nonspendable	**559,644**	**—**	**—**	**—**	**—**	**69,868**
Restricted						
General government	24,463	—	—	3,489	1	3,597,454
Education	181,578	429	1,399	—	113,182	342,033
Health and human services	162,074	257	—	89,006	513,925	2,111,661
Natural resources and environmental protection	4,333	7,015	—	4,990,911	—	185,484
Business, consumer services, and housing	2,153	220,953	209,026	28,751	—	3,545,162
Transportation	—	—	9,083,942	—	—	6,792
Corrections and rehabilitation	27,706	—	—	—	—	676
Budget stabilization	9,405,422	—	—	—	—	—
Total restricted	**9,807,729**	**228,654**	**9,294,367**	**5,112,157**	**627,108**	**9,789,262**
Committed						
General government	142,798	—	—	18,225	5,229	326,503
Education	3,617	—	—	—	—	63,759
Health and human services	4,669	—	696	—	97,739	216,934
Natural resources and environmental protection	3,645	—	3	6,324,974	—	604,695
Business, consumer services, and housing	—	—	—	59,518	—	124,550
Transportation	—	—	49,126	—	—	4,997
Corrections and rehabilitation	16,291	—	—	—	—	414
Total committed	**171,020**	**—**	**49,825**	**6,402,717**	**102,968**	**1,341,852**
Assigned – general government	—	—	—	—	—	26,346
Unassigned	1,648,511	—	—	—	—	—
Total fund balances	**$ 12,186,904**	**$ 228,654**	**$ 9,344,192**	**$ 11,514,874**	**$ 730,076**	**$ 11,227,328**

B. Net Position Deficits

Table 53 shows the net position deficit balances.

Table 53

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

	Internal Service Funds	Enterprise Funds
Architecture Revolving Fund	$ 145,394	$ —
Service Revolving Fund	1,097,379	—
Prison Industries Fund	17,480	—
Technology Services Revolving Fund	470,901	—
Water Resources Revolving Fund	2,962	—
Other Internal Service Programs Fund	1,065,646	—
State Lottery Fund	—	189,413
California State University Fund	—	16,461,885
Total net position deficits	**$ 2,799,762**	**$ 16,651,298**

C. Discretely Presented Component Unit Endowments and Gifts

The University of California, a discretely presented component unit, administers certain restricted nonexpendable, restricted expendable, and unrestricted endowments that are included in the related net position categories of the government-wide and fund financial statements. As of June 30, 2018, the value of restricted endowments and gifts totaled $18.0 billion, and unrestricted endowments and gifts totaled $4.9 billion. The University's policy is to retain realized and unrealized appreciation on investments with the endowment after an annual income distribution. The net appreciation available to meet future spending needs upon approval by the Board of Regents amounted to $2.6 billion at June 30, 2018. The portion of investment returns earned on endowments and distributed each year to support current operations is based on a rate approved by the Board of Regents. In addition, the California State University Auxiliary Organizations and the University of California Hastings College of the Law, nonmajor component units, have restricted nonexpendable and restricted expendable endowments of $1.3 billion and $12 million, respectively.

NOTE 20: DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

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

Table 54 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 54

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

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Deferred outflows of resources:				
Loss on refunding of debt	$ 962,457	$ 335,502	$ 1,297,959	$ 359,829
Decrease in fair value of hedging derivatives	—	—	—	58,385
Net pension liability	29,463,183	3,732,588	33,195,771	817,316
Net other postemployment benefits liability	1,870,173	403,222	2,273,395	3,527,590
Total deferred outflows of resources	**$ 32,295,813**	**$ 4,471,312**	**$ 36,767,125**	**$ 4,763,120**
Deferred inflows of resources:				
Gain on refunding of debt	$ 357,987	$ —	$ 357,987	$ 3,432
Service concession arrangements	65,429	—	65,429	176,447
Irrevocable split-interest ageements	—	—	—	341,451
Net pension liability	3,833,020	107,386	3,940,406	311,554
Net other postemployment benefits liability	6,694,952	1,574,862	8,269,814	5,660,725
Other deferred inflows	—	1,239,821	1,239,821	435,709
Total deferred inflows of resources	**$ 10,951,388**	**$ 2,922,069**	**$ 13,873,457**	**$ 6,929,318**

NOTE 21: NO COMMITMENT DEBT

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

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

NOTE 22: CONTINGENT LIABILITIES

A. Litigation

The primary government is a party to numerous legal proceedings, many of which are not unusual for governmental operations. To the extent they existed, the following legal proceedings were accrued as a liability in the government-wide financial statements: those decided against the primary government before June 30, 2018; those in progress as of June 30, 2018, and settled or decided against the primary government as of May 29, 2019; and those having a high probability of resulting in a decision against the primary government as of May 29, 2019, and for which amounts could be estimated. In the governmental fund financial statements, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability in the fund from which payment will be made. In the proprietary fund financial statements, the entire liability is recorded in the fund from which payment will be made.

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

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

The primary government is a defendant in two cases, *Bakersfield Mall, LLC v. Franchise Tax Board*, and *CA-Centerside II, LLC v. Franchise Tax Board*, both regarding the constitutionality of a fee imposed on limited-liability companies (LLC). Plaintiffs assert class action and declaratory relief, and seek attorney fees based on alleged violations of the state and federal constitutions. They seek certification of two classes of allegedly similarly situated LLCs and unspecified refunds on behalf of the LLC classes, alleged to be in excess of 50,000 members. On January 30, 2013, Franchise Tax Board's Petition to Coordinate these cases was granted. The trial court denied class certification and the plaintiffs appealed. On December 17, 2014, the briefing of the appeal was completed. On August 27, 2018, the Court of Appeal reversed the trial court decision, directing the trial court to certify one or more classes. The State filed a petition for review in the California Supreme Court challenging the Court of Appeal's decision. On October 31, 2018, the California Supreme Court denied the State's petition for review. The plaintiffs' underlying challenge to the LLC fee will be tried. On July 2, 2019, a motion for an award of interim attorneys' fees will be heard. Actual and expected future claims for refunds from LLCs are estimated to be as high as $1.2 billion.

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

The primary government is a defendant in another case, *Abercrombie & Fitch and Subsidiaries v. Franchise Tax Board*, regarding the constitutionality of Revenue and Taxation Code section 25101.15. If the plaintiff were to prevail and obtain the remedy it seeks, the estimated loss to the primary government is approximately $5.0 billion in refunds and $1.5 billion in lost annual revenues going forward. The case went to trial and on September 13, 2016, the court granted the State's motion for judgement, which was entered for the State on October 31, 2016. Abercrombie & Fitch appealed and filed its Opening Brief on August 11, 2017. The Franchise Tax Board's Respondent's Brief was filed on December 13, 2017. Abercrombie's Reply Brief was filed on May 4, 2018. An oral argument is scheduled before the Court of Appeal on June 4, 2019.

A writ petition, *Bekkerman et al. v. California Department of Tax and Fee Administration (formerly the California Board of Equalization)*, was filed against the primary government challenging the validity of a California Department of Tax and Fee Administration (CDTFA) sales tax regulation (California Code of Regulations, Title 18, section 1585) that requires the sales tax charged on a mobile telephone be based on the full retail price of the phone, rather than any discounted price that is contingent on a service plan contract. A companion class action has been filed. The primary government filed a demurrer that was sustained on September 5, 2017, which resulted in the dismissal of the state defendants from the class action; the plaintiffs appealed that order and an opening brief is scheduled for June 4, 2019. In the writ action, plaintiffs amended the writ petition to add class action claims for refunds of sales tax. On September 14, 2018, the court granted the State's motion to strike the class action claims for refunds from the writ petition. CDTFA filed an answer to the amended petition on September 20, 2018 and is conducting discovery. In the writ action, the original briefing schedule and hearing on the merits were vacated, and there are currently no deadlines set. If the sales tax regulation is invalidated, the companion class action could lead to an order requiring the CDTFA to refund up to $1.0 billion in sales tax collections.

The primary government is a defendant in a case, *Coast Community College District (District), et al. v. Commission on State Mandates (Commission)*, regarding a claim that various laws and regulations prescribing standards for the formation and basic operation of California community colleges created reimbursable state mandates under Government Code section 17514 and article XII B, section 6, of the California Constitution. The District filed a test claim before the Commission and on May 26, 2011, the Commission ruled the test claim did not constitute a reimbursable state-mandated program. On May 22, 2014, the District filed a petition for administrative mandate, seeking review of the Commission's decision. On June 12, 2015, the Superior Court held a hearing and denied the petition. On September 15, 2015, the petitioner filed a notice of appeal. In February 2017, the briefing of the appeal was completed and the court has not yet scheduled oral arguments. The estimated range of loss is not possible to ascertain at this time. As this case is a test claim, other districts could also bring claims for reimbursement for the same reason.

The primary government is a defendant in a case, *People of the State of California (Butte County D.A.) v. Department of Water Resources*, regarding the claims that the debris deposited into the Feather River due to the failure of the Oroville Dam spillway in 2017 was harmful to fish and wildlife. This case is one of eleven coordinated cases concerning the Oroville Dam spillway failure. The Butte County District Attorney seeks to impose up to $51.0 billion in civil penalties for alleged pollution that violates Fish and Game Code section 5650.

The primary government is a defendant in ten other coordinated cases related to the failure of the Oroville Dam spillway in 2017. The plaintiffs are seeking relief for business losses, property damage (personal and real property), evacuation and relocation costs, and other damages, resulting from the flooding and debris. Class certification motions were filed seeking to certify putative classes, and an opposition has

been filed. On May 17, 2019, a hearing on the class certification motions was held. The motion will be deemed submitted on July 15, 2019. The estimated range of loss for the coordinated cases is not possible to ascertain at this time. One of the ten cases plans to seek mediation. A mediator has been agreed upon, and the mediation will take place on June 10, 2019.

The primary government is a defendant in two similar cases: *Perea v. Wilkening,* and *Deuschel v. California Health & Human Services Agency*. The petitioners sued the primary government alleging that reimbursements paid to providers under the Medi-Cal program are too low and therefore impaired access to care and services for Medi-Cal patients. The petitioners argue that this constitutes discrimination against Latinos, seniors, and persons with disabilities. The petitioners do not seek damages but seek prospective declaratory and injunctive relief that would require the State to increase the reimbursement rates paid to providers by the Medi-Cal program. The State has filed demurrers to petitioners' of Third and First Amended Complaints, and demurrers are currently scheduled for hearing on June 21, and June 18, 2019, respectively. The estimated impact to prospective rates is not possible to ascertain at this time.

The primary government was a defendant in the following cases: *Anthem Blue Cross v. David Maxwell-Jolly, et al.; Molina Family Health Plan v. Department of Health Care Services;* and *Health Net of California v. Department of Health Care Services* regarding application of budget reduction factors to managed-care capitated rates. These cases were settled on a contingent basis based on the plans' profitability. The estimated combined total potential loss is more than $400 million based on three separate settlement agreements that were entered into in 2013 and 2014.

B. Federal Audit Exceptions

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

NOTE 23: SUBSEQUENT EVENTS

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

A. Debt Issuances

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

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

In September 2018 and April 2019, the primary government issued a total of $193 million in veterans general obligation bonds to finance the purchase of homes and farms for California military veterans.

In September and October 2018, and March and April 2019, the primary government issued a total of $7.0 billion in general obligation bonds to fund various capital projects and other voter-approved costs related to K-12 schools and higher education facilities, transportation improvements and high-speed rail, water quality and environmental protection, and other public purposes; to pay certain commercial paper notes as they mature; to current refund certain outstanding bonds; and to pay related issuance costs. In August and October 2018, the primary government remarketed $264 million of variable-rate general obligation mandatory tender bonds.

In October 2018 and April 2019, the State Public Works Board issued a total of $122 million in lease revenue bonds to finance and refinance design and construction costs of various correctional facility projects, to reimburse interim loans, and to pay related issuance costs.

In October 2018 and April 2019, the Department of Water Resources issued a total of $515 million in revenue bonds to repay commercial paper, to refund certain outstanding water system revenue bonds, and to pay related issuance costs.

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

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

In March 2019, the University of California, a major component unit, issued $653 million in revenue bonds to finance and refinance current and future University projects, and to refund certain revenue bonds.

In March 2019, the primary government issued $78 million in veterans home purchase revenue bonds to build bond reserve accounts and to finance current and future veterans home purchase programs.

In April 2019, the primary government issued $84 million in revenue bonds to finance various safe drinking water projects, and to pay related issuance costs.

B. Other

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

In the November 6, 2018 general election:

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

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

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

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

In May 2019, the Federal Railroad Administration (FRA) notified the California High-Speed Rail Authority (CHSRA) it terminated a cooperative agreement between the FRA and the CHSRA effective May 16, 2019, due to CHSRA's failure to comply with the terms of the agreement. The future of CHSRA's federal Transportation, Housing and Urban Development, and Related Agencies Appropriations Act for 2010 (FY10) grant funds, in the amount of $929 million, remains uncertain. The FRA indicated it would re-obligate the FY10 funds. The State and the CHSRA filed a federal lawsuit to prevent the FRA from re-obligating the FY10 funds to another eligible program. However, the CHSRA has not spent, encumbered, or accrued those funds, resulting in no State liability to match those funds or return FY10 funds to the federal government.

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Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios

For the Past Four Fiscal Years[1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

	2014[3]	2015[3]	2016[3]	2017[3]
STATE MISCELLANEOUS[2]				
Total pension liability				
Service cost	$ 1,477,762	$ 1,576,695	$ 1,668,682	$ 1,927,531
Interest on total pension liability	6,670,928	6,970,837	7,220,961	7,381,049
Differences between expected and actual experience	—	693,639	(101,381)	(387,041)
Changes of assumptions	—	—	—	5,667,561
Benefit payments, including refunds of employee contributions	(4,844,631)	(5,098,222)	(5,346,864)	(5,572,707)
Net change in total pension liability	3,304,059	4,142,949	3,441,398	9,016,393
Total pension liability – beginning	**88,885,115**	**92,189,174**	**96,332,123**	**99,773,521**
Total pension liability – ending (a)	**$ 92,189,174**	**$ 96,332,123**	**$ 99,773,521**	**$ 108,789,914**
Plan fiduciary net position				
Contributions – employer	$ 2,156,312	$ 2,608,785	$ 2,818,406	$ 3,094,941
Contributions – employee	766,896	771,046	801,023	843,772
Net investment income	10,370,838	1,505,042	339,588	7,329,859
Benefit payments, including refunds of employee contributions	(4,844,631)	(5,098,222)	(5,346,864)	(5,572,707)
Net plan to plan resource movement	—	(354)	(1,154)	(2,737)
Administrative expense	(86,473)	(76,678)	(41,497)	(98,419)
Net change in plan fiduciary net position	8,362,942	(290,381)	(1,430,498)	5,594,709
Plan fiduciary net position – beginning	**60,017,620**	**68,380,562**	**68,090,181**	**66,659,683**
Plan fiduciary net position – ending (b)	**$ 68,380,562**	**$ 68,090,181**	**$ 66,659,683**	**$ 72,254,392**
State's net pension liability – ending (a) – (b)	**$ 23,808,612**	**$ 28,241,942**	**$ 33,113,838**	**$ 36,535,522**
Plan fiduciary net position as a percentage of the total pension liability	74.17%	70.68%	66.81%	66.42%
Covered payroll	$ 10,019,739	$ 10,640,884	$ 11,189,932	$ 11,591,576
State's net pension liability as a percentage of covered payroll	237.62%	265.41%	295.93%	315.19%

(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 Four Fiscal Years[1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

STATE INDUSTRIAL[2]

	2014[3]	2015[3]	2016[3]	2017[3]
Total pension liability				
Service cost	$ 92,324	$ 100,006	$ 107,868	$ 124,792
Interest on total pension liability	241,278	257,527	273,308	290,058
Differences between expected and actual experience	—	26,976	7,009	21,516
Changes of assumptions	—	—	—	245,450
Benefit payments, including refunds of employee contributions	(146,977)	(157,029)	(167,359)	(177,654)
Net change in total pension liability	186,625	227,480	220,826	504,162
Total pension liability – beginning	**3,181,282**	**3,367,907**	**3,595,387**	**3,816,213**
Total pension liability – ending (a)	**$ 3,367,907**	**$ 3,595,387**	**$ 3,816,213**	**$ 4,320,375**
Plan fiduciary net position				
Contributions – employer	$ 88,516	$ 107,238	$ 116,730	123,163
Contributions – employee	44,459	49,482	52,775	54,114
Net investment income	423,076	62,385	14,444	322,150
Benefit payments, including refunds of employee contributions	(146,977)	(157,029)	(167,359)	(177,654)
Net plan to plan resource movement	—	30	216	(141)
Administrative expense	(3,583)	(3,252)	(1,758)	(4,282)
Net change in plan fiduciary net position	405,491	58,854	15,048	317,350
Plan fiduciary net position – beginning	**2,420,958**	**2,826,449**	**2,885,303**	**2,900,351**
Plan fiduciary net position – ending (b)	**$ 2,826,449**	**$ 2,885,303**	**$ 2,900,351**	**$ 3,217,701**
State's net pension liability – ending (a) – (b)	**$ 541,458**	**$ 710,084**	**$ 915,862**	**$ 1,102,674**
Plan fiduciary net position as a percentage of the total pension liability	83.92%	80.25%	76.00%	74.48%
Covered payroll	$ 532,490	$ 577,711	$ 625,220	$ 643,295
State's net pension liability as a percentage of covered payroll	101.68%	122.91%	146.49%	171.41%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Four Fiscal Years[1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

	2014[3]	2015[3]	2016[3]	2017[3]
STATE SAFETY[2]				
Total pension liability				
Service cost	$ 402,902	$ 422,634	$ 438,147	$ 497,129
Interest on total pension liability	663,219	734,333	786,096	827,412
Differences between expected and actual experience	—	(4,150)	(2,235)	(109,901)
Changes of assumptions	—	—	—	673,183
Benefit payments, including refunds of employee contributions	(429,353)	(469,275)	(502,427)	(538,735)
Net change in total pension liability	636,768	683,542	719,581	1,349,088
Total pension liability – beginning	**8,682,750**	**9,626,597** *	**10,310,139**	**11,029,720**
Total pension liability – ending (a)	**$ 9,319,518**	**$ 10,310,139**	**$ 11,029,720**	**$ 12,378,808**
Plan fiduciary net position				
Contributions – employer	$ 339,232	$ 393,925	$ 401,108	$ 433,232
Contributions – employee	196,148	215,482	221,615	231,364
Net investment income	1,162,050	175,677	42,258	926,106
Benefit payments, including refunds of employee contributions	(429,353)	(469,275)	(502,427)	(538,735)
Net plan to plan resource movement	—	499	548	295
Administrative expense	(9,945)	(9,200)	(4,966)	(12,264)
Net change in plan fiduciary net position	1,258,132	307,108	158,136	1,039,998
Plan fiduciary net position – beginning	**6,583,260**	**7,841,392**	**8,148,500**	**8,306,636**
Plan fiduciary net position – ending (b)	**$ 7,841,392**	**$ 8,148,500**	**$ 8,306,636**	**$ 9,346,634**
State's net pension liability – ending (a) – (b)	**$ 1,478,126**	**$ 2,161,639**	**$ 2,723,084**	**$ 3,032,174**
Plan fiduciary net position as a percentage of the total pension liability	84.14%	79.03%	75.31%	75.51%
Covered payroll	$ 1,901,235	$ 2,003,777	$ 2,100,295	$ 2,167,429
State's net pension liability as a percentage of covered payroll	77.75%	107.88%	129.65%	139.90%

(continued)

* Restated

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Four Fiscal Years[1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

STATE PEACE OFFICERS AND FIREFIGHTERS[2]

	2014[3]	2015[3]	2016[3]	2017[3]
Total pension liability				
Service cost	$ 816,836	$ 838,628	$ 861,694	$ 980,897
Interest on total pension liability	2,622,406	2,759,982	2,902,900	3,018,186
Differences between expected and actual experience	—	288,526	18,316	(286,527)
Changes of assumptions	—	—	—	2,608,752
Benefit payments, including refunds of employee contributions	(1,568,738)	(1,697,676)	(1,822,841)	(1,938,027)
Net change in total pension liability	1,870,504	2,189,460	1,960,069	4,383,281
Total pension liability – beginning	**34,655,771**	**36,219,196** *	**38,408,656**	**40,368,725**
Total pension liability – ending (a)	**$ 36,526,275**	**$ 38,408,656**	**$ 40,368,725**	**$ 44,752,006**
Plan fiduciary net position				
Contributions – employer	$ 959,741	$ 1,146,192	$ 1,265,145	$ 1,427,240
Contributions – employee	331,956	366,419	381,185	399,946
Net investment income	3,964,754	584,142	137,927	2,954,170
Benefit payments, including refunds of employee contributions	(1,568,738)	(1,697,676)	(1,822,841)	(1,938,027)
Net plan to plan resource movement	—	194	114	1,628
Administrative expense	(33,334)	(30,069)	(16,295)	(39,395)
Net change in plan fiduciary net position	3,654,379	369,202	(54,765)	2,805,562
Plan fiduciary net position – beginning	**22,713,610**	**26,367,989**	**26,737,191**	**26,682,426**
Plan fiduciary net position – ending (b)	**$ 26,367,989**	**$ 26,737,191**	**$ 26,682,426**	**$ 29,487,988**
State's net pension liability – ending (a) – (b)	**$ 10,158,286**	**$ 11,671,465**	**$ 13,686,299**	**$ 15,264,018**
Plan fiduciary net position as a percentage of the total pension liability	72.19%	69.61%	66.10%	65.89%
Covered payroll	$ 3,030,525	$ 3,115,287	$ 3,241,895	$ 3,416,627
State's net pension liability as a percentage of covered payroll	335.20%	374.65%	422.17%	446.76%

(continued)

* Restated

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Four Fiscal Years[1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

	2014[3]	2015[3]	2016[3]	2017[3]
CALIFORNIA HIGHWAY PATROL				
Total pension liability				
Service cost	$ 191,730	$ 198,665	$ 210,619	$ 237,064
Interest on total pension liability	724,474	764,348	809,691	833,062
Differences between expected and actual experience	—	75,593	125,614	(158,392)
Changes of assumptions	—	—	—	721,972
Benefit payments, including refunds of employee contributions	(460,991)	(487,061)	(516,723)	(543,456)
Net change in total pension liability	455,213	551,545	629,201	1,090,250
Total pension liability – beginning	**9,604,872**	**10,060,085**	**10,611,630**	**11,240,831**
Total pension liability – ending (a)	**$ 10,060,085**	**$ 10,611,630**	**$ 11,240,831**	**$ 12,331,081**
Plan fiduciary net position				
Contributions – employer	$ 277,702	$ 351,197	$ 375,928	$ 426,603
Contributions – employee	83,161	85,791	86,111	91,116
Net investment income	1,005,007	146,782	33,918	747,272
Benefit payments, including refunds of employee contributions	(460,991)	(487,061)	(516,723)	(543,456)
Net plan to plan resource movement	—	(214)	292	1,050
Administrative expense	(8,417)	(7,600)	(4,111)	(9,923)
Net change in plan fiduciary net position	896,462	88,895	(24,585)	712,662
Plan fiduciary net position – beginning	**5,759,985**	**6,656,447**	**6,745,342**	**6,720,757**
Plan fiduciary net position – ending (b)	**$ 6,656,447**	**$ 6,745,342**	**$ 6,720,757**	**$ 7,433,419**
State's net pension liability – ending (a) – (b)	**$ 3,403,638**	**$ 3,866,288**	**$ 4,520,074**	**$ 4,897,662**
Plan fiduciary net position as a percentage of the total pension liability	66.17%	63.57%	59.79%	60.28%
Covered payroll	$ 765,283	$ 809,610	$ 808,032	$ 851,427
State's net pension liability as a percentage of covered payroll	444.76%	477.55%	559.39%	575.23%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Four Fiscal Years[1]
(amounts in thousands)

SINGLE-EMPLOYER PLANS

	2014[3]	2015[3]	2016[3]	2017[3]
JUDGES'				
Total pension liability				
Service cost	$ 27,581	$ 27,841	$ 29,314	$ 22,733
Interest on total pension liability	140,256	133,181	107,514	115,067
Differences between expected and actual experience	—	57,568	(59,421)	(366,200)
Changes of assumptions	—	158,646	384,306	(107,670)
Benefit payments, including refunds of employee contributions	(193,935)	(201,868)	(199,349)	(200,440)
Net change in total pension liability	(26,098)	175,368	262,364	(536,510)
Total pension liability – beginning	**3,383,310**	**3,357,212**	**3,532,580**	**3,794,944**
Total pension liability – ending (a)	**$ 3,357,212**	**$ 3,532,580**	**$ 3,794,944**	**$ 3,258,434**
Plan fiduciary net position				
Contributions – employer	$ 191,148	$ 180,910	$ 192,287	$ 204,475
Contributions – employee	7,248	3,877	3,559	3,398
Net investment income	59	88	193	424
Benefit payments, including refunds of employee contributions	(193,935)	(201,867)	(199,349)	(200,440)
Administrative expense	(1,141)	(1,227)	(642)	(1,771)
Other miscellaneous income	—	2,198	2,568	2,395
Net change in plan fiduciary net position	3,379	(16,021)	(1,384)	8,481
Plan fiduciary net position – beginning	**53,820**	**57,199**	**41,178**	**39,794**
Plan fiduciary net position – ending (b)	**$ 57,199**	**$ 41,178**	**$ 39,794**	**$ 48,275**
State's net pension liability – ending (a) – (b)	**$ 3,300,013**	**$ 3,491,402**	**$ 3,755,150**	**$ 3,210,159**
Plan fiduciary net position as a percentage of the total pension liability	1.70%	1.17%	1.05%	1.48%
Covered payroll	$ 163,574	$ 28,770	$ 23,537	$ 26,102
State's net pension liability as a percentage of covered payroll	2017.44%	12135.56%	15954.24%	12298.52%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Four Fiscal Years[1]
(amounts in thousands)

SINGLE-EMPLOYER PLANS

	2014[3]	2015[3]	2016[3]	2017[3]
JUDGES' II				
Total pension liability				
Service cost	$ 78,670	$ 79,641	$ 86,635	$ 97,679
Interest on total pension liability	61,044	69,128	78,412	85,654
Differences between expected and actual experience	—	(17,319)	(4,546)	(26,382)
Changes of assumptions	—	(16,619)	—	69,233
Benefit payments, including refunds of employee contributions	(8,950)	(14,041)	(21,704)	(22,406)
Net change in total pension liability	130,764	100,790	138,797	203,778
Total pension liability – beginning	**837,198**	**967,962**	**1,068,752**	**1,207,549**
Total pension liability – ending (a)	**$ 967,962**	**$ 1,068,752**	**$ 1,207,549**	**$ 1,411,327**
Plan fiduciary net position				
Contributions – employer	$ 57,027	$ 65,629	$ 65,839	$ 67,102
Contributions – employee	20,413	22,242	24,598	25,076
Net investment income	150,168	(2,402)	20,810	115,057
Benefit payments, including refunds of employee contributions	(8,950)	(14,041)	(21,704)	(22,406)
Administrative expense	(785)	(1,127)	(732)	(1,682)
Net change in plan fiduciary net position	217,873	70,301	88,811	183,147
Plan fiduciary net position – beginning	**795,967**	**1,013,840**	**1,084,141**	**1,172,952**
Plan fiduciary net position – ending (b)	**$ 1,013,840**	**$ 1,084,141**	**$ 1,172,952**	**$ 1,356,099**
State's net pension liability/(asset) – ending (a) – (b)	**$ (45,878)**	**$ (15,389)**	**$ 34,597**	**$ 55,228**
Plan fiduciary net position as a percentage of the total pension liability	104.74%	101.44%	97.13%	96.09%
Covered payroll	$ 40,476	$ 180,230	$ 192,739	$ 192,786
State's net pension liability as a percentage of covered payroll	-113.35%	-8.54%	17.95%	28.65%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Four Fiscal Years[1]
(amounts in thousands)

SINGLE-EMPLOYER PLANS

	2014[3]	2015[3]	2016[3]	2017[3]
LEGISLATORS'				
Total pension liability				
Service cost	$ 732	$ 769	$ 608	$ 639
Interest on total pension liability	6,465	6,268	5,978	5,291
Differences between expected and actual experience	—	(4,246)	(3,530)	(5,998)
Changes of assumptions	—	(2,654)	—	7,857
Benefit payments, including refunds of employee contributions	(7,482)	(9,087)	(7,407)	(7,249)
Net change in total pension liability	(285)	(8,950)	(4,351)	540
Total pension liability – beginning	**115,806**	**115,521**	**106,571**	**102,220**
Total pension liability – ending (a)	**$ 115,521**	**$ 106,571**	**$ 102,220**	**$ 102,760**
Plan fiduciary net position				
Contributions – employer	$ 565	$ 590	$ 549	$ 517
Contributions – employee	113	105	96	94
Net investment income	15,372	(94)	4,545	5,047
Benefit payments, including refunds of employee contributions	(7,482)	(9,087)	(7,407)	(7,249)
Administrative expense	(362)	(399)	(202)	(575)
Net change in plan fiduciary net position	8,206	(8,885)	(2,419)	(2,166)
Plan fiduciary net position – beginning	**122,148**	**130,354**	**121,469**	**119,050**
Plan fiduciary net position – ending (b)	**$ 130,354**	**$ 121,469**	**$ 119,050**	**$ 116,884**
State's net pension liability/(asset) – ending (a) – (b)	**$ (14,833)**	**$ (14,898)**	**$ (16,830)**	**$ (14,124)**
Plan fiduciary net position as a percentage of the total pension liability	112.84%	113.98%	116.46%	113.74%
Covered payroll	$ 1,471	$ 1,397	$ 1,298	$ 1,270
State's net pension liability as a percentage of covered payroll	-1008.36%	-1066.43%	-1296.61%	-1112.13%

(concluded)

Schedule of State Pension Contributions

For the Past Four Fiscal Years[1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

	2015	2016	2017	2018
STATE MISCELLANEOUS[2]				
Actuarially determined contribution	$ 2,421,157	$ 2,718,895	$ 3,078,232	$ 3,397,736
Contributions in relation to the actuarially determined contribution	(2,583,400)	(2,814,126)	(3,098,305)	(3,482,291)
Contribution deficiency (excess)	**$ (162,243)**	**$ (95,231)**	**$ (20,073)**	**$ (84,555)**
Covered payroll	$ 10,655,117	$ 11,197,607	$ 11,591,576	$ 12,254,527
Contributions as a percentage of covered payroll	24.25%	25.13%	26.73%	28.42%
STATE INDUSTRIAL[2]				
Actuarially determined contribution	$ 92,024	$ 103,293	$ 116,880	$ 131,131
Contributions in relation to the actuarially determined contribution	(104,769)	(116,594)	(123,789)	(141,832)
Contribution deficiency (excess)	**$ (12,745)**	**$ (13,301)**	**$ (6,909)**	**$ (10,701)**
Covered payroll	$ 577,713	$ 625,220	$ 643,295	$ 695,014
Contributions as a percentage of covered payroll	18.14%	18.65%	19.24%	20.41%
STATE SAFETY[2]				
Actuarially determined contribution	$ 341,509	$ 368,444	$ 400,379	$ 435,662
Contributions in relation to the actuarially determined contribution	(387,508)	(404,595)	(431,991)	(481,479)
Contribution deficiency (excess)	**$ (45,999)**	**$ (36,151)**	**$ (31,612)**	**$ (45,817)**
Covered payroll	$ 2,003,716	$ 2,100,289	$ 2,167,429	$ 2,339,642
Contributions as a percentage of covered payroll	19.34%	19.26%	19.93%	20.58%
STATE PEACE OFFICERS AND FIREFIGHTERS[2]				
Actuarially determined contribution	$ 1,086,102	$ 1,197,160	$ 1,343,177	$ 1,462,630
Contributions in relation to the actuarially determined contribution	(1,148,597)	(1,263,436)	(1,431,851)	(1,573,299)
Contribution deficiency (excess)	**$ (62,495)**	**$ (66,276)**	**$ (88,674)**	**$ (110,669)**
Covered payroll	$ 3,115,364	$ 3,241,763	$ 3,416,627	$ 3,557,011
Contributions as a percentage of covered payroll	36.87%	38.97%	41.91%	44.23%

(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 Four Fiscal Years[1]
(amounts in thousands)

	2015	2016	2017	2018
PUBLIC EMPLOYEES' RETIREMENT FUND PLANS				
CALIFORNIA HIGHWAY PATROL				
Actuarially determined contribution	$ 323,393	$ 363,634	$ 414,975	$ 447,376
Contributions in relation to the actuarially determined contribution	(352,139)	(377,534)	(426,014)	(478,354)
Contribution deficiency (excess)	**$ (28,746)**	**$ (13,900)**	**$ (11,039)**	**$ (30,978)**
Covered payroll	$ 809,610	$ 808,032	$ 851,427	$ 884,197
Contributions as a percentage of covered payroll	43.49%	46.72%	50.04%	54.10%
SINGLE-EMPLOYER PLANS				
JUDGES'				
Actuarially determined contribution	$ 1,884,555	$ 463,073	$ 448,636	$ 438,156
Contributions in relation to the actuarially determined contribution	(3,598)	(3,252)	(202,368)	(197,017)
Contribution deficiency (excess)	**$ 1,880,957**	**$ 459,821**	**$ 246,268**	**$ 241,139**
Covered payroll	$ 167,542	$ 29,771	$ 23,822	$ 27,003
Contributions as a percentage of covered payroll	2.15%	10.92%	849.50%	729.61%
JUDGES' II				
Actuarially determined contribution	$ 63,193	$ 58,362	$ 66,951	$ 79,181
Contributions in relation to the actuarially determined contribution	(59,982)	(60,476)	(55,965)	(73,916)
Contribution deficiency (excess)	**$ 3,211**	**$ (2,114)**	**$ 10,986**	**$ 5,265**
Covered payroll	$ 41,458	$ 186,505	$ 195,066	$ 199,438
Contributions as a percentage of covered payroll	144.68%	32.43%	28.69%	37.06%
LEGISLATORS'				
Actuarially determined contribution	$ 260	$ 141	$ —	$ 20
Contributions in relation to the actuarially determined contribution	(544)	(549)	(516)	(467)
Contribution deficiency (excess)	**$ (284)**	**$ (408)**	**$ (516)**	**$ (447)**
Covered payroll	$ 1,397	$ 1,298	$ 1,270	$ 1,121
Contributions as a percentage of covered payroll	38.94%	42.30%	40.63%	41.66%

(continued)

Schedule of State Pension Contributions (continued)

For the Past Four Fiscal Years[1]
(amounts in thousands)

Notes to Required Supplementary Information for the most recent fiscal year presented:

Public Employees' Retirement Fund (PERF) and Single-Employer Plans

Actual contribution amounts:	Based on statutorily required contributions as outlined in California Government Code section 20683.2, which dictates that any excess employer contributions due to increased employee contributions must be allocated to the unfunded liability.
Covered payroll:	Pensionable earnings provided by the employer.
Valuation date:	Actuarially determined contribution rates were calculated as of June 30, 2016.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	See each plan's June 30, 2015 Actuarial Valuation Report.
Asset valuation method	Market value of assets; for details see each plan's June 30, 2015 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.

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Schedule of the State's Proportionate Share of Net Pension Liability – CalSTRS

For the Past Four Fiscal Years[1]
(amounts in thousands)

	2014[2]	2015[2]	2016[2]	2017[2]
State's proportion of CalSTRS' net pension liability	37.65%	34.59%	36.28%	37.17%
State's proportionate share of CalSTRS' net pension liability	$ 22,001,531	$ 23,289,391	$ 29,343,626	$ 34,374,816
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%	70.04%	69.46%

[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 Four Fiscal Years[1]
(amounts in thousands)

	2015	2016	2017	2018
Statutorily required contribution	$ 1,486,004	$ 1,935,288	$ 2,472,993	$ 2,790,444
Contributions in relation to the statutorily required contribution	1,486,004	1,935,288	2,472,993	2,790,444
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, 2016.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method/period	Level percent of payroll, closed/open period, 30 years remaining amortization period
Asset valuation method	Adjustment to market value
Consumer price inflation	2.75%
Payroll growth	3.50%
Investment rate of return	For calculating the actuarially determined contribution: 7.25%, net of pension plan investment and administrative expenses For calculating total pension liability: 7.10%, net of pension plan investment expenses, but gross of administrative expenses
Interest on accounts	3.00%
Post-retirement benefit increases (COLAs)	2.00% simple

Schedule of Changes in Net OPEB Liability and Related Ratios

For the Past Fiscal Year[1]
(amounts in thousands)

RETIREE HEALTH BENEFITS PROGRAM

	2017[2]
BARGAINING UNIT 5 PLAN	
Total OPEB liability	
Service cost	$ 168,057
Interest on total OPEB liability	179,397
Changes in assumptions	(474,646)
Benefit payments	(95,517)
Net change in total OPEB liability	(222,709)
Total OPEB liability – beginning	**4,764,812**
Total OPEB liability – ending (a)	**$ 4,542,103**
Plan fiduciary net position	
Contributions – employer	$ 95,517
Contributions – prefunding	77,454
Contributions – employee	12,783
Net investment income	21,109
Benefit payments	(95,517)
Administrative expense	(95)
Other expenses	(290)
Net change in plan fiduciary net position	110,961
Plan fiduciary net position – beginning	**135,701**
Plan fiduciary net position – ending (b)	**$ 246,662**
State's net OPEB liability – ending (a) – (b)	**$ 4,295,441**
Plan fiduciary net position as a percentage of the total OPEB liability	5.43%
Covered payroll	$ 866,040
State's net OPEB liability as a percentage of covered payroll	495.99%

[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 OPEB liability, which is one year prior to the reporting period.

[3] 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 Changes in Net OPEB Liability and Related Ratios (continued)

For the Past Fiscal Year[1]
(amounts in thousands)

RETIREE HEALTH BENEFITS PROGRAM

	2017[2]
BARGAINING UNIT 6 PLAN	
Total OPEB liability	
Service cost	$ 609,551
Interest on total OPEB liability	574,853
Changes in assumptions	(1,637,897)
Benefit payments	(325,344)
Net change in total OPEB liability	(778,837)
Total OPEB liability – beginning	**15,990,189**
Total OPEB liability – ending (a)	**$ 15,211,352**
Plan fiduciary net position	
Contributions – employer	$ 325,344
Contributions – prefunding	146,933
Contributions – employee	23,181
Net investment income	15,089
Benefit payments	(325,344)
Administrative expense	(48)
Other expenses	—
Net change in plan fiduciary net position	185,155
Plan fiduciary net position – beginning	**—**
Plan fiduciary net position – ending (b)	**$ 185,155**
State's net OPEB liability – ending (a) – (b)	**$ 15,026,197**
Plan fiduciary net position as a percentage of the total OPEB liability	1.22%
Covered payroll	$ 2,653,404
State's net OPEB liability as a percentage of covered payroll	566.30%

Schedule of Changes in Net OPEB Liability and Related Ratios (continued)

For the Past Fiscal Year[1]
(amounts in thousands)

RETIREE HEALTH BENEFITS PROGRAM

	2017[2]
BARGAINING UNIT 9 PLAN[3]	
Total OPEB liability	
Service cost	$ 166,173
Interest on total OPEB liability	154,495
Changes in assumptions	(475,991)
Benefit payments	(82,449)
Net change in total OPEB liability	(237,772)
Total OPEB liability – beginning	**4,640,159**
Total OPEB liability – ending (a)	**$ 4,402,387**
Plan fiduciary net position	
Contributions – employer	$ 82,449
Contributions – prefunding	35,210
Contributions – employee	—
Net investment income	3,630
Benefit payments	(82,449)
Administrative expense	(11)
Other expenses	—
Net change in plan fiduciary net position	38,829
Plan fiduciary net position – beginning	**—**
Plan fiduciary net position – ending (b)	**$ 38,829**
State's net OPEB liability – ending (a) – (b)	**$ 4,363,558**
Plan fiduciary net position as a percentage of the total OPEB liability	0.88%
Covered payroll	$ 1,366,302
State's net OPEB liability as a percentage of covered payroll	319.37%

Schedule of Changes in Net OPEB Liability and Related Ratios (continued)

For the Past Fiscal Year[1]
(amounts in thousands)

RETIREE HEALTH BENEFITS PROGRAM

	2017[2]
BARGAINING UNIT 12 PLAN[3]	
Total OPEB liability	
Service cost	$ 167,689
Interest on total OPEB liability	154,036
Changes in assumptions	(433,966)
Benefit payments	(110,860)
Net change in total OPEB liability	(223,101)
Total OPEB liability – beginning	**4,540,951**
Total OPEB liability – ending (a)	**$ 4,317,850**
Plan fiduciary net position	
Contributions – employer	$ 110,860
Contributions – prefunding	1,076
Contributions – employee	1,076
Net investment income	872
Benefit payments	(110,860)
Administrative expense	(4)
Other expenses	—
Net change in plan fiduciary net position	3,020
Plan fiduciary net position – beginning	**7,186**
Plan fiduciary net position – ending (b)	**$ 10,206**
State's net OPEB liability – ending (a) – (b)	**$ 4,307,644**
Plan fiduciary net position as a percentage of the total OPEB liability	0.24%
Covered payroll	$ 627,283
State's net OPEB liability as a percentage of covered payroll	686.71%

Schedule of Changes in Net OPEB Liability and Related Ratios (continued)

For the Past Fiscal Year[1]
(amounts in thousands)

RETIREE HEALTH BENEFITS PROGRAM

	2017[2]
OTHER FUNDED PLANS[3]	
Total OPEB liability	
Service cost	$ 92,991
Interest on total OPEB liability	74,923
Changes in assumptions	(197,059)
Benefit payments	(46,820)
Net change in total OPEB liability	(75,965)
Total OPEB liability – beginning	**2,116,405**
Total OPEB liability – ending (a)	**$ 2,040,440**
Plan fiduciary net position	
Contributions – employer	$ 46,820
Contributions – prefunding	10,442
Contributions – employee	2,323
Net investment income	1,589
Benefit payments	(46,820)
Administrative expense	(7)
Other expenses	—
Net change in plan fiduciary net position	14,347
Plan fiduciary net position – beginning	**4,836**
Plan fiduciary net position – ending (b)	**$ 19,183**
State's net OPEB liability – ending (a) – (b)	**$ 2,021,257**
Plan fiduciary net position as a percentage of the total OPEB liability	0.94%
Covered payroll	$ 851,868
State's net OPEB liability as a percentage of covered payroll	237.27%

Schedule of Changes in Net OPEB Liability and Related Ratios (continued)

For the Past Fiscal Year[1]
(amounts in thousands)

RETIREE HEALTH BENEFITS PROGRAM

	2017[2]
UNFUNDED PLAN[3]	
Total OPEB liability	
Service cost	$ 2,805,040
Interest on total OPEB liability	2,112,139
Changes in assumptions	(6,610,919)
Benefit payments	(1,457,705)
Net change in total OPEB liability	(3,151,445)
Total OPEB liability – beginning	**64,144,931**
Total OPEB liability – ending (a)	**$ 60,993,486**
Plan fiduciary net position	
Contributions – employer	$ 1,457,705
Contributions – prefunding	—
Contributions – employee	—
Net investment income	—
Benefit payments	(1,457,705)
Administrative expense	—
Other expenses	—
Net change in plan fiduciary net position	—
Plan fiduciary net position – beginning	**—**
Plan fiduciary net position – ending (b)	**$ —**
State's net OPEB liability – ending (a) – (b)	**$ 60,993,486**
Plan fiduciary net position as a percentage of the total OPEB liability	—%
Covered payroll	$ 12,525,617
State's net OPEB liability as a percentage of covered payroll	486.95%

(concluded)

Schedule of OPEB Contributions

For the Past Fiscal Year[1]
(amounts in thousands)

RETIREE HEALTH BENEFITS PROGRAM

		2018
BARGAINING UNIT 5 PLAN		
Actuarially determined contribution	$	204,361
Contributions in relation to the actuarially determined contribution		(184,456)
Contribution deficiency (excess)	**$**	**19,905**
Covered payroll	$	915,549
Contributions as a percentage of covered payroll		20.15%
BARGAINING UNIT 6 PLAN		
Actuarially determined contribution	$	743,757
Contributions in relation to the actuarially determined contribution		(503,636)
Contribution deficiency (excess)	**$**	**240,121**
Covered payroll	$	2,805,093
Contributions as a percentage of covered payroll		17.95%
BARGAINING UNIT 9 PLAN[2]		
Actuarially determined contribution	$	207,027
Contributions in relation to the actuarially determined contribution		(125,471)
Contribution deficiency (excess)	**$**	**81,556**
Covered payroll	$	1,444,410
Contributions as a percentage of covered payroll		8.69%
BARGAINING UNIT 12 PLAN[2]		
Actuarially determined contribution	$	217,883
Contributions in relation to the actuarially determined contribution		(119,368)
Contribution deficiency (excess)	**$**	**98,515**
Covered payroll	$	663,143
Contributions as a percentage of covered payroll		18.00%

[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 OPEB Contributions (continued)

For the Past Fiscal Year[1]
(amounts in thousands)

RETIREE HEALTH BENEFITS PROGRAM

		2018
OTHER FUNDED PLANS[2]		
Actuarially determined contribution	$	109,630
Contributions in relation to the actuarially determined contribution		(61,064)
Contribution deficiency (excess)	**$**	**48,566**
Covered payroll	$	900,567
Contributions as a percentage of covered payroll		6.78%
UNFUNDED PLAN[2]		
Actuarially determined contribution	$	3,199,223
Contributions in relation to the actuarially determined contribution		(1,547,989)
Contribution deficiency (excess)	**$**	**1,651,234**
Covered payroll	$	13,241,681
Contributions as a percentage of covered payroll		11.69%

Schedule of OPEB Contributions (continued)

For the Past Fiscal Year
(amounts in thousands)

Notes to Required Supplementary Information for the most recent fiscal year presented:

Retiree Health Benefits Program

Covered payroll:	Pensionable earnings provided by employer
Valuation date:	Actuarially determined contribution rates were calculated as of June 30, 2017.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Amortization period	30 years
Asset valuation method	Market value of assets; for details see the June 30, 2017 Actuarial Valuation Report
Inflation	2.75%
Healthcare cost trend rates	Pre-Medicare coverage: Actual rates for 2018, increasing to 8.00% in 2019, decreasing 0.50% per year to an ultimate rate of 4.50% for 2026 and later years
	Post-Medicare coverage: Actual rates for 2018, increasing to 8.50% in 2019, decreasing 0.50% per year to an ultimate rate of 4.50% for 2027 and later years
	Dental coverage: 0.00% in 2018 and 4.50% thereafter
Salary increases	Varies by entry age and service
Investment rate of return	7.28%, net of OPEB plan investment expenses
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. Post-retirement mortality rates include 20 years of projected on-going mortality improvements using Scale BB published by the Society of Actuaries.

(concluded)

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 bridges, roadways, and high-speed rail). Under the modified approach, the State does not report depreciation expense for infrastructure assets but capitalizes all costs that add to the capacity and efficiency of state-owned bridges, roads, and the high-speed rail system. 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, 2018, are in the following categories and amounts: state highway infrastructure, consisting of completed highway projects totaling $77.1 billion, land purchased for highway projects totaling $14.5 billion, and infrastructure construction-in-progress (uncompleted highway projects) totaling $10.4 billion; and high-speed rail system infrastructure, consisting of construction-in-progress (uncompleted rail construction projects) totaling $2.3 billion, purchased land totaling $916 million, and land use rights totaling $3 million.

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, 2018, there were no donations of infrastructure land, and relinquishments were $40 million of state highway infrastructure (completed highway projects) and $8 million of infrastructure land.

B. Condition Baselines and Assessments

1. Bridges

The federal Fixing America's Surface Transportation (FAST) Act required all states to adopt national asset management performance measures to establish nationwide consistency for condition reporting of highway assets.

Previously, the State used the Bridge Health Index (BHI)—a numerical rating scale from 0 to 100 that used element-level inspection data—to determine the aggregate condition of its bridges. Under the FAST Act, the national performance measure for bridges is total deck area of the structures in good, fair, or poor condition. The inspection data is based on the American Association of State Highway Transportation Officials' *Guide Manual for Bridge Element Inspection* and the *Caltrans Bridge Element Inspection Manual.*

The following table shows the State's established condition baseline and actual BHI for fiscal year 2015-16:

Fiscal Year Ended June 30	Established BHI Baseline[1]	Actual BHI
2016	80.0	94.5

[1] The actual statewide BHI should not be lower than the minimum BHI established by the State.

Effective July 1, 2016, the State began using the performance measures established by the FAST Act, so the data is not comparable to the prior year's BHI. The State's established condition baseline for fiscal year 2017-18 is to have at least 90.0% of the State's bridge deck area be in fair or better condition.

The following table shows the State's established condition baseline and actual statewide bridge condition for fiscal years 2016-17 through 2017-18:

Fiscal Year Ended June 30	Established Condition[1]	Actual Condition
2017	90.0% Fair or Better	96.6% Fair or Better
2018	90.0% Fair or Better	95.3% Fair or Better

[1] The actual statewide bridge conditions should not be lower than the baseline condition established by the State.

The following table provides details on the State's actual bridge condition as of June 30, 2018:

Condition[1]	Number of Bridges	Deck Area (sq. ft.)	Deck Area (%)
Good	8,456	158,874,387	61.81 %
Fair	4,027	86,106,531	33.50
Poor	520	12,040,469	4.69
Total	**13,003**	**257,021,387**	**100.00 %**

[1] Effective fiscal year 2016-17, the performance measure for bridges changed to total deck area of the structures in good, fair, or poor condition.

2. Roadways

The State conducts a periodic pavement-condition survey, which evaluates ride quality and structural integrity and identifies the number of distressed lane miles. The State classifies a roadway's pavement condition by the following descriptions:

1. Excellent/good condition – few potholes or cracks
2. Fair condition – moderate number of potholes or cracks
3. Poor condition – significant or extensive number of potholes or cracks

Statewide lane miles are considered "distressed lane miles" if they are in poor condition. The actual distressed lane miles are compared to the established condition baseline to ensure that the baseline is not exceeded.

The following table shows the State's established condition baseline and actual distressed lane miles from the last three completed pavement-condition surveys:

Condition Assessment Date	Established Condition Baseline Distressed Lane Miles (maximum)[2]	Actual Distressed Lane Miles	Actual Distressed Lane Miles as Percent of Total Lane Miles
December 2013[1]	18,000	7,820	15.7
December 2015[1]	18,000	7,889	15.9
December 2016[3]	18,000	8,975	17.8

[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.

[3] Condition assessment for the State's established condition baseline and actual distressed lane miles is being reported in the *Automated Pavement Condition Survey* report as of the end of 2016.

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	31,455	—
Fair	9,916	—
Poor	8,975	8,975
Total	**50,346**	**8,975**

C. Budgeted and Actual Preservation Costs

The estimated budgeted preservation costs represent the preservation projects approved by the California Transportation Commission and the State's scheduled preservation work for each fiscal year. The actual preservation costs represent the cumulative cost to date for the projects approved and work scheduled in each fiscal year.

1. Bridges

The following table shows the State's budgeted and actual preservation cost information for the State's bridges for the most recent and four previous fiscal years:

Fiscal Year Ending June 30	Estimated Budgeted Preservation Costs (in millions)[1]	Actual Preservation Costs (in millions)[1]
2014	$ 152	$ 151
2015	135	135
2016	151	150
2017	195	192
2018	217	183

[1] In fiscal year 2014-15, the methodology for identifying the preservation budgeted and actual costs was adjusted to include additional costs not previously reported.

2. Roadways

The following table shows the State's budgeted and actual preservation cost information for the State's roadways for the most recent and four previous fiscal years:

Fiscal Year Ending June 30	Estimated Budgeted Preservation Costs (in millions)[1]	Actual Preservation Costs (in millions)[1]
2014	$ 2,314	$ 2,268
2015	3,080	2,953
2016	3,814	3,451
2017	3,854	3,201
2018	3,859	2,056

[1] In fiscal year 2014-15, the methodology for identifying the preservation budgeted and actual costs was adjusted to include additional costs not previously reported.

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Budgetary Comparison Schedule

General Fund and Major Special Revenue Funds

Year Ended June 30, 2018

(amounts in thousands)

	General			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Corporation tax	$ 10,655,743	$ 11,246,000	$ 12,260,663	$ 1,014,663
Intergovernmental	—	—	—	—
Cigarette and tobacco taxes	64,903	67,000	65,248	(1,752)
Insurance gross premiums tax	2,438,099	2,514,000	2,569,271	55,271
Vehicle license fees	26,218	26,218	28,903	2,685
Motor vehicle fuel tax	—	—	—	—
Personal income tax	89,403,019	91,971,000	94,263,065	2,292,065
Retail sales and use taxes	25,164,877	25,384,000	25,127,131	(256,869)
Other major taxes and licenses	376,595	371,000	377,129	6,129
Other revenues	1,159,890	1,247,782	1,506,189	258,407
Total revenues	**129,289,344**	**132,827,000**	**136,197,599**	**3,370,599**
EXPENDITURES				
Business, consumer services, and housing	59,077	61,122	60,788	(334)
Transportation	5,252	5,252	5,252	—
Natural resources and environmental protection	2,225,818	2,650,784	2,231,544	(419,240)
Health and human services	35,011,303	35,980,524	34,809,447	(1,171,077)
Corrections and rehabilitation	11,241,406	11,719,123	11,614,818	(104,305)
Education	65,067,299	64,956,753	64,840,149	(116,604)
General government:				
Tax relief	420,424	425,424	411,750	(13,674)
Debt service	4,779,168	4,779,438	4,764,484	(14,954)
Other general government	7,183,581	7,075,348	5,997,603	(1,077,745)
Total expenditures	**125,993,328**	**127,653,768**	**124,735,835**	**(2,917,933)**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	414,296	—
Transfers to other funds	—	—	(4,261,838)	—
Other additions (deductions)	—	—	447,535	—
Total other financing sources (uses)	**—**	**—**	**(3,400,007)**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	8,061,757	—
Fund balances – beginning	**—**	**—**	**5,930,654**	**—**
Fund balances – ending	**$ —**	**$ —**	**$ 13,992,411**	**$ —**

	Federal				Transportation			
	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget
REVENUES								
Corporation tax	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Intergovernmental	81,368,222	81,368,222	81,368,222	—	—	—	—	—
Cigarette and tobacco taxes	—	—	—	—	—	—	—	—
Insurance gross premiums tax	—	—	—	—	—	—	—	—
Vehicle license fees	—	—	—	—	—	—	—	—
Motor vehicle fuel tax	—	—	—	—	5,113,278	6,832,602	6,641,508	(191,094)
Personal income tax	—	—	—	—	—	—	—	—
Retail sales and use taxes	—	—	—	—	—	—	—	—
Other major taxes and licenses	—	—	—	—	5,746,624	5,446,622	5,637,538	190,916
Other revenues	96	96	96	—	396,435	414,826	448,136	33,310
Total revenues	**81,368,318**	**81,368,318**	**81,368,318**	**—**	**11,256,337**	**12,694,050**	**12,727,182**	**33,132**
EXPENDITURES								
Business, consumer services, and housing	38,981	38,981	38,981	—	111,668	114,544	112,000	(2,544)
Transportation	4,575,673	4,575,673	4,575,673	—	13,601,269	13,897,414	10,646,171	(3,251,243)
Natural resources and environmental protection	365,831	365,831	365,831	—	115,835	169,592	167,955	(1,637)
Health and human services	66,375,441	66,375,441	66,375,441	—	8,252	8,352	2,295	(6,057)
Corrections and rehabilitation	67,546	67,546	67,546	—	—	—	—	—
Education	7,396,252	7,396,252	7,396,252	—	9,262	9,262	9,262	—
General government:								
Tax relief	—	—	—	—	—	—	—	—
Debt service	—	—	—	—	1,996	1,950	1,349	(601)
Other general government	1,396,169	1,396,169	1,396,169	—	293,218	301,849	295,283	(6,566)
Total expenditures	**80,215,893**	**80,215,893**	**80,215,893**	**—**	**14,141,500**	**14,502,963**	**11,234,315**	**(3,268,648)**
OTHER FINANCING SOURCES (USES)								
Transfers from other funds	—	—	5,331,592	—	—	—	17,530,673	—
Transfers to other funds	—	—	(6,482,865)	—	—	—	(18,232,280)	—
Other additions (deductions)	—	—	(5,024)	—	—	—	844,163	—
Total other financing sources (uses)	**—**	**—**	**(1,156,297)**	**—**	**—**	**—**	**142,556**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	(3,872)	—	—	—	1,635,423	—
Fund balances – beginning	**—**	**—**	**6,229**	**—**	**—**	**—**	**4,979,675 ***	**—**
Fund balances – ending	**$ —**	**$ —**	**$ 2,357**	**$ —**	**$ —**	**$ —**	**$ 6,615,098**	**$ —**

* Restated

(continued)

Budgetary Comparison Schedule (continued)

General Fund and Major Special Revenue Funds

Year Ended June 30, 2018

(amounts in thousands)

	Environmental and Natural Resources				Health Care Related Programs			
	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget
REVENUES								
Corporation tax	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Intergovernmental	—	—	—	—	—	—	—	—
Cigarette and tobacco taxes	—	—	—	—	—	—	—	—
Insurance gross premiums tax	—	—	—	—	—	—	—	—
Vehicle license fees	—	—	—	—	—	—	—	—
Motor vehicle fuel tax	(2)	(2)	(2)	—	—	—	—	—
Personal income tax	—	—	—	—	—	—	—	—
Retail sales and use taxes	—	—	—	—	—	—	—	—
Other major taxes and licenses	185,191	185,191	185,191	—	2,499,672	2,499,672	2,499,672	—
Other revenues	6,579,765	6,579,765	6,579,765	—	8,146,595	8,146,595	8,146,595	—
Total revenues	**6,764,954**	**6,764,954**	**6,764,954**	**—**	**10,646,267**	**10,646,267**	**10,646,267**	**—**
EXPENDITURES								
Business, consumer services, and housing	120,145	120,466	114,295	(6,171)	—	—	—	—
Transportation	197,926	197,965	187,841	(10,124)	—	—	—	—
Natural resources and environmental protection	6,837,542	6,901,004	4,968,103	(1,932,901)	210	210	205	(5)
Health and human services	120,165	121,101	117,772	(3,329)	9,401,167	9,402,930	9,345,227	(57,703)
Corrections and rehabilitation	—	—	—	—	—	—	—	—
Education	3,350	3,351	3,349	(2)	261,436	261,436	261,436	—
General government:								
Tax relief	—	—	—	—	—	—	—	—
Debt service	264	264	264	—	114	66	66	—
Other general government	132,114	132,826	124,258	(8,568)	11,345	11,345	11,345	—
Total expenditures	**7,411,506**	**7,476,977**	**5,515,882**	**(1,961,095)**	**9,674,272**	**9,675,987**	**9,618,279**	**(57,708)**
OTHER FINANCING SOURCES (USES)								
Transfers from other funds	—	—	587,320	—	—	—	71,249	—
Transfers to other funds	—	—	(301,828)	—	—	—	(67,904)	—
Other additions (deductions)	—	—	1,399,135	—	—	—	(29,200)	—
Total other financing sources (uses)	**—**	**—**	**1,684,627**	**—**	**—**	**—**	**(25,855)**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	2,933,699	—	—	—	1,002,133	—
Fund balances – beginning	**—**	**—**	**8,392,754 ***	**—**	**—**	**—**	**1,905,627 ***	**—**
Fund balances – ending	**$ —**	**$ —**	**$ 11,326,453**	**$ —**	**$ —**	**$ —**	**$ 2,907,760**	**$ —**

* Restated

(concluded)

Reconciliation of Budgetary Basis Fund Balances of the General Fund and Major Special Revenue Funds to GAAP Basis Fund Balances

June 30, 2018
(amounts in thousands)

		Major Special Revenue Funds			
	General	Federal	Transportation	Environmental and Natural Resources	Health Care Related Programs
Budgetary fund balance reclassified into GAAP statement fund structure	**$ 13,992,411**	**$ 2,357**	**$ 6,615,098**	**$ 11,326,453**	**$ 2,907,760**
Basis difference:					
Interfund receivables	549,739	—	1,755,668	335,000	—
Loans receivable	35,697	225,717	—	231,335	23,000
Interfund payables	(6,266,808)	—	(1,070,797)	(360,359)	(8,113)
Escheat property	(1,077,358)	—	—	—	—
Tax revenues	(756,200)	—	—	—	—
Fund classification changes	9,941,491	2,942	—	—	—
Other	53,371	—	2,616,708	82,798	—
Timing difference:					
Liabilities budgeted in subsequent years	(4,285,439)	(2,362)	(572,485)	(100,353)	(2,192,571)
GAAP fund balance – ending	**$ 12,186,904**	**$ 228,654**	**$ 9,344,192**	**$ 11,514,874**	**$ 730,076**

Notes to the Required Supplementary Information

Budgetary Comparison Schedule

The State annually reports its financial condition based on a Generally Accepted Accounting Principles (GAAP) basis and on the State's budgetary provisions (budgetary basis). The Budgetary Comparison Schedule for the General Fund and Major Special Revenue Funds reports the original budget, the final budget, the actual expenditures, and the variance between the final budget and the actual expenditures, using the budgetary basis of accounting.

On the budgetary basis, individual appropriations are charged as expenditures when commitments for goods and services are incurred. However, for financial reporting purposes, the State reports expenditures based on the year in which goods and services are received. The Budgetary Comparison Schedule includes all of the current year expenditures for the General Fund and major special revenue funds as well as related appropriations that typically are legislatively authorized annually, continually, or by project. While the encumbrances relate to all programs' expenditures on a budgetary basis, adjustments for encumbrances are made under "other general government," except for Environmental and Natural Resources where adjustments for encumbrances are made under each program's expenditures.

The Budgetary Comparison Schedule is not presented in this document at the legal level of budgetary control because such a presentation would be extremely lengthy and cumbersome. The State of California prepares a separate report, the Comprehensive Annual Financial Report Supplement, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with

Government Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Section 2400.121. The supplement includes a comparison of the annual appropriated budget with expenditures at the legal level of control. A copy of the Comprehensive Annual Financial Report Supplement is available upon email request to the State Controller's Office, State Accounting and Reporting Division at StateGovReports@sco.ca.gov.

Reconciliation of Budgetary with GAAP Basis

The reconciliation of budgetary basis fund balances of the General Fund and the major special revenue funds to GAAP basis fund balances is presented on the previous page and the reconciling items are explained in the following paragraphs.

The budgetary basis beginning fund balance for the Transportation, the Environmental and Natural Resources, and the Health Care Related Programs funds is restated because the methodology for recording bonds authorized and unissued was changed in fiscal year 2017-18. Bond proceeds are now recognized as revenue when issued, rather than when authorized. The change was applied to all bond funds having outstanding bonds authorized and unissued. The beginning fund balance on a GAAP basis is not affected by these adjustments. In addition, the beginning fund balance for Environmental and Natural Resources Fund is also restated for a fund reclassification.

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 $550 million in the General Fund, $1.8 billion in the Transportation Fund, and $335 million in the Environmental and Natural Resources Fund. The adjustments related to loans receivable caused increases of $36 million in the General Fund, $226 million in the Federal Fund, $231 million in the Environmental and Natural Resources Fund, and $23 million in the Health Care Related Programs 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 $6.3 billion in the General Fund, $1.1 billion in the Transportation Fund, $360 million in the Environmental and Natural Resources Fund, and $8 million in the Health Care Related Programs Fund.

Escheat Property: A liability for the estimated amount of escheat property expected to ultimately be reclaimed and paid is not reported on a budgetary basis. The liability is required to be reported on a GAAP basis. This adjustment caused a $1.1 billion decrease in the General 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 $756 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 $9.9 billion in the General Fund and $3 million in the Federal Fund. These increases represent the fund balances of funds that are not considered part of the General Fund or the Federal Fund for any budgetary purpose or for the Budgetary/Legal Basis Annual Report.

Other: Certain other adjustments and reclassifications are necessary to present the financial statements in accordance with GAAP. The other adjustments caused an increase of $53 million in the General Fund, $2.6 billion in the Transportation Fund, and $83 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 $4.3 billion in the General Fund, $2 million in the Federal Fund, $572 million in the Transportation Fund, $100 million in the Environmental and Natural Resources Fund, and $2.2 billion in the Health Care Related Programs Fund. The large decrease in the General Fund primarily consists of $985 million for June 2018 payroll that was deferred to July 2018, $920 million for medical assistance, $764 million for pension contributions, $406 million for payments to K-12 schools and higher education institutions, $403 million in tax overpayments, and $303 million in state mandated payments. The large decrease in the Health Care Related Programs Fund primarily consists of $2.2 billion for medical assistance.

Combining Financial Statements and Schedules – Nonmajor and Other Funds

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Nonmajor Governmental Funds

Nonmajor governmental funds account for the State's activities that do not meet the criteria of a major governmental fund. Following are brief descriptions of nonmajor governmental funds.

Special revenue funds account for the proceeds of specific revenue sources, other than debt service or capital projects, that are restricted, committed, or assigned to expenditures for specific purposes.

The **Business and Professions Regulatory and Licensing Fund** accounts for fees and other revenues charged for regulating and licensing specific industries, professions, and vocations.

The **Financing for Local Governments and the Public Fund** accounts for taxes, fees, bond proceeds, and other revenues used to finance the construction and maintenance of parks, jails, and other public and local government programs.

The **Cigarette, Tobacco, and Cannabis Tax Fund** accounts for a surtax on cigarette and tobacco products that is used for various health programs; and cannabis excise and cultivation taxes that are used for various health, youth education, and research 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 **Trial Courts Fund** accounts for the various fees collected by the courts, maintenance-of-effort payments from the counties, transfers in from the General Fund, and trial court operating costs.

The **Golden State Tobacco Securitization Corporation Fund** is a blended component unit that accounts for the receipt of Tobacco Revenue Settlements pledged for the payment of debt service.

Other special revenue programs funds account for all other proceeds of revenue sources, other than debt service or capital projects, that are restricted or committed to expenditures for specific purposes.

Debt service funds account for and report financial resources that are restricted, committed, or assigned for the payment of principal and interest on general long-term obligations.

The **Transportation Debt Service Fund** accounts for Transportation Fund transfers used for the payment of principal and interest related to various transportation-related general obligation bonds.

(continued)

(continued)

Capital projects funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The **Higher Education Construction Fund** accounts for bond proceeds used to construct state colleges and universities.

The **Hospital Construction Fund** accounts for bond proceeds used to construct hospitals.

The **Local Government Construction Fund** accounts for bond proceeds used to construct schools, libraries, and other major capital facilities for local governments.

Building authorities are blended component units created by joint-powers agreements between local governments and the State or other local governments for the purpose of financing the construction of state buildings. The funds account for bond proceeds used to finance and construct state buildings and parking facilities.

Other capital projects funds account for transactions related to resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

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Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2018

(amounts in thousands)

	Special Revenue							
	Business and Professions Regulatory and Licensing	Financing for Local Governments and the Public	Cigarette, Tobacco, and Cannabis Tax	Local Revenue and Public Safety	Trial Courts	Golden State Tobacco Securitization Corporation	Other Special Revenue Programs	Total Nonmajor Special Revenue
ASSETS								
Cash and pooled investments	$ 1,244,111	$ 1,094,401	$ 1,097,849	$ 2,883,932	$ 1,048,541	$ 392,417	$ 1,875,108	$ 9,636,359
Investments	—	—	—	—	344,618	149,887	—	494,505
Receivables (net)	88,870	3,656	414,073	98,347	264,299	189,117	226,466	1,284,828
Due from other funds	60,090	303,973	1,855	38,810	—	—	441,012	845,740
Due from other governments	6,532	1,149	—	—	34,616	—	52,096	94,393
Interfund receivables	171,626	279,776	88,585	119,851	257,163	—	537,585	1,454,586
Loans receivable	100,038	2,577,678	—	—	—	—	56,028	2,733,744
Other assets	—	—	—	—	12,120	—	—	12,120
Total assets	**$ 1,671,267**	**$ 4,260,633**	**$ 1,602,362**	**$ 3,140,940**	**$ 1,961,357**	**$ 731,421**	**$ 3,188,295**	**$ 16,556,275**
LIABILITIES								
Accounts payable	$ 12,194	$ 11,687	$ 78,297	$ —	$ 209,066	$ 1,379	$ 201,289	$ 513,912
Due to other funds	48,556	3,526	44,547	39,339	55,905	—	84,733	276,606
Due to component units	—	—	98,097	—	—	—	7,567	105,664
Due to other governments	678	264,961	138,168	3,020,717	114,943	—	390,502	3,929,969
Interfund payables	130,184	—	—	—	—	—	4,971	135,155
Revenues received in advance	60,015	2,510	—	—	22,548	—	65,650	150,723
Deposits	—	—	—	—	408,326	—	25,268	433,594
Other liabilities	33,966	837	—	—	86,252	—	19,970	141,025
Total liabilities	**285,593**	**283,521**	**359,109**	**3,060,056**	**897,040**	**1,379**	**799,950**	**5,686,648**
DEFERRED INFLOWS OF RESOURCES	—	—	211,973	—	—	—	—	211,973
Total liabilities and deferred inflows of resources	**285,593**	**283,521**	**571,082**	**3,060,056**	**897,040**	**1,379**	**799,950**	**5,898,621**
FUND BALANCES								
Nonspendable	—	—	—	—	69,868	—	—	69,868
Restricted	709,764	3,731,506	1,031,280	19,712	901,195	730,042	2,131,536	9,255,035
Committed	675,910	245,606	—	61,172	66,908	—	256,809	1,306,405
Assigned	—	—	—	—	26,346	—	—	26,346
Total fund balances	**1,385,674**	**3,977,112**	**1,031,280**	**80,884**	**1,064,317**	**730,042**	**2,388,345**	**10,657,654**
Total liabilities, deferred inflows of resources, and fund balances	**$ 1,671,267**	**$ 4,260,633**	**$ 1,602,362**	**$ 3,140,940**	**$ 1,961,357**	**$ 731,421**	**$ 3,188,295**	**$ 16,556,275**

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2018

(amounts in thousands)

	Debt Service		Capital Projects						
	Transportation Debt Service	Total Nonmajor Debt Service	Higher Education Construction	Hospital Construction	Local Government Construction	Building Authorities	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
ASSETS									
Cash and pooled investments	$ 63,051	$ 63,051	$ 168,836	$ 85,317	$ 131,522	$ 18,202	$ 161,830	$ 565,707	$ 10,265,117
Investments	—	—	—	—	—	—	—	—	494,505
Receivables (net)	—	—	—	—	1	—	161	162	1,284,990
Due from other funds	251,396	251,396	393	391	1,575	20,413	6,067	28,839	1,125,975
Due from other governments	—	—	—	—	807	—	—	807	95,200
Interfund receivables	—	—	—	—	—	—	3,757	3,757	1,458,343
Loans receivable	—	—	—	—	—	—	1,792	1,792	2,735,536
Other assets	—	—	—	—	—	—	—	—	12,120
Total assets	**$ 314,447**	**$ 314,447**	**$ 169,229**	**$ 85,708**	**$ 133,905**	**$ 38,615**	**$ 173,607**	**$ 601,064**	**$ 17,471,786**
LIABILITIES									
Accounts payable	$ —	$ —	$ —	$ 124	$ 4	$ —	$ 3,311	$ 3,439	$ 517,351
Due to other funds	314,447	314,447	815	—	9,251	—	4,217	14,283	605,336
Due to component units	—	—	—	—	—	—	—	—	105,664
Due to other governments	—	—	—	—	12,666	—	9	12,675	3,942,644
Interfund payables	—	—	205	—	603	—	—	808	135,963
Revenues received in advance	—	—	—	—	—	—	—	—	150,723
Deposits	—	—	—	—	—	—	—	—	433,594
Other liabilities	—	—	—	—	—	185	—	185	141,210
Total liabilities	**314,447**	**314,447**	**1,020**	**124**	**22,524**	**185**	**7,537**	**31,390**	**6,032,485**
DEFERRED INFLOWS OF RESOURCES	—	—	—	—	—	—	—	—	211,973
Total liabilities and deferred inflows of resources	**314,447**	**314,447**	**1,020**	**124**	**22,524**	**185**	**7,537**	**31,390**	**6,244,458**
FUND BALANCES									
Nonspendable	—	—	—	—	—	—	—	—	69,868
Restricted	—	—	168,209	85,584	111,381	38,430	130,623	534,227	9,789,262
Committed	—	—	—	—	—	—	35,447	35,447	1,341,852
Assigned	—	—	—	—	—	—	—	—	26,346
Total fund balances	**—**	**—**	**168,209**	**85,584**	**111,381**	**38,430**	**166,070**	**569,674**	**11,227,328**
Total liabilities, deferred inflows of resources, and fund balances	**$ 314,447**	**$ 314,447**	**$ 169,229**	**$ 85,708**	**$ 133,905**	**$ 38,615**	**$ 173,607**	**$ 601,064**	**$ 17,471,786**

(concluded)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2018

(amounts in thousands)

	Special Revenue		
	Business and Professions Regulatory and Licensing	**Financing for Local Governments and the Public**	**Cigarette, Tobacco, and Cannabis Tax**
REVENUES			
Personal income taxes	$ —	$ 1,675,447	$ —
Sales and use taxes	—	—	—
Motor vehicle excise taxes	56,573	57,568	—
Other taxes	1,543	618,808	2,139,466
Intergovernmental	—	—	—
Licenses and permits	532,737	15,291	—
Charges for services	43,466	3,192	476
Fees	1,212,600	71,240	4
Penalties	14,121	—	—
Investment and interest	41,445	10,815	5,308
Escheat	3	—	—
Other	13,166	45,128	—
Total revenues	**1,915,654**	**2,497,489**	**2,145,254**
EXPENDITURES			
Current:			
General government	797,533	720,785	66,005
Education	18,251	7,654	199,708
Health and human services	543,814	2,065,632	1,727,145
Natural resources and environmental protection	85,825	89,471	6,804
Business, consumer services, and housing	674,199	147,356	—
Transportation	11,217	—	—
Corrections and rehabilitation	—	114,810	—
Capital outlay	—	—	—
Debt service:			
Bond and commercial paper retirement	—	250,300	—
Interest and fiscal charges	—	693	—
Total expenditures	**2,130,839**	**3,396,701**	**1,999,662**
Excess (deficiency) of revenues over (under) expenditures	(215,185)	(899,212)	145,592
OTHER FINANCING SOURCES (USES)			
General obligation bonds and commercial paper issued	—	409,130	—
Refunding debt issued	—	25,790	—
Payment to refund long-term debt	—	(13,925)	—
Premium on bonds issued	—	20,967	—
Remarketing bonds issued	—	—	—
Payment to remarket long-term debt	—	—	—
Transfers in	4,535	390,426	10,000
Transfers out	(7,324)	(24,000)	(21,068)
Total other financing sources (uses)	**(2,789)**	**808,388**	**(11,068)**
Net change in fund balances	(217,974)	(90,824)	134,524
Fund balances – beginning	**1,603,648 ***	**4,067,936**	**896,756**
Fund balances – ending	**$ 1,385,674**	**$ 3,977,112**	**$ 1,031,280**

* Restated

	Special Revenue				
	Local Revenue and Public Safety	**Trial Courts**	**Golden State Tobacco Securitization Corporation**	**Other Special Revenue Programs**	**Total Nonmajor Special Revenue**
REVENUES					
Personal income taxes	$ —	$ —	$ —	$ —	$ 1,675,447
Sales and use taxes	13,973,218	—	—	—	13,973,218
Motor vehicle excise taxes	—	—	—	—	114,141
Other taxes	—	—	—	—	2,759,817
Intergovernmental	—	812,657	—	—	812,657
Licenses and permits	2,807,065	—	—	10,513	3,365,606
Charges for services	—	58,368	—	198,941	304,443
Fees	—	580,280	—	1,326,893	3,191,017
Penalties	—	372,808	—	209,984	596,913
Investment and interest	6,008	18,975	3,663	23,056	109,270
Escheat	—	4,613	—	—	4,616
Other	—	157,309	430,173	454,613	1,100,389
Total revenues	**16,786,291**	**2,005,010**	**433,836**	**2,224,000**	**28,007,534**
EXPENDITURES					
Current:					
General government	4,745,585	3,450,460	518	1,231,997	11,012,883
Education	—	—	—	18,548	244,161
Health and human services	10,513,336	—	—	839,098	15,689,025
Natural resources and environmental protection	—	—	—	70,499	252,599
Business, consumer services, and housing	—	112	—	28,405	850,072
Transportation	—	—	—	618	11,835
Corrections and rehabilitation	1,511,064	—	—	11,185	1,637,059
Capital outlay	—	—	—	—	—
Debt service:					
Bond and commercial paper retirement	—	—	2,044,750	—	2,295,050
Interest and fiscal charges	—	—	319,550	—	320,243
Total expenditures	**16,769,985**	**3,450,572**	**2,364,818**	**2,200,350**	**32,312,927**
Excess (deficiency) of revenues over (under) expenditures	16,306	(1,445,562)	(1,930,982)	23,650	(4,305,393)
OTHER FINANCING SOURCES (USES)					
General obligation bonds and commercial paper issued	—	—	—	—	409,130
Refunding debt issued	—	—	1,785,190	—	1,810,980
Payment to refund long-term debt	—	—	—	—	(13,925)
Premium on bonds issued	—	—	93,383	—	114,350
Remarketing bonds issued	—	—	—	—	—
Payment to remarket long-term debt	—	—	—	—	—
Transfers in	2	1,319,333	—	1,856	1,726,152
Transfers out	(382)	—	—	(53,934)	(106,708)
Total other financing sources (uses)	**(380)**	**1,319,333**	**1,878,573**	**(52,078)**	**3,939,979**
Net change in fund balances	15,926	(126,229)	(52,409)	(28,428)	(365,414)
Fund balances – beginning	**64,958**	**1,190,546**	**782,451**	**2,416,773 ***	**11,023,068**
Fund balances – ending	**$ 80,884**	**$ 1,064,317**	**$ 730,042**	**$ 2,388,345**	**$ 10,657,654**

(continued)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (continued)

Nonmajor Governmental Funds

Year Ended June 30, 2018

(amounts in thousands)

	Debt Service		Capital Projects						
	Transportation Debt Service	Total Nonmajor Debt Service	Higher Education Construction	Hospital Construction	Local Government Construction	Building Authorities	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
REVENUES									
Personal income taxes	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,675,447
Sales and use taxes	—	—	—	—	—	—	—	—	13,973,218
Managed care organization enrollment tax	—	—	—	—	—	—	—	—	114,141
Other taxes	—	—	—	—	—	—	—	—	2,759,817
Intergovernmental	—	—	—	—	—	—	—	—	812,657
Licenses and permits	—	—	—	—	—	—	1,054	1,054	3,366,660
Charges for services	—	—	—	—	—	—	—	—	304,443
Fees	—	—	—	—	—	—	—	—	3,191,017
Penalties	—	—	—	—	—	—	—	—	596,913
Investment and interest	—	—	1,767	331	6,082	—	189	8,369	117,639
Escheat	—	—	—	—	—	—	—	—	4,616
Other	—	—	—	—	—	—	14,171	14,171	1,114,560
Total revenues	**—**	**—**	**1,767**	**331**	**6,082**	**—**	**15,414**	**23,594**	**28,031,128**
EXPENDITURES									
Current:									
General government	—	—	—	26,236	—	—	—	26,236	11,039,119
Education	—	—	—	—	604,192	—	—	604,192	848,353
Health and human services	—	—	—	—	—	—	—	—	15,689,025
Natural resources and environmental protection	—	—	—	—	—	—	3,425	3,425	256,024
Business, consumer services, and housing	—	—	—	—	—	—	—	—	850,072
Transportation	—	—	—	—	—	—	—	—	11,835
Corrections and rehabilitation	—	—	—	—	—	—	—	—	1,637,059
Capital outlay	—	—	15,455	1,147	7,823	—	35,283	59,708	59,708
Debt service:									
Bond and commercial paper retirement	721,356	721,356	333,135	26,065	1,096,780	30,180	5,350	1,491,510	4,507,916
Interest and fiscal charges	830,973	830,973	10,264	270	42,802	7,441	55	60,832	1,212,048
Total expenditures	**1,552,329**	**1,552,329**	**358,854**	**53,718**	**1,751,597**	**37,621**	**44,113**	**2,245,903**	**36,111,159**
Excess (deficiency) of revenues over (under) expenditures	(1,552,329)	(1,552,329)	(357,087)	(53,387)	(1,745,515)	(37,621)	(28,699)	(2,222,309)	(8,080,031)
OTHER FINANCING SOURCES (USES)									
General obligation bonds and commercial paper issued	—	—	25,770	107,730	748,270	—	8,015	889,785	1,298,915
Refunding debt issued	—	—	513,135	7,570	2,017,600	—	6,135	2,544,440	4,355,420
Payment to refund long-term debt	—	—	(249,016)	—	(1,298,034)	—	(6,974)	(1,554,024)	(1,567,949)
Premium on bonds issued	—	—	77,745	3,505	361,806	—	1,164	444,220	558,570
Remarketing bonds issued	—	—	—	—	100,000	—	—	100,000	100,000
Payment to remarket long-term debt	—	—	—	—	(100,000)	—	—	(100,000)	(100,000)
Transfers in	1,552,329	1,552,329	—	—	—	38,251	53,359	91,610	3,370,091
Transfers out	—	—	—	—	(1,086)	—	—	(1,086)	(107,794)
Total other financing sources (uses)	**1,552,329**	**1,552,329**	**367,634**	**118,805**	**1,828,556**	**38,251**	**61,699**	**2,414,945**	**7,907,253**
Net change in fund balances	—	—	10,547	65,418	83,041	630	33,000	192,636	(172,778)
Fund balances – beginning	**—**	**—**	**157,662**	**20,166**	**28,340**	**37,800**	**133,070**	**377,038**	**11,400,106**
Fund balances – ending	**$ —**	**$ —**	**$ 168,209**	**$ 85,584**	**$ 111,381**	**$ 38,430**	**$ 166,070**	**$ 569,674**	**$ 11,227,328**

(concluded)

Budgetary Comparison Schedule

Nonmajor Governmental Funds[1]

Year Ended June 30, 2018

(amounts in thousands)

	Budgeted Amounts	Actual Amounts	Variance with Final Budget
REVENUES			
Cigarette and tobacco taxes	$ 387,400	$ 387,400	$ —
Vehicle license fees	2,112,655	2,112,655	—
Personal income tax	1,675,447	1,675,447	—
Retail sales and use taxes	13,973,503	13,973,503	—
Other major taxes and licenses	15,686	15,686	—
Other revenues	6,472,502	6,472,502	—
Total revenues	**24,637,193**	**24,637,193**	**—**
EXPENDITURES			
Business, consumer services, and housing	853,654	705,691	(147,963)
Transportation	1,561,525	1,560,828	(697)
Natural resources and environmental protection	299,766	242,768	(56,998)
Health and human services	18,901,509	18,335,222	(566,287)
Corrections and rehabilitation	(820)	(820)	—
Education	893,202	833,339	(59,863)
General government:			
Tax relief	2,873	2,873	—
Other general government	8,810,406	8,191,933	(618,473)
Total expenditures	**31,322,115**	**29,871,834**	**(1,450,281)**
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	—	31,617,383	—
Transfers to other funds	—	(27,287,061)	—
Other additions and deductions	—	1,243,262	—
Total other financing sources (uses)	**—**	**5,573,584**	**—**
Excess of revenues and other sources over expenditures and other uses	—	338,943	—
Fund balances – beginning, restated	**—**	**7,076,694**	—
Fund balances – ending	**$ —**	**$ 7,415,637**	**$ —**

[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, Health Care Related Programs 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, Environmental and Natural Resources Fund, and Health Care Related Programs 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 Department of Technology.

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, 2018

(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	$ —	$ 765,807	$ 163,151	$ 254,927	$ 38,109	$ 54,897	$ 14,153	$ 427,005	$ 1,718,049
Restricted assets:									
Cash and pooled investments	440,303	—	—	—	—	—	—	—	440,303
Net investment in direct financing leases	493,644	—	—	—	—	—	—	—	493,644
Receivables (net)	—	96	2,076	2,856	7	12,807	7,164	62,626	87,632
Due from other funds	256,617	11,696	72,354	249	9,406	34,923	81,728	374,936	841,909
Due from other governments	—	—	1,533	87	—	135	—	15,322	17,077
Prepaid items	—	81,520	135,942	915	4,513	1,196	7,346	2,335	233,767
Inventories	—	—	2,751	43,687	—	—	1,019	25,032	72,489
Total current assets	1,190,564	859,119	377,807	302,721	52,035	103,958	111,410	907,256	3,904,870
Noncurrent assets:									
Restricted assets:									
Cash and pooled investments	176,851	—	—	—	—	—	—	—	176,851
Net investment in direct financing leases	7,996,250	—	—	—	—	—	—	—	7,996,250
Interfund receivables	—	—	—	—	—	—	—	32,576	32,576
Loans receivable	—	—	—	—	—	—	—	216,810	216,810
Long-term prepaid charges	719	—	—	—	—	—	—	—	719
Capital assets:									
Land	—	—	—	—	—	—	—	2,080	2,080
Buildings and other depreciable property	—	321	164,325	200,739	2,881	156,268	34,765	77,588	636,887
Intangible assets – amortizable	—	—	9,986	4,430	2,621	48,592	4,501	999	71,129
Less: accumulated depreciation/amortization	—	(321)	(104,369)	(140,034)	(3,252)	(166,276)	(31,502)	(62,575)	(508,329)
Construction/development in progress	639,628	—	—	5,733	321,694	16,075	—	505	983,635
Total noncurrent assets	8,813,448	—	69,942	70,868	323,944	54,659	7,764	267,983	9,608,608
Total assets	**10,004,012**	**859,119**	**447,749**	**373,589**	**375,979**	**158,617**	**119,174**	**1,175,239**	**13,513,478**
DEFERRED OUTFLOWS OF RESOURCES	174,776	20,411	188,356	43,712	18,567	86,260	—	200,920	733,002
Total assets and deferred outflows of resources	**$ 10,178,788**	**$ 879,530**	**$ 636,105**	**$ 417,301**	**$ 394,546**	**$ 244,877**	**$ 119,174**	**$ 1,376,159**	**$ 14,246,480**

(continued)

Combining Statement of Net Position (continued)

Internal Service Funds

June 30, 2018

(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	$ 36,028	$ 7,477	$ 112,323	$ 15,278	$ 8,083	$ 30,678	$ 16,091	$ 314,500	$ 540,458
Due to other funds	27,473	34,617	51,281	11,179	168	641	388	152,156	277,903
Due to other governments	9,631	300	45	—	—	—	5	2,160	12,141
Revenues received in advance	—	821,726	30,517	326	—	—	409	105,942	958,920
Deposits	—	—	1,955	—	—	—	—	—	1,955
Contracts and notes payable	—	—	3,633	—	—	15,038	3,904	—	22,575
Interest payable	148,490	—	—	—	—	—	—	—	148,490
Current portion of long-term obligations	606,277	—	—	2,954	1,558	—	—	1,593	612,382
Other liabilities	14,157	387	68	1,167	—	—	1	2,186	17,966
Total current liabilities	842,056	864,507	199,822	30,904	9,809	46,357	20,798	578,537	2,592,790
Noncurrent liabilities:									
Interfund payables	254,380	10,163	64,974	6,371	42,563	11,357	94,879	457,123	941,810
Compensated absences payable	—	7,707	58,815	10,995	4,029	28,996	—	34,872	145,414
Workers' compensation benefits payable	—	915	26,540	14,582	—	727	—	1,521	44,285
Revenue bonds payable	8,880,040	—	—	—	—	—	—	—	8,880,040
Net other postemployment benefits liability	—	82,309	806,032	279,150	73,312	339,192	—	767,820	2,347,815
Net pension liability	—	50,995	499,354	66,397	49,857	231,375	—	521,067	1,419,045
Other noncurrent liabilities	—	—	—	—	—	21,489	6,459	—	27,948
Total noncurrent liabilities	9,134,420	152,089	1,455,715	377,495	169,761	633,136	101,338	1,782,403	13,806,357
Total liabilities	**9,976,476**	**1,016,596**	**1,655,537**	**408,399**	**179,570**	**679,493**	**122,136**	**2,360,940**	**16,399,147**
DEFERRED INFLOWS OF RESOURCES	8,387	8,328	77,947	26,382	7,738	36,285	—	80,865	245,932
Total liabilities and deferred inflows of resources	**9,984,863**	**1,024,924**	**1,733,484**	**434,781**	**187,308**	**715,778**	**122,136**	**2,441,805**	**16,645,079**
NET POSITION									
Net investment in capital assets	—	—	69,942	70,868	323,944	25,971	—	18,528	509,253
Restricted – expendable:									
Construction	193,925	—	—	—	—	—	—	—	193,925
Total expendable	193,925	—	—	—	—	—	—	—	193,925
Unrestricted	—	(145,394)	(1,167,321)	(88,348)	(116,706)	(496,872)	(2,962)	(1,084,174)	(3,101,777)
Total net position (deficit)	**193,925**	**(145,394)**	**(1,097,379)**	**(17,480)**	**207,238**	**(470,901)**	**(2,962)**	**(1,065,646)**	**(2,398,599)**
Total liabilities, deferred inflows of resources, and net position	**$ 10,178,788**	**$ 879,530**	**$ 636,105**	**$ 417,301**	**$ 394,546**	**$ 244,877**	**$ 119,174**	**$ 1,376,159**	**$ 14,246,480**

(concluded)

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

Internal Service Funds

Year Ended June 30, 2018

(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	$ —	$ 339,721	$ 684,488	$ 325,460	$ 79,153	$ 343,572	$ 540,696	$ 1,022,376	$ 3,335,466
Investment and interest	14,683	—	—	—	—	—	—	—	14,683
Rent	426,219	—	—	—	—	—	—	—	426,219
Total operating revenues	**440,902**	**339,721**	**684,488**	**325,460**	**79,153**	**343,572**	**540,696**	**1,022,376**	**3,776,368**
OPERATING EXPENSES									
Personal services	—	22,828	452,672	111,040	22,701	142,914	—	385,628	1,137,783
Supplies	—	—	—	6,631	—	—	17,680	199	24,510
Services and charges	4,023	303,055	240,463	193,566	19,253	197,943	506,839	682,792	2,147,934
Depreciation	—	—	14,887	8,432	756	19,760	4,577	3,978	52,390
Interest expense	415,551	—	—	—	—	518	—	—	416,069
Amortization of long-term prepaid charges	179	—	—	—	—	—	—	—	179
Total operating expenses	**419,753**	**325,883**	**708,022**	**319,669**	**42,710**	**361,135**	**529,096**	**1,072,597**	**3,778,865**
Operating income (loss)	21,149	13,838	(23,534)	5,791	36,443	(17,563)	11,600	(50,221)	(2,497)
NONOPERATING REVENUES (EXPENSES)									
Investment and interest income	1,407	—	—	671	—	871	—	1,292	4,241
Interest expense and fiscal charges	—	—	—	(37)	—	—	—	—	(37)
Other	2,351	—	—	(4,366)	—	(3,290)	—	(92)	(5,397)
Total nonoperating revenues (expenses)	**3,758**	**—**	**—**	**(3,732)**	**—**	**(2,419)**	**—**	**1,200**	**(1,193)**
Income (loss) before transfers	24,907	13,838	(23,534)	2,059	36,443	(19,982)	11,600	(49,021)	(3,690)
Transfers in	—	—	—	—	—	—	—	8,945	8,945
Transfers out	—	—	(36,143)	—	—	(3,755)	—	(20,044)	(59,942)
Change in net position	24,907	13,838	(59,677)	2,059	36,443	(23,737)	11,600	(60,120)	(54,687)
Total net position (deficit) – beginning	**169,018**	**(159,232)***	**(1,037,702)***	**(19,539)***	**170,795 ***	**(447,164)***	**(14,562)**	**(1,005,526)***	**(2,343,912)**
Total net position (deficit) – ending	**$ 193,925**	**$ (145,394)**	**$ (1,097,379)**	**$ (17,480)**	**$ 207,238**	**$ (470,901)**	**$ (2,962)**	**$ (1,065,646)**	**$ (2,398,599)**

* Restated

Combining Statement of Cash Flows

Internal Service Funds

Year Ended June 30, 2018

(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	$ 16,577	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 16,577
Receipts from interfund services provided	909,533	512,366	657,087	332,050	59,501	338,311	537,727	1,060,686	4,407,261
Payments to suppliers	(192)	(335,890)	(156,847)	(201,902)	—	(182,422)	(15,731)	(639,937)	(1,532,921)
Payments to employees	—	(39,287)	(428,546)	(99,766)	(17,508)	(146,560)	—	(358,097)	(1,089,764)
Payments for interfund services used	—	—	—	—	—	—	—	(7,319)	(7,319)
Claims paid to other than employees	—	—	—	—	—	—	(506,839)	—	(506,839)
Other receipts (payments)	(438,464)	687	2,972	(4,282)	(63)	746	(3,753)	(6,193)	(448,350)
Net cash provided by (used in) operating activities	**487,454**	**137,876**	**74,666**	**26,100**	**41,930**	**10,075**	**11,404**	**49,140**	**838,645**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Changes in interfund receivables	—	—	—	—	—	—	—	(457,602)	(457,602)
Changes in interfund payables and loans payable	254,380	(4,611)	57,788	6,371	4,913	7,530	(86)	457,095	783,380
Interest paid	—	—	—	(37)	—	—	—	—	(37)
Transfers in	—	—	—	—	—	—	—	8,945	8,945
Transfers out	—	—	(36,143)	—	—	(3,755)	—	(20,044)	(59,942)
Net cash provided by (used in) noncapital financing activities	**254,380**	**(4,611)**	**21,645**	**6,334**	**4,913**	**3,775**	**(86)**	**(11,606)**	**274,744**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisition of capital assets	(750,406)	—	(29,638)	(18,971)	(52,001)	(24,040)	(12,341)	(7,448)	(894,845)
Proceeds from sale of capital assets	—	—	2,369	555	510	4	—	—	3,438
Proceeds from revenue bonds	615,418	—	—	—	—	—	—	—	615,418
Retirement of revenue bonds	(806,025)	—	—	—	—	—	—	—	(806,025)
Net cash used in capital and related financing activities	**(941,013)**	**—**	**(27,269)**	**(18,416)**	**(51,491)**	**(24,036)**	**(12,341)**	**(7,448)**	**(1,082,014)**
CASH FLOWS FROM INVESTING ACTIVITIES									
Earnings on investments	1,407	—	—	671	—	871	—	1,292	4,241
Net cash provided by (used in) investing activities	**1,407**	**—**	**—**	**671**	**—**	**871**	**—**	**1,292**	**4,241**
Net increase (decrease) in cash and pooled investments	(197,772)	133,265	69,042	14,689	(4,648)	(9,315)	(1,023)	31,378	35,616
Cash and pooled investments – beginning	**814,926**	**632,542**	**94,109**	**240,238**	**42,757**	**64,212 ***	**15,176**	**395,627 ***	**2,299,587**
Cash and pooled investments – ending	**$ 617,154**	**$ 765,807**	**$ 163,151**	**$ 254,927**	**$ 38,109**	**$ 54,897**	**$ 14,153**	**$ 427,005**	**$ 2,335,203**

* Restated

(continued)

Combining Statement of Cash Flows (continued)

Internal Service Funds

Year Ended June 30, 2018

(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)	$ 21,149	$ 13,838	$ (23,534)	$ 5,791	$ 36,443	$ (17,563)	$ 11,600	$ (50,221)	$ (2,497)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:									
Depreciation	—	—	14,887	8,432	756	19,760	4,577	3,978	52,390
Amortization of premiums and discounts	(95,734)	—	—	—	—	—	—	—	(95,734)
Amortization of long-term prepaid charges	179	—	—	—	—	—	—	—	179
Other	16,716	—	—	(4,098)	—	—	—	—	12,618
Change in account balances:									
Receivables	—	(64)	(1,426)	(1,961)	25	(890)	1,882	(62,109)	(64,543)
Due from other funds	251	(8,998)	(29,495)	1,443	(2,812)	(5,895)	(4,687)	19,869	(30,324)
Due from other governments	—	—	217	8	—	(39)	—	(5,712)	(5,526)
Prepaid items	—	(35,024)	17,531	(59)	1,881	(297)	1,128	(917)	(15,757)
Inventories	—	—	1,573	(1,123)	—	—	27	6,835	7,312
Net investment in direct financing leases	497,726	—	—	—	—	—	—	—	497,726
Deferred outflow of resources	567	(5,096)	(78,393)	(24,390)	(8,460)	(36,251)	—	(86,453)	(238,476)
Accounts payable	(442)	2,189	64,512	(523)	1,914	15,818	794	37,136	121,398
Due to other funds	1,187	18,851	3,520	7,340	(1,407)	1,524	(361)	103,764	134,418
Due to other governments	—	300	(265)	—	(63)	(1)	(3)	777	745
Deposits	—	—	393	—	—	—	—	—	393
Contracts and notes payable	—	—	2,597	—	—	960	—	—	3,557
Interest payable	47,295	—	—	—	—	—	—	—	47,295
Revenues received in advance	—	162,856	—	(232)	—	—	197	(30,533)	132,288
Other current liabilities	(1,440)	387	30	(374)	—	—	1	(1,258)	(2,654)
Compensated absences payable	—	573	2,267	1,060	597	(617)	—	(1,306)	2,574
Other noncurrent liabilities	—	(20,111)	23,313	8,502	5,411	(2,225)	(3,751)	35,364	46,503
Deferred inflow of resources	—	8,175	76,939	26,284	7,645	35,791	—	79,926	234,760
Total adjustments	466,305	124,038	98,200	20,309	5,487	27,638	(196)	99,361	841,142
Net cash provided by (used in) operating activities	**$ 487,454**	**$ 137,876**	**$ 74,666**	**$ 26,100**	**$ 41,930**	**$ 10,075**	**$ 11,404**	**$ 49,140**	**$ 838,645**

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Nonmajor Enterprise Funds

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, in which the costs of providing goods or services to the general public on a continuing basis are intended to be financed or recovered primarily through user charges. Following are brief descriptions of nonmajor enterprise funds.

The **State Water Pollution Control Revolving Fund** accounts for loans to finance the construction of publicly owned water pollution control facilities.

The **Safe Drinking Water State Revolving Fund** accounts for loans to finance the construction of publicly owned water systems for drinking water infrastructure projects.

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, 2018

(amounts in thousands)

	State Water Pollution Control Revolving	Safe Drinking Water State Revolving	Housing Loan	Other Enterprise Programs	Total
ASSETS					
Current assets:					
Cash and pooled investments	$ 611,167	$ 218,760	$ 128,909	$ 263,769	$ 1,222,605
Restricted assets:					
Cash and pooled investments	637,898	—	—	—	637,898
Due from other governments	155,541	—	—	—	155,541
Receivables (net)	—	5,323	34,825	1,036	41,184
Due from other funds	4,904	8,709	127	1,126	14,866
Due from other governments	137,478	51,310	—	386	189,174
Prepaid items	—	—	—	91	91
Inventories	—	—	—	3,309	3,309
Total current assets	1,546,988	284,102	163,861	269,717	2,264,668
Noncurrent assets:					
Restricted assets:					
Loans receivable	2,054,876	—	—	—	2,054,876
Investments	—	—	18,215	—	18,215
Interfund receivables	9,341	—	—	8,176	17,517
Loans receivable	2,093,592	1,534,201	929,713	88,566	4,646,072
Capital assets:					
Land	—	—	443	829	1,272
Buildings and other depreciable property	—	—	16,260	2,950	19,210
Intangible assets – amortizable	—	—	—	1,681	1,681
Less: accumulated depreciation/amortization	—	—	(16,240)	(2,230)	(18,470)
Construction/development in progress	—	—	—	187	187
Other noncurrent assets	—	—	5,136	—	5,136
Total noncurrent assets	4,157,809	1,534,201	953,527	100,159	6,745,696
Total assets	**5,704,797**	**1,818,303**	**1,117,388**	**369,876**	**9,010,364**
DEFERRED OUTFLOWS OF RESOURCES	—	—	9,228	14,085	23,313
Total assets and deferred outflows of resources	**$ 5,704,797**	**$ 1,818,303**	**$ 1,126,616**	**$ 383,961**	**$ 9,033,677**

(continued)

Combining Statement of Net Position (continued)

Nonmajor Enterprise Funds

June 30, 2018

(amounts in thousands)

	State Water Pollution Control Revolving	Safe Drinking Water State Revolving	Housing Loan	Other Enterprise Programs	Total
LIABILITIES					
Current liabilities:					
Accounts payable	$ 247	$ 210	$ —	$ 4,662	$ 5,119
Due to other funds	31	8,709	515	3,000	12,255
Due to other governments	—	—	—	597	597
Revenues received in advance	4	—	—	59	63
Interest payable	16,466	—	14,308	—	30,774
Current portion of long-term obligations	83,566	—	1,770	10,729	96,065
Other current liabilities	—	—	—	155	155
Total current liabilities	100,314	8,919	16,593	19,202	**145,028**
Noncurrent liabilities:					
Interfund payables	—	—	2,004	15,000	17,004
Compensated absences payable	—	—	—	8,999	8,999
Workers' compensation benefits payable	—	—	—	1,689	1,689
General obligation bonds payable	—	—	640,035	—	640,035
Revenue bonds payable	1,430,322	—	318,060	—	1,748,382
Net other postemployment benefits liability	—	—	31,047	12,314	43,361
Net pension liability	—	—	21,253	25,944	47,197
Other noncurrent liabilities	—	—	402	31,299	31,701
Total noncurrent liabilities	1,430,322	—	1,012,801	95,245	2,538,368
Total liabilities	**1,530,636**	**8,919**	**1,029,394**	**114,447**	**2,683,396**
DEFERRED INFLOWS OF RESOURCES	—	—	3,031	1,539	4,570
Total liabilities and deferred inflows of resources	**1,530,636**	**8,919**	**1,032,425**	**115,986**	**2,687,966**
NET POSITION					
Net investment in capital assets	—	—	463	433	896
Restricted – expendable:					
Debt service	211,650	—	—	—	211,650
Security for revenue bonds	2,210,416	—	—	—	2,210,416
Other purposes	—	1,809,384	93,728	248,992	2,152,104
Total expendable	2,422,066	1,809,384	93,728	248,992	4,574,170
Unrestricted	1,752,095	—	—	18,550	1,770,645
Total net position	**4,174,161**	**1,809,384**	**94,191**	**267,975**	**6,345,711**
Total liabilities, deferred inflows of resources, and net position	**$ 5,704,797**	**$ 1,818,303**	**$ 1,126,616**	**$ 383,961**	$ 9,033,677

(concluded)

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

Nonmajor Enterprise Funds

Year Ended June 30, 2018
(amounts in thousands)

	State Water Pollution Control Revolving	Safe Drinking Water State Revolving	Housing Loan	Other Enterprise Programs	Total
OPERATING REVENUES					
Services and sales	$ 9,137	$ —	$ 2,043	$ 83,262	$ 94,442
Investment and interest	64,185	20,278	49,097	710	134,270
Other	—	—	1,340	404	1,744
Total operating revenues	**73,322**	**20,278**	**52,480**	**84,376**	**230,456**
OPERATING EXPENSES					
Personal services	—	12,641	12,243	27,257	52,141
Supplies	—	—	—	42,364	42,364
Services and charges	3,404	—	13,700	26,156	43,260
Depreciation	—	—	89	301	390
Interest expense	—	—	31,056	—	31,056
Other	183	9,353	—	—	9,536
Total operating expenses	**3,587**	**21,994**	**57,088**	**96,078**	**178,747**
Operating income (loss)	69,735	(1,716)	(4,608)	(11,702)	51,709
NONOPERATING REVENUES (EXPENSES)					
Donations and grants	46,304	79,828	—	—	126,132
Investment and interest income	13,467	2,397	—	2,535	18,399
Interest expense and fiscal charges	(28,748)	—	—	—	(28,748)
Other	—	—	255	—	255
Total nonoperating revenues (expenses)	31,023	82,225	255	2,535	116,038
Income (loss) before capital contributions and transfers	100,758	80,509	(4,353)	(9,167)	167,747
Transfers in	—	—	—	1,662	1,662
Change in net position	100,758	80,509	(4,353)	(7,505)	169,409
Total net position – beginning	**4,073,403**	**1,728,875** *	**98,544** *	**275,480** *	**6,176,302**
Total net position – ending	**$ 4,174,161**	**$ 1,809,384**	**$ 94,191**	**$ 267,975**	**$ 6,345,711**

* Restated

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2018
(amounts in thousands)

	State Water Pollution Control Revolving	Safe Drinking Water State Revolving	Housing Loan	Other Enterprise Programs	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers/employers	$ 59,315	$ 19,933	$ 174,128	$ 103,979	$ 357,355
Receipts from interfund services provided	—	—	—	3,826	3,826
Payments to suppliers	(3,650)	—	(6,037)	(51,371)	(61,058)
Payments to employees	—	(15,307)	(12,243)	(29,182)	(56,732)
Payments for interfund services used	(92)	—	—	(815)	(907)
Other receipts (payments)	(385,641)	(188,602)	(210,541)	(21,601)	(806,385)
Net cash provided by (used in) operating activities	**(330,068)**	**(183,976)**	**(54,693)**	**4,836**	**(563,901)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Changes in interfund receivables	(9,341)	—	—	(8,176)	(17,517)
Changes in interfund payables and loans payable	—	—	—	15,000	15,000
Proceeds from general obligation bonds	—	—	110,257	—	110,257
Retirement of general obligation bonds	—	—	(85,660)	—	(85,660)
Proceeds from revenue bonds	527,000	—	—	—	527,000
Retirement of revenue bonds	(27,350)	—	(14,000)	—	(41,350)
Interest paid	(43,386)	—	—	—	(43,386)
Transfers in	—	—	—	1,662	1,662
Grants received	46,414	73,140	—	—	119,554
Net cash provided by (used in) noncapital financing activities	**493,337**	**73,140**	**10,597**	**8,486**	**585,560**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	—	—	—	(335)	(335)
Proceeds from sale of capital assets	—	—	—	2	2
Net cash provided by (used in) capital and related financing activities	**—**	**—**	**—**	**(333)**	**(333)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	—	—	(6,055)	—	(6,055)
Proceeds from maturity and sale of investments	—	—	5,804	—	5,804
Earnings on investments	11,281	2,462	—	2,535	16,278
Net cash provided by (used in) investing activities	**11,281**	**2,462**	**(251)**	**2,535**	**16,027**
Net increase (decrease) in cash and pooled investments	174,550	(108,374)	(44,347)	15,524	37,353
Cash and pooled investments – beginning	**1,074,515**	**327,134**	173,256	248,245 *	1,823,150
Cash and pooled investments – ending	**$ 1,249,065**	**$ 218,760**	**$ 128,909**	**$ 263,769**	**$ 1,860,503**

* Restated

(continued)

Combining Statement of Cash Flows (continued)

Nonmajor Enterprise Funds

Year Ended June 30, 2018
(amounts in thousands)

	State Water Pollution Control Revolving	Safe Drinking Water State Revolving	Housing Loan	Other Enterprise Programs	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	$ 69,735	$ (1,716)	$ (4,608)	$ (11,702)	$ 51,709
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	—	—	89	301	390
Provisions and allowances	—	—	768	—	768
Amortization of premiums and discounts	—	—	(300)	—	(300)
Other	(11,786)	—	—	—	(11,786)
Change in account balances:					
Receivables	—	—	(302)	(431)	(733)
Due from other funds	(92)	—	—	(489)	(581)
Due from other governments	(1,724)	(345)	—	(138)	(2,207)
Prepaid items	—	—	—	(79)	(79)
Inventories	—	—	—	(437)	(437)
Other current assets	—	—	(2,022)	—	(2,022)
Loans receivable	(386,138)	(188,603)	(51,651)	22,311	(604,081)
Deferred outflow of resources	—	—	(1,235)	(4,834)	(6,069)
Accounts payable	—	—	73	2,289	2,362
Due to other funds	(62)	6,688	8	1,215	7,849
Due to other governments	—	—	—	573	573
Interest payable	—	—	426	—	426
Revenues received in advance	(1)	—	—	9	8
Other current liabilities	—	—	—	661	661
Benefits payable	—	—	—	(6,391)	(6,391)
Compensated absences payable	—	—	—	(305)	(305)
Other noncurrent liabilities	—	—	4,086	(5,750)	(1,664)
Deferred inflows of resources	—	—	(25)	8,033	8,008
Total adjustments	(399,803)	(182,260)	(50,085)	16,538	(615,610)
Net cash provided by (used in) operating activities	**$ (330,068)**	**$ (183,976)**	**(54,693)**	**4,836**	**(563,901)**

(concluded)

Noncash investing, capital, and financing activities					
Miscellaneous noncash activities	$ —	$ —	$ 1,678	$ —	$ 1,678

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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, 2018

(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ASSETS				
Cash and pooled investments	$ —	$ 106,738	$ 12,902	$ 119,640
Investments, at fair value:				
Equity securities	4,419,457	—	—	4,419,457
Debt securities	2,644,621	—	—	2,644,621
Real estate	256,325	—	—	256,325
Other	1,271,428	—	—	1,271,428
Total investments	8,591,831	—	—	8,591,831
Receivables (net)	15,919	823	—	16,742
Due from other funds	—	2,239	54	2,293
Other assets	—	207,205	—	207,205
Total assets	**8,607,750**	**317,005**	**12,956**	**8,937,711**
LIABILITIES				
Accounts payable	17,973	22,233	11,935	52,141
Deposits	—	207,205	—	207,205
Other liabilities	—	823	305	1,128
Total liabilities	**17,973**	**230,261**	**12,240**	**260,474**
NET POSITION				
Held in trust for individuals, organizations, or other governments	**$ 8,589,777**	**$ 86,744**	**$ 716**	**$ 8,677,237**

Combining Statement of Changes in Fiduciary Net Position

Private Purpose Trust Funds

Year Ended June 30, 2018

(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ADDITIONS				
Investment income:				
Net appreciation (depreciation) in fair value of investments	$ 71,944	$ —	$ —	$ 71,944
Interest, dividends, and other investment income	485,351	—	—	485,351
Less: investment expense	(3,645)	—	—	(3,645)
Net investment income	553,650	—	—	553,650
Receipts from depositors	4,122,552	305,590	749	4,428,891
Total additions	**4,676,202**	**305,590**	**749**	**4,982,541**
DEDUCTIONS				
Payments to and for depositors	3,811,881	377,787	1,585	4,191,253
Total deductions	**3,811,881**	**377,787**	**1,585**	**4,191,253**
Change in net position	864,321	(72,197)	(836)	791,288
Net position – beginning	**7,725,456**	**158,941**	**1,552 ***	**7,885,949**
Net position – ending	**$ 8,589,777**	**$ 86,744**	**$ 716**	**$ 8,677,237**

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Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

Pension and other employee benefit trust funds account for transactions, assets, liabilities, and net position available for pension and other employee benefits of the two public employees' retirement systems that are fiduciary component units, and for other primary government employee benefit programs. Following are brief descriptions of pension and other employee benefit trust funds.

Defined Benefit Pension Plans are pension plans that provide defined benefit pensions to employees after separation from service:

The **Public Employees' Retirement Fund** is administered by the California Public Employees' Retirement System (CalPERS) and accounts for the employee and employer contributions of the agent and cost-sharing multiple-employer retirement plans that provide pension benefits to employees of the State of California, non-teaching school employees, and employees of California public agencies.

The **State Teachers' Retirement Fund** is administered by the California State Teachers' Retirement System (CalSTRS) and accounts for the employee, employer, and primary government contributions of the cost-sharing multiple-employer retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

The **Judges' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to judges of the California Supreme Court, courts of appeal, and superior courts who were appointed or elected prior to November 9, 1994.

The **Judges' Retirement Fund II** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to judges of the California Supreme Court, courts of appeal, and superior courts who were appointed or elected on or subsequent to November 9, 1994.

The **Legislators' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to members of the Legislature serving prior to November 7, 1990, constitutional officers, and legislative statutory officers who elect to participate in the plan.

(continued)

(continued)

The **Defined Benefit Other Postemployment Benefits (OPEB) Plan** provides defined benefit OPEB, other than pensions, to employees after separation from service:

> The **Annuitants' Health Care Coverage Fund** is administered by CalPERS as the California Employers' Retiree Benefit Trust Fund (CERBTF), an agent multiple-employer plan for employers to prefund health, dental, and other nonpension postemployment benefits for state and local government annuitants, and to pay related administrative costs.

The **Deferred Compensation Fund** accounts for monies withheld from the salaries of participants per Internal Revenue Code sections 401(k), 457, and 403(b). The monies are invested until the employee retires or resigns, at which time all money withdrawn, including investment income, is subject to income taxes.

Other pension and other employee benefit trust funds account for funds contributed to smaller retirement plans and programs that are not defined benefit pension plans including the Teachers' Health Benefits Fund, Supplemental Contributions Program Fund, Boxers' Pension Fund, and Flexelect Benefit Fund.

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Combining Statement of Fiduciary Net Position

Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

June 30, 2018
(amounts in thousands)

	Defined Benefit Pension Plans					Defined Benefit OPEB Plan			
	Public Employees' Retirement	State Teachers' Retirement	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	Annuitants' Health Care Coverage	Deferred Compensation	Other Pension and Other Employee Benefit Trust	Total
ASSETS									
Cash and pooled investments	$ 1,469,377	$ 359,923	$ 2,447	$ 2,472	$ 1,416	$ 38,567	$ 16,574	$ 15,682	$ 1,906,458
Investments, at fair value:									
Short-term	21,183,042	4,960,452	39,592	225	19	109,522	2,590,148	32,319	28,915,319
Equity securities	163,011,734	115,337,965	—	920,718	40,063	5,281,173	9,391,588	41,355	294,024,596
Debt securities	108,439,708	38,806,392	—	600,592	73,934	2,898,638	1,751,990	43,005	152,614,259
Real estate	38,008,043	29,519,289	—	—	—	—	—	—	67,527,332
Securities lending collateral	6,003,421	21,931,891	—	8,555	444	11,891	—	—	27,956,202
Other	27,192,946	36,467,806	—	—	—	—	2,736,585	—	66,397,337
Total investments	363,838,894	247,023,795	39,592	1,530,090	114,460	8,301,224	16,470,311	116,679	637,435,045
Receivables (net)	12,436,116	3,821,987	2,557	7,497	121	38,322	31,319	714	16,338,633
Due from other funds	789,365	—	72	46	—	42	68	67	789,660
Due from other governments	—	—	—	—	—	—	7	—	7
Loans receivable	—	2,723,533	—	—	—	—	4,331	—	2,727,864
Other assets	502,283	276,001	—	—	—	—	—	—	778,284
Total assets	**379,036,035**	**254,205,239**	**44,668**	**1,540,105**	**115,997**	**8,378,155**	**16,522,610**	**133,142**	**659,975,951**
DEFERRED OUTFLOWS OF RESOURCES	130,411	117,457	598	741	198	1,222	1,369	239	252,235
Total assets and deferred outflows of resources	**379,166,446**	**254,322,696**	**45,266**	**1,540,846**	**116,195**	**8,379,377**	**16,523,979**	**133,381**	**660,228,186**
LIABILITIES									
Accounts payable	10,717	3,346,989	27	3	11	—	3,344	2,983	3,364,074
Due to other governments	—	—	—	—	—	—	—	—	—
Benefits payable	105,593	263,254	—	—	49	61,386	2,963	740	433,985
Securities lending obligations	5,992,919	21,917,706	—	8,540	443	11,870	—	—	27,931,478
Loans payable	—	2,731,737	—	—	—	—	—	—	2,731,737
Other liabilities	19,056,653	1,139,097	5,585	6,760	1,808	11,902	12,819	2,385	20,237,009
Total liabilities	**25,165,882**	**29,398,783**	**5,612**	**15,303**	**2,311**	**85,158**	**19,126**	**6,108**	**54,698,283**
DEFERRED INFLOWS OF RESOURCES	5,063	55,278	23	29	8	47	451	150	61,049
Total liabilities and deferred inflows of resources	**25,170,945**	**29,454,061**	**5,635**	**15,332**	**2,319**	**85,205**	**19,577**	**6,258**	**54,759,332**
NET POSITION									
Restricted for pension and other postemployment benefits	353,995,501	224,868,635	39,631	1,525,514	113,876	8,294,172	—	116,135	588,953,464
Held in trust for:									
Deferred compensation participants	—	—	—	—	—	—	16,504,402	—	16,504,402
Individuals, organizations, or other governments	—	—	—	—	—	—	—	10,988	10,988
Total net position	**$ 353,995,501**	**$ 224,868,635**	**$ 39,631**	**$ 1,525,514**	**$ 113,876**	**$ 8,294,172**	**$ 16,504,402**	**$ 127,123**	**$ 605,468,854**

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, 2018

(amounts in thousands)

	Defined Benefit Pension Plans					Defined Benefit OPEB Plan			
	Public Employees' Retirement	State Teachers' Retirement	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	Annuitants' Health Care Coverage	Deferred Compensation	Other Pension and Other Employee Benefit Trust	Total
ADDITIONS									
Contributions:									
Employer	$ 19,917,796	$ 4,866,661	$ 199,241	$ 79,699	$ 467	$ 3,915,969	$ 1,431	$ 28,218	$ 29,009,482
Plan member	4,415,129	3,496,245	3,062	27,513	82	—	779,073	42,226	8,763,330
Non-employer	—	2,796,673	—	—	—	—	—	—	2,796,673
Total contributions	24,332,925	11,159,579	202,303	107,212	549	3,915,969	780,504	70,444	40,569,485
Investment income:									
Net appreciation (depreciation) in fair value of investments	24,906,678	13,653,813	—	101,529	5,492	532,134	1,265,004	4,271	40,468,921
Interest, dividends, and other investment income	3,720,761	5,710,958	848	1,339	66	1,853	18,975	152	9,454,952
Less: investment expense	(1,065,798)	(691,234)	(3)	(1,048)	(72)	(3,335)	(589)	(43)	(1,762,122)
Net investment income (loss)	27,561,641	18,673,537	845	101,820	5,486	530,652	1,283,390	4,380	48,161,751
Other	8,030	105,144	2,533	—	—	6,522	21,177	2,775	146,181
Total additions	**51,902,596**	**29,938,260**	**205,681**	**209,032**	**6,035**	**4,453,143**	**2,085,071**	**77,599**	**88,877,417**
DEDUCTIONS									
Distributions to beneficiaries	22,654,444	14,432,810	207,815	31,745	6,918	2,907,220	49,892	70,618	40,361,462
Refunds of contributions	286,979	103,886	8	50	—	—	5,702	—	396,625
Administrative expense	505,513	217,761	2,106	2,370	671	3,862	24,046	3,028	759,357
Interest expense	—	94,249	—	—	—	—	—	—	94,249
Payments to and for depositors	—	—	—	—	—	30,193	482,859	9,046	522,098
Total deductions	**23,446,936**	**14,848,706**	**209,929**	**34,165**	**7,589**	**2,941,275**	**562,499**	**82,692**	**42,133,791**
Change in net position	28,455,660	15,089,554	(4,248)	174,867	(1,554)	1,511,868	1,522,572	(5,093)	46,743,626
Net position – beginning	**325,539,841 ***	**209,779,081 ***	**43,879 ***	**1,350,647 ***	**115,430 ***	**6,782,304 ***	**14,981,830 ***	**132,216 ***	**558,725,228**
Net position – ending	**$ 353,995,501**	**$ 224,868,635**	**$ 39,631**	**$ 1,525,514**	**$ 113,876**	**$ 8,294,172**	**$ 16,504,402**	**$ 127,123**	**$ 605,468,854**

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Agency Funds

Agency funds account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State, acting in the capacity of an agent, for distribution to other governmental units or other organizations. Following are brief descriptions of agency funds.

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

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

Other agency activity funds account for other assets held by the State, which acts as an agent for individuals, private organizations, and other governments.

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2018

(amounts in thousands)

	Receipting and Disbursing	Deposit	Other Agency Activities	Total
ASSETS				
Cash and pooled investments	$ 3,178,764	$ 1,173,977	$ 26,343	$ 4,379,084
Receivables (net)	4,177,966	435,109	4,385	4,617,460
Due from other funds	22,758,821	48,921	2,471	22,810,213
Due from other governments	35,854	—	—	35,854
Interfund receivable	18,941	226,524	3,076	248,541
Loans receivable	—	—	3,636	3,636
Other assets	33	37,015	—	37,048
Total assets	**$ 30,170,379**	**$ 1,921,546**	**$ 39,911**	**$ 32,131,836**
LIABILITIES				
Accounts payable	$ 20,690,688	$ 51,760	$ 6,595	$ 20,749,043
Due to other governments	9,430,935	3,593	6,992	9,441,520
Tax overpayments	487	—	—	487
Revenues received in advance	—	728	—	728
Deposits	35,077	1,150,571	11,758	1,197,406
Other liabilities	13,192	714,894	14,566	742,652
Total liabilities	**$ 30,170,379**	**$ 1,921,546**	**$ 39,911**	**$ 32,131,836**

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Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year Ended June 30, 2018

(amounts in thousands)

Receipting and Disbursing Fund

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
ASSETS				
Cash and pooled investments	$ 2,657,727	$ 217,304,349	$ 216,783,312	$ 3,178,764
Receivables (net)	3,477,332	6,441,841	5,741,207	4,177,966
Due from other funds	19,628,211	37,843,159	34,712,549	22,758,821
Due from other governments	36,903	26,322	27,371	35,854
Interfund receivable	—	18,941	—	18,941
Other assets	55	—	22	33
Total assets	**$ 25,800,228**	**$ 261,634,612**	**$ 257,264,461**	**$ 30,170,379**
LIABILITIES				
Accounts payable	$ 17,917,915	$ 57,014,578	$ 54,241,805	$ 20,690,688
Due to other governments	7,833,556	146,330,964	144,733,585	9,430,935
Tax overpayments	832	134,613	134,958	487
Deposits	36,312	156,428	157,663	35,077
Other liabilities	11,613	24,122	22,543	13,192
Total liabilities	**$ 25,800,228**	**$ 203,660,705**	**$ 199,290,554**	**$ 30,170,379**

Deposit Fund

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
ASSETS				
Cash and pooled investments	$ 1,792,052	$ 29,161,802	$ 29,779,877	$ 1,173,977
Receivables (net)	254,650	1,264,062	1,083,603	435,109
Due from other funds	4,082	120,447	75,608	48,921
Due from other governments	263	17	280	—
Interfund receivable	—	226,524	—	226,524
Other assets	37,015	—	—	37,015
Total assets	**$ 2,088,062**	**$ 30,772,852**	**$ 30,939,368**	**$ 1,921,546**
LIABILITIES				
Accounts payable	$ 91,472	$ 163,959	$ 203,671	$ 51,760
Due to other governments	4,443	522	1,372	3,593
Revenues received in advance	794	—	66	728
Deposits	1,133,066	15,903,067	15,885,562	1,150,571
Other liabilities	858,287	12,047,330	12,190,723	714,894
Total liabilities	**$ 2,088,062**	**$ 28,114,878**	**$ 28,281,394**	**$ 1,921,546**

Other Agency Activity Funds

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
ASSETS				
Cash and pooled investments	$ 27,470	$ 31,923	$ 33,050	$ 26,343
Receivables (net)	1,460	2,925	—	4,385
Due from other funds	802	2,202	533	2,471
Interfund receivable	—	3,076	—	3,076
Loans receivable	4,328	900	1,592	3,636
Total assets	**$ 34,060**	**$ 41,026**	**$ 35,175**	**$ 39,911**
LIABILITIES				
Accounts payable	$ 3,787	$ 3,578	$ 770	$ 6,595
Due to other governments	6,569	12,707	12,284	6,992
Deposits	10,344	4,159	2,745	11,758
Other liabilities	13,360	1,268	62	14,566
Total liabilities	**$ 34,060**	**$ 21,712**	**$ 15,861**	**$ 39,911**

Total Agency Funds

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
ASSETS				
Cash and pooled investments	$ 4,477,249	$ 246,498,074	$ 246,596,239	$ 4,379,084
Receivables (net)	3,733,442	7,708,828	6,824,810	4,617,460
Due from other funds	19,633,095	37,965,808	34,788,690	22,810,213
Due from other governments	37,166	26,339	27,651	35,854
Interfund receivable	—	248,541	—	248,541
Loans receivable	4,328	900	1,592	3,636
Other assets	37,070	—	22	37,048
Total assets	**$ 27,922,350**	**$ 292,448,490**	**$ 288,239,004**	**$ 32,131,836**
LIABILITIES				
Accounts payable	$ 18,013,174	$ 57,182,115	$ 54,446,246	$ 20,749,043
Due to other governments	7,844,568	146,344,193	144,747,241	9,441,520
Tax overpayments	832	134,613	134,958	487
Revenues received in advance	794	—	66	728
Deposits	1,179,722	16,063,654	16,045,970	1,197,406
Other liabilities	883,260	12,072,720	12,213,328	742,652
Total liabilities	**$ 27,922,350**	**$ 231,797,295**	**$ 227,587,809**	**$ 32,131,836**

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Nonmajor Component Units

Nonmajor component units are legally separate entities that are discretely presented in the State's financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The inclusion of component units in the State's financial statements reflects the State's financial accountability for or relationships with these organizations such that exclusion would cause the State's financial statements to be misleading. Following are brief descriptions of the nonmajor consolidated component unit segments.

Financing authorities provide financing for transportation, business development and public improvements, and coastal and inland urban waterfront restoration projects. These agencies include the California Alternative Energy and Advanced Transportation Financing Authority, the California Infrastructure and Economic Development Bank, and the California Urban Waterfront Area Restoration Financing Authority.

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

District agricultural associations were created to exhibit all of the industries, industrial enterprises, resources, and products of the State. The financial information presented is as of and for the year ended December 31, 2017.

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, 2018
(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
ASSETS					
Current assets:					
Cash and pooled investments	$ 4,131	$ 478,578	$ 104,117	$ 675,388	$ 1,262,214
Investments	—	574,360	—	—	574,360
Restricted assets:					
Cash and pooled investments	332,709	—	10,989	3,585	347,283
Investments	45,806	—	3,296	—	49,102
Receivables (net)	20,940	471,542	7,422	35,975	535,879
Prepaid items	331	—	1,054	2,613	3,998
Other current assets	—	35,273	87	—	35,360
Total current assets	403,917	1,559,753	126,965	717,561	2,808,196
Noncurrent assets:					
Restricted assets:					
Cash and pooled investments	—	39,908	—	—	39,908
Investments	64,373	—	3,306	—	67,679
Investments	—	2,049,498	—	74,350	2,123,848
Receivables (net)	—	232,399	—	783	233,182
Loans receivable	347,674	—	—	2,817	350,491
Long-term prepaid charges	—	—	—	142	142
Capital assets:					
Land	—	129,245	22,246	5,089	156,580
Collections – nondepreciable	—	12,474	—	421	12,895
Buildings and other depreciable property	9	1,219,965	753,061	127,614	2,100,649
Intangible assets – amortizable	—	9,288	—	935	10,223
Less: accumulated depreciation/amortization	(5)	(597,854)	(485,528)	(53,279)	(1,136,666)
Construction/development in progress	—	55,434	13,810	4,486	73,730
Intangible assets – nonamortizable	—	5,098	197	116	5,411
Other noncurrent assets	—	36,869	532	9,273	46,674
Total noncurrent assets	412,051	3,192,324	307,624	172,747	4,084,746
Total assets	**815,968**	**4,752,077**	**434,589**	**890,308**	**6,892,942**
DEFERRED OUTFLOWS OF RESOURCES	7,739	37,782	26,293	18,125	89,939
Total assets and deferred outflows of resources	**$ 823,707**	**$ 4,789,859**	**$ 460,882**	**$ 908,433**	**$ 6,982,881**

(continued)

Combining Statement of Net Position (continued)

Nonmajor Component Units

June 30, 2018
(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
LIABILITIES					
Current liabilities:					
Accounts payable	$ 1,367	$ 92,403	$ 11,609	$ 667,237	$ 772,616
Revenues received in advance	—	77,605	4,203	1,059	82,867
Deposits	—	—	1,454	346	1,800
Contracts and notes payable	—	13,116	237	—	13,353
Interest payable	3,593	—	516	—	4,109
Current portion of long-term obligations	13,917	232,198	1,777	1,841	249,733
Other current liabilities	41,647	102,412	3,546	3,200	150,805
Total current liabilities	60,524	517,734	23,342	673,683	1,275,283
Noncurrent liabilities:					
Compensated absences payable	322	5,554	9,864	—	15,740
Workers' compensation benefits payable	—	31,151	414	—	31,565
Loans payable	1,037	—	—	—	1,037
Commercial paper and other borrowings	—	2,926	—	—	2,926
Capital lease obligations	—	237,440	—	—	237,440
Revenue bonds payable	335,145	47,221	43,611	19,909	445,886
Net other postemployment benefits liability	14,243	121,645	9,452	83,795	229,135
Net pension liability	9,725	82,280	105,742	58,203	255,950
Other noncurrent liabilities	30,428	486,686	6,042	18,239	541,395
Total noncurrent liabilities	390,900	1,014,903	175,125	180,146	1,761,074
Total liabilities	**451,424**	**1,532,637**	**198,467**	**853,829**	**3,036,357**
DEFERRED INFLOWS OF RESOURCES	1,738	45,034	784	21,842	69,398
Total liabilities and deferred inflows of resources	**453,162**	**1,577,671**	**199,251**	**875,671**	**3,105,755**
NET POSITION					
Net investment in capital assets	—	259,778	252,558	65,195	577,531
Restricted:					
Nonexpendable – endowments	—	1,274,214	—	24,036	1,298,250
Expendable:					
Endowments and gifts	—	—	—	11,873	11,873
Education	—	1,025,148	—	20,762	1,045,910
Statute	372,287	—	—	—	372,287
Other purposes	4	—	16,884	—	16,888
Total expendable	372,291	1,025,148	16,884	32,635	1,446,958
Unrestricted	(1,746)	653,048	(7,811)	(89,104)	554,387
Total net position	**370,545**	**3,212,188**	**261,631**	**32,762**	**3,877,126**
Total liabilities, deferred inflows of resources, and net position	**$ 823,707**	**$ 4,789,859**	**$ 460,882**	**$ 908,433**	**$ 6,982,881**

(concluded)

Combining Statement of Activities

Nonmajor Component Units

Year Ended June 30, 2018

(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
OPERATING EXPENSES					
Personal services	$ 4,855	$ 379,382	$ 119,570	$ 35,562	$ 539,369
Scholarships and fellowships	—	70,329	—	4,270	74,599
Supplies	—	—	—	11,532	11,532
Services and charges	8,166	1,212,192	118,197	36,383	1,374,938
Depreciation	2	52,604	20,097	2,986	75,689
Interest expense and fiscal charges	11,197	21,343	1,791	1,396	35,727
Other	—	91,424	466	7,910	99,800
Total operating expenses	**24,220**	**1,827,274**	**260,121**	**100,039**	**2,211,654**
PROGRAM REVENUES					
Charges for services	2,179	750,071	260,775	61,300	1,074,325
Operating grants and contributions	861	668,654	—	15,846	685,361
Capital grants and contributions	—	13,643	239	696	14,578
Total program revenues	**3,040**	**1,432,368**	**261,014**	**77,842**	**1,774,264**
Net revenues (expenses)	(21,180)	(394,906)	893	(22,197)	(437,390)
GENERAL REVENUES					
Investment and interest income (loss)	14,619	133,703	221	10,510	159,053
Other	3,126	437,411	4,078	11,405	456,020
Total general revenues	**17,745**	**571,114**	**4,299**	**21,915**	**615,073**
Change in net position	(3,435)	176,208	5,192	(282)	177,683
Net position – beginning	**373,980** *	**3,035,980** *	**256,439**	**33,044** *	**3,699,443**
Net position – ending	**$ 370,545**	**$ 3,212,188**	**$ 261,631**	**$ 32,762**	**$ 3,877,126**

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Statistical Section

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Financial Trends

Financial trend schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time. This section includes the following financial trend schedules.

Schedule of Net Position by Component

Schedule of Changes in Net Position

Schedule of Fund Balances – Governmental Funds

Schedule of Changes in Fund Balances – Governmental Funds

Source: The information in the following schedules is derived from the State's Comprehensive Annual Financial Reports.

Schedule of Net Position by Component

For the Past Ten Fiscal Years

(accrual basis of accounting, amounts in thousands)

	2009	2010	2011 [2]	2012	2013	2014 [3]	2015 [4]	2016	2017	2018 [5]
Governmental activities										
Net investment in capital assets	$ 83,285,184	$ 84,085,632	$ 85,460,957	$ 80,768,527	$ 84,931,030	$ 94,001,659	$ 100,694,652	$ 104,596,917	$ 107,042,274	$ 109,614,321
Restricted – Expendable	8,391,814	14,987,867	27,865,821	24,871,510	24,315,913	24,950,740	26,632,502	29,060,971	33,832,232	35,053,202
Unrestricted [1]	(86,302,434)	(103,272,097)	(123,783,314)	(123,897,753)	(117,383,903)	(116,948,128)	(169,744,967)	(168,542,861)	(169,499,683)	(213,316,033)
Total governmental activities net position (deficit)	**$ 5,374,564**	**$ (4,198,598)**	**$ (10,456,536)**	**$ (18,257,716)**	**$ (8,136,960)**	**$ 2,004,271**	**$ (42,417,813)**	**$ (34,884,973)**	**$ (28,625,177)**	**$ (68,648,510)**
Business-type activities										
Net investment in capital assets	$ (130,634)	$ 89,334	$ 1,382,957	$ 1,561,258	$ 1,718,648	$ 2,065,550	$ 2,278,252	$ 2,520,621	$ 2,295,270	$ 2,469,723
Restricted – Nonexpendable	—	—	21,812	21,584	20,627	16,219	13,448	8,653	1,746	1,708
Restricted – Expendable	3,855,051	3,404,682	3,615,945	4,571,036	5,151,915	4,897,314	4,523,496	5,750,634	6,307,218	12,083,737
Unrestricted	717,740	(4,250,609)	(4,214,494)	(3,346,849)	(2,824,738)	(1,661,692)	(5,360,817)	(3,707,406)	(1,321,132)	(16,464,573)
Total business-type activities net position (deficit)	**$ 4,442,157**	**$ (756,593)**	**$ 806,220**	**$ 2,807,029**	**$ 4,066,452**	**$ 5,317,391**	**$ 1,454,379**	**$ 4,572,502**	**$ 7,283,102**	**$ (1,909,405)**
Primary government										
Net investment in capital assets	$ 83,154,550	$ 84,174,966	$ 86,843,914	$ 82,329,785	$ 86,649,678	$ 96,067,209	$ 102,972,904	$ 107,117,538	$ 109,337,544	$ 112,084,044
Restricted – Nonexpendable	—	—	21,812	21,584	20,627	16,219	13,448	8,653	1,746	1,708
Restricted – Expendable	12,246,865	18,392,549	31,481,766	29,442,546	29,467,828	29,848,054	31,155,998	34,811,605	40,139,450	47,136,939
Unrestricted	(85,584,694)	(107,522,706)	(127,997,808)	(127,244,602)	(120,208,641)	(118,609,820)	(175,105,784)	(172,250,267)	(170,820,815)	(229,780,606)
Total primary government net position (deficit)	**$ 9,816,721**	**$ (4,955,191)**	**$ (9,650,316)**	**$ (15,450,687)**	**$ (4,070,508)**	**$ 7,321,662**	**$ (40,963,434)**	**$ (30,312,471)**	**$ (21,342,075)**	**$ (70,557,915)**

[1] Governmental activities' unrestricted net position reflects a negative balance because of outstanding bonded debt issued to build capital assets for school districts and other local governmental entities and unfunded employee-related obligations—net pension liability, net other postemployment benefits (OPEB) liability and compensated absences.

[2] In fiscal year 2011, the net position of governmental activities and business-type activities changed primarily as a result of the reclassification of the $1.2 billion beginning net position of the California State University Fund from a governmental fund to an enterprise fund.

[3] In fiscal year 2014, the net position of governmental activities and business-type activities changed primarily as a result of the reclassification of the $380 million beginning net position of the Public Buildings Construction Fund from an enterprise fund to an internal service fund.

[4] In fiscal year 2015, the net position of governmental activities and business-type activities significantly decreased as a result of implementing GASB Statements No. 68 and No. 71 requiring the recognition of net pension liability and related pension expense and deferred outflows and inflows of resources.

[5] In fiscal year 2018, the net position of governmental activities and business-type activities significantly decreased as a result of implementing GASB Statement No. 75 requiring the recognition of net OPEB liability and related OPEB 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)

	2009	2010	2011 [4]	2012	2013	2014 [5]	2015	2016	2017	2018 [6]
Governmental activities										
Expenses										
General government	$ 13,895,948	$ 12,454,969	$ 13,520,557	$ 14,411,737	$ 15,390,100	$ 14,292,179	$ 15,804,281	$ 16,686,037	$ 17,400,482	$ 18,378,216
Education	65,643,486	61,764,385	56,486,944	51,288,647	50,586,387	54,719,677	59,521,018	65,467,497	67,377,805	70,280,444
Health and human services	79,077,015	80,799,454	92,475,364	89,939,730	94,069,749	105,037,102	122,063,805	127,543,288	135,090,171	137,828,737
Natural resources and environmental protection	5,626,359	6,019,104	5,853,278	5,950,635	5,670,922	5,854,685	6,419,591	6,988,442	7,342,079	8,304,162
Business, consumer services, and housing	1,518,402	979,962	1,405,019	1,241,269	1,475,486	589,715	903,782	814,676	1,163,511	1,258,104
Transportation	11,980,315	14,155,767	11,119,644	13,719,927	12,836,192	13,427,229	12,897,591	12,120,820	12,947,296	14,259,461
Corrections and rehabilitation	10,835,203	10,310,229	10,295,564	10,343,574	10,081,736	11,234,705	11,483,573	11,875,294	13,086,499	14,921,295
Interest on long-term debt	3,801,283	4,146,259	4,377,064	4,365,181	4,349,632	4,699,265	4,880,625	4,231,581	4,191,283	4,154,485
Total expenses	**192,378,011**	**190,630,129**	**195,533,434**	**191,260,700**	**194,460,204**	**209,854,557**	**233,974,266**	**245,727,635**	**258,599,126**	**269,384,904**
Program revenues										
Charges for services:										
General government	4,781,126	4,918,132	5,057,082	6,841,334	6,196,586	5,994,608	6,502,363	6,525,736	5,825,533	5,726,900
Education	3,483,072	4,231,692	110,423	81,212	64,480	67,165	53,498	66,298	74,548	37,147
Health and human services	4,256,069	3,769,794	8,471,261	4,940,650	8,761,781	7,961,897	8,259,696	10,630,859	11,638,503	12,968,379
Natural resources and environmental protection	2,578,738	2,597,712	2,797,264	2,866,232	3,269,315	3,403,524	4,546,413	4,823,861	3,998,751	6,319,879
Business, consumer services, and housing	658,486	654,034	660,196	724,222	682,503	586,055	626,960	823,189	844,445	957,885
Transportation	4,210,461	5,420,261	4,010,433	4,342,668	4,082,616	4,247,258	4,382,901	4,532,300	4,611,244	6,053,140
Corrections and rehabilitation	21,592	18,097	14,981	16,757	45,153	13,645	18,557	19,411	17,988	39,887
Operating grants/contributions	57,828,622	75,469,783	67,849,215	58,777,006	60,943,536	69,861,130	84,896,237	86,628,827	89,497,290	87,812,627
Capital grants/contributions	1,142,691	962,388	1,272,326	2,193,189	1,669,021	1,515,890	1,319,430	1,480,351	3,027,780	1,882,595
Total program revenues	**78,960,857**	**98,041,893**	**90,243,181**	**80,783,270**	**85,714,991**	**93,651,172**	**110,606,055**	**115,530,832**	**119,536,082**	**121,798,439**
Total governmental activities net program expenses	**(113,417,154)**	**(92,588,236)**	**(105,290,253)**	**(110,477,430)**	**(108,745,213)**	**(116,203,385)**	**(123,368,211)**	**(130,196,803)**	**(139,063,044)**	**(147,586,465)**
General revenues and other changes in net position										
General revenues:										
Personal income taxes	45,709,344	43,866,857	51,719,107	54,368,347	67,502,738	68,793,292	78,098,865	80,303,076	85,712,013	94,460,551
Sales and use taxes	31,244,979	33,784,106	33,521,221	31,216,438	33,839,065	36,477,724	38,224,080	39,121,061	38,726,332	39,784,494
Corporation taxes	10,741,140	9,472,611	9,384,416	8,629,935	7,289,910	9,102,128	10,720,647	9,213,173	11,128,198	12,608,756
Motor vehicle excise taxes [1]	—	—	—	5,263,435	5,219,605	5,777,167	5,393,994	5,028,589	4,878,953	6,680,858
Insurance taxes	2,063,555	2,235,251	2,311,880	2,408,473	2,295,579	3,359,043	3,926,319	4,203,885	2,719,489	2,754,056
Managed care organization enrollment tax [2]	—	—	—	—	—	—	—	—	2,282,313	2,397,531
Other taxes [1]	5,264,685	5,234,531	7,768,010	2,368,748	2,498,248	2,302,231	2,235,498	2,158,874	2,574,456	3,573,848
Investment and interest	175,584	114,933	62,946	72,237	57,285	80,969	58,016	131,615	149,135	297,782
Escheat	315,642	149,996	229,146	372,215	551,580	487,937	400,807	304,960	325,755	378,180
Gain (loss) on early extinguishment of debt [3]	—	—	—	—	—	(54,537)	—	40,516	30,986	—
Transfers	21,015	(13,441,875)	(3,251,598)	(2,031,032)	(1,997,759)	(2,296,010)	(2,554,970)	(2,800,101)	(3,083,437)	(4,339,995)
Total general revenues and other changes in net position	**95,535,944**	**81,416,410**	**101,745,128**	**102,668,796**	**117,256,251**	**124,029,944**	**136,503,256**	**137,705,648**	**145,444,193**	**158,596,061**
Total governmental activities change in net position	**$ (17,881,210)**	**$ (11,171,826)**	**$ (3,545,125)**	**$ (7,808,634)**	**$ 8,511,038**	**$ 7,826,559**	**$ 13,135,045**	**$ 7,508,845**	**$ 6,381,149**	**$ 11,009,596**

(continued)

[1] Motor vehicle excise taxes, reported separately in fiscal year 2012 due to material increases, were included with "other taxes" in prior years.

[2] In fiscal year 2017, the State restructured its managed care organization enrollment tax to conform to federal Medicaid requirements. This tax revenue was included with "insurance taxes" in prior years.

[3] In fiscal year 2014, a component unit assumed debt on behalf of the primary government. In fiscal year 2016, the California State University, an enterprise fund, assumed debt on behalf of the Public Buildings Construction Fund, an internal service fund. In fiscal year 2017, the Golden State Tobacco Securitization Corporation, a nonmajor special revenue fund, recognized a gain from using existing resources to defease a portion of its capital appreciation bonds.

[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.

[6] In fiscal year 2018, the Safe Drinking Water State Revolving Fund was reclassified from a governmental fund to an enterprise fund.

Schedule of Changes in Net Position (continued)

For the Past Ten Fiscal Years

(accrual basis of accounting, amounts in thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 [6]
Business-type activities										
Expenses										
Electric Power	$ 4,560,000	$ 3,908,000	$ 2,317,000	$ 915,000	$ 488,000	$ 835,000	$ 799,000	$ 728,000	$ 945,000	$ 952,000
Water Resources	914,837	1,069,662	1,115,793	1,047,574	1,127,195	983,048	1,019,378	1,086,650	1,223,340	1,221,866
Public Buildings Construction [5]	420,465	494,332	390,173	403,853	410,404	—	—	—	—	—
State Lottery	3,069,365	3,166,447	3,507,524	4,431,709	4,499,451	5,078,935	5,560,299	6,315,957	6,271,875	7,006,591
Unemployment Programs	19,609,068	29,614,598	25,619,138	21,111,658	17,599,219	13,673,403	11,390,227	11,458,966	11,907,623	12,133,531
California State University [4]	—	—	5,851,355	6,181,397	6,196,541	6,544,936	6,847,789	7,199,277	8,001,396	9,806,114
High Technology Education	15,590	15,025	9,590	7,778	6,568	847	—	—	—	—
State University Dormitory Building Maintenance and Equipment	486,349	856,106	—	—	—	—	—	—	—	—
State Water Pollution Control Revolving	12,261	16,893	10,953	8,780	3,698	5,072	9,082	11,814	17,112	32,335
Safe Drinking Water State Revolving [6]	—	—	—	—	—	—	—	—	—	21,994
Housing Loan	130,777	122,114	104,667	89,570	70,356	57,206	58,280	55,627	62,885	57,088
Other enterprise programs	147,441	130,329	118,006	78,601	58,578	79,641	77,475	84,188	75,397	96,078
Total expenses	**29,366,153**	**39,393,506**	**39,044,199**	**34,275,920**	**30,460,010**	**27,258,088**	**25,761,530**	**26,940,479**	**28,504,628**	**31,327,597**
Program revenues										
Charges for services:										
Electric Power	4,560,000	3,908,000	2,317,000	915,000	488,000	835,000	799,000	728,000	945,000	952,000
Water Resources	914,837	1,069,662	1,115,793	1,047,574	1,127,195	983,048	1,019,378	1,086,650	1,223,340	1,221,866
Public Buildings Construction [5]	366,151	430,069	456,467	428,260	616,041	—	—	—	—	—
State Lottery	3,051,320	3,145,259	3,484,689	4,484,291	4,445,921	5,077,976	5,553,418	6,367,902	6,213,074	6,975,168
Unemployment Programs	14,273,975	11,255,098	24,678,783	21,947,781	18,597,962	15,167,258	13,402,902	13,866,028	14,437,094	15,594,045
California State University [4]	—	—	2,505,545	2,915,123	2,891,432	3,014,030	3,113,988	3,172,154	3,224,919	3,387,420
High Technology Education	15,975	13,015	10,498	8,452	5,585	424	—	—	—	—
State University Dormitory Building Maintenance and Equipment	811,454	599,571	—	—	—	—	—	—	—	—
State Water Pollution Control Revolving	59,923	56,121	55,957	57,540	60,173	62,985	65,959	70,245	75,912	86,789
Safe Drinking Water State Revolving [6]	—	—	—	—	—	—	—	—	—	22,675
Housing Loan	109,636	85,321	89,224	84,830	66,050	65,247	57,742	53,617	52,842	52,735
Other enterprise programs	124,952	98,957	105,676	74,693	80,540	77,671	78,625	82,029	93,177	86,911
Operating grants/contributions	—	—	1,216,808	1,249,995	1,323,345	1,491,559	1,666,292	1,764,962	1,805,406	2,132,665
Capital grants/contributions	71,882	91,808	86,272	106,057	142,304	80,903	107,746	66,914	61,027	—
Total program revenues	**24,360,105**	**20,752,881**	**36,122,712**	**33,319,596**	**29,844,548**	**26,856,101**	**25,865,050**	**27,258,501**	**28,131,791**	**30,512,274**
Total business-type activities net program revenues (expenses)	**(5,006,048)**	**(18,640,625)**	**(2,921,487)**	**(956,324)**	**(615,462)**	**(401,987)**	**103,520**	**318,022**	**(372,837)**	**(815,323)**
Other changes in net position										
Gain (loss) on early extinguishment of debt [3]	—	—	—	—	—	(26,913)	—	—	—	—
Transfers	(21,015)	13,441,875	3,251,598	2,031,032	1,997,759	2,296,010	2,554,970	2,800,101	3,083,437	4,339,995
Total business-type activities change in net position	**(5,027,063)**	**(5,198,750)**	**330,111**	**1,074,708**	**1,382,297**	**1,867,110**	**2,658,490**	**3,118,123**	**2,710,600**	**3,524,672**
Total primary government change in net position	**$ (22,908,273)**	**$ (16,370,576)**	**$ (3,215,014)**	**$ (6,733,926)**	**$ 9,893,335**	**$ 9,693,669**	**$ 15,793,535**	**$ 10,626,968**	**$ 9,091,749**	**$ 14,534,268**

(concluded)

Schedule of Fund Balances – Governmental Funds

For the Past Ten Fiscal Years
(modified accrual basis of accounting, amounts in thousands)

	2009	2010	2011 [1]	2012	2013	2014	2015	2016	2017	2018
General Fund										
Reserved	$ 2,260,504	$ 1,320,782	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Unreserved	(18,344,400)	(20,929,640)	—	—	—	—	—	—	—	—
Nonspendable	—	—	148,019	7,614	140,107	128,609	53,431	75,939	103,903	559,644
Restricted	—	—	156,496	80,849	178,643	394,246	2,266,635	4,044,911	7,429,825	9,807,729
Committed	—	—	29,850	19,600	22,879	125,120	102,793	68,102	180,755	171,020
Unassigned	—	—	(20,273,606)	(23,069,351)	(14,596,085)	(8,092,571)	(4,651,491)	(3,827,224)	(1,904,097)	1,648,511
Total General Fund	**$ (16,083,896)**	**$ (19,608,858)**	**$ (19,939,241)**	**$ (22,961,288)**	**$ (14,254,456)**	**$ (7,444,596)**	**$ (2,228,632)**	**$ 361,728**	**$ 5,810,386**	**$ 12,186,904**
All other governmental funds										
Reserved	$ 27,465,566	$ 41,087,578	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Unreserved, reported in:										
Special revenue funds	(3,539,254)	(8,554,611)	—	—	—	—	—	—	—	—
Capital projects funds	686,113	838,879	—	—	—	—	—	—	—	—
Nonspendable	—	—	39,448	—	15,022	27,260	5,620	11,188	20,172	69,868
Restricted	—	—	27,709,325	24,790,661	24,137,270	24,269,093	24,224,167	24,885,166	26,233,389	25,051,548
Committed	—	—	2,701,702	2,109,089	2,318,035	2,914,747	4,090,563	5,652,478	5,847,879	7,897,362
Assigned	—	—	268,888	3	209,171	18,857	16,767	14,622	12,033	26,346
Unassigned	—	—	(21,847)	(103,177)	(176,066)	(20,145)	(6,456)	(1,037)	(15,152)	—
Total all other governmental funds	**$ 24,612,425**	**$ 33,371,846**	**$ 30,697,516**	**$ 26,796,576**	**$ 26,503,432**	**$ 27,209,812**	**$ 28,330,661**	**$ 30,562,417**	**$ 32,098,321**	**$ 33,045,124**

Note: In fiscal year 2011, the State implemented GASB Statement No. 54, which significantly changed the fund balance classifications. Fiscal year 2011 and subsequent fund balance classifications are not comparable to prior years' classifications.

[1] In fiscal year 2011, the California State University Fund, which consisted of a $1.2 billion beginning fund balance, was reclassified from a governmental fund to an enterprise fund.

Schedule of Changes in Fund Balances - Governmental Funds

For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	2009	2010	2011 [3]	2012	2013	2014	2015	2016	2017	2018
Revenues										
Personal income taxes	$ 45,482,726	$ 43,884,798	$ 51,691,153	$ 54,442,733	$ 67,424,576	$ 68,771,667	$ 78,245,616	$ 79,934,285	$ 85,737,905	$ 94,484,443
Sales and use taxes	31,425,308	33,696,412	33,488,805	31,205,183	33,869,961	36,409,311	38,389,972	39,136,040	38,741,715	39,777,069
Corporation taxes	10,738,140	9,467,611	9,433,416	8,609,935	7,261,910	9,242,454	10,780,647	9,214,173	11,125,198	12,597,928
Motor vehicle excise taxes [1]	—	—	—	5,263,435	5,219,605	5,777,167	5,393,994	5,028,589	4,878,953	6,680,858
Insurance taxes	2,063,555	2,235,251	2,311,881	2,408,473	2,295,579	3,359,043	3,926,319	4,203,885	2,719,489	2,754,056
Managed care organization enrollment tax [2]	—	—	—	—	—	—	—	—	2,282,313	2,397,531
Other taxes [1]	5,245,416	5,235,801	7,829,662	2,306,717	2,425,184	2,297,025	2,312,875	2,185,690	2,565,928	3,548,182
Intergovernmental	61,053,091	79,183,291	69,160,916	62,235,671	64,418,808	73,000,600	87,740,667	91,069,753	95,709,784	92,904,469
Licenses and permits	5,805,369	6,900,747	6,767,437	6,600,001	6,659,078	6,957,117	7,270,994	7,612,551	8,113,542	8,761,620
Charges for services	986,773	974,181	1,008,647	728,980	741,201	769,302	849,895	870,142	860,241	975,314
Fees and penalties	6,204,288	7,291,894	10,262,387	8,315,452	10,673,104	9,757,476	10,510,727	11,882,699	11,571,934	13,548,471
Investment and interest	1,108,058	281,881	212,116	175,898	135,928	137,754	119,690	232,285	318,502	607,418
Escheat	315,642	149,996	229,146	372,215	551,580	488,945	406,899	305,394	327,614	382,793
Other	3,933,035	3,555,282	2,941,484	2,542,505	3,227,347	2,903,335	3,975,144	4,049,789	2,934,157	5,318,739
Total revenues	**174,361,401**	**192,857,145**	**195,337,050**	**185,207,198**	**204,903,861**	**219,871,196**	**249,923,439**	**255,725,275**	**267,887,275**	**284,738,891**
Expenditures										
General government	13,075,901	12,036,503	12,997,651	13,484,305	15,748,069	14,778,214	16,202,395	16,715,892	17,250,720	18,978,389
Education	63,857,066	59,229,726	55,547,139	50,362,337	49,692,763	53,309,436	62,952,621	65,213,542	67,224,796	69,902,627
Health and human services	78,731,136	80,321,470	91,941,309	89,473,391	94,621,630	104,781,494	122,259,036	127,201,314	134,372,094	138,018,275
Natural resources and environmental protection	5,209,684	5,456,904	5,254,757	5,358,575	5,318,332	5,508,860	6,006,446	6,278,363	6,712,838	7,987,878
Business, consumer services, and housing	1,266,068	1,088,494	1,183,536	1,219,499	1,259,392	621,037	670,774	1,130,213	1,103,694	1,189,365
Transportation	13,803,518	14,083,790	13,181,390	15,684,611	15,008,671	15,721,532	15,137,217	14,814,829	15,007,639	17,169,040
Corrections and rehabilitation	9,883,593	9,553,992	9,253,791	9,805,846	9,681,086	10,395,234	11,182,926	11,450,980	12,276,391	14,665,524
Capital outlay	1,432,376	1,691,674	1,128,011	1,296,413	1,222,342	1,909,010	1,019,335	1,492,442	1,238,700	612,769
Debt service:										
Bond and commercial paper retirement	5,131,600	3,259,203	3,118,906	4,435,992	5,189,150	7,002,941	8,482,380	6,929,866	9,364,550	8,598,856
Interest and fiscal charges	3,584,358	4,022,922	4,355,110	4,453,643	4,363,260	4,321,040	4,473,799	4,057,907	3,986,270	3,961,704
Total expenditures	**195,975,300**	**190,744,678**	**197,961,600**	**195,574,612**	**202,104,695**	**218,348,798**	**248,386,929**	**255,285,348**	**268,537,692**	**281,084,427**
Excess (deficiency) of revenues over (under) expenditures	(21,613,899)	2,112,467	(2,624,550)	(10,367,414)	2,799,166	1,522,398	1,536,510	439,927	(650,417)	3,654,464
Other financing sources (uses)										
General obligation bonds and commercial paper issued	16,764,085	12,039,472	4,525,000	4,165,515	4,038,095	5,082,305	4,343,165	4,074,980	4,325,075	5,283,365
Revenue bonds issued	97,635	—	—	—	—	—	—	—	—	—
Refunding/remarketing debt issued	—	4,176,050	—	4,300,555	4,634,365	2,077,330	5,086,100	5,220,320	7,074,225	6,681,855
Payment to refund/remarket long-term debt	—	(4,221,604)	—	(4,508,834)	(3,174,613)	(328,024)	(3,865,093)	(4,378,328)	(3,038,281)	(3,726,204)
Premium on bonds issued	126,107	267,980	32,607	667,931	964,211	505,026	1,116,811	1,037,920	1,309,254	1,036,320
Proceeds from loans	—	1,996,737	35,538	—	—	—	—	—	—	—
Capital leases	364,813	811,816	204,631	528,804	710,440	1,486,204	625,282	1,148,774	988,680	405,930
Transfers in	6,776,476	6,548,447	8,705,229	5,523,644	2,957,762	4,041,250	5,344,134	4,385,123	4,586,199	4,266,596
Transfers out	(6,689,658)	(19,952,766)	(11,902,800)	(7,499,131)	(4,898,754)	(6,304,047)	(7,934,754)	(7,130,142)	(7,551,627)	(8,555,594)
Total other financing sources	**17,439,458**	**1,666,132**	**1,600,205**	**3,178,484**	**5,231,506**	**6,560,044**	**4,715,645**	**4,358,647**	**7,693,525**	**5,392,268**
Total change in fund balance	**$ (4,174,441)**	**$ 3,778,599**	**$ (1,024,345)**	**$ (7,188,930)**	**$ 8,030,672**	**$ 8,082,442**	**$ 6,252,155**	**$ 4,798,574**	**$ 7,043,108**	**$ 9,046,732**
Debt service as a percentage of noncapital expenditures	4.6%	3.9%	3.9%	4.7%	4.9%	5.3%	5.3%	4.4%	5.1%	4.6%

[1] Motor vehicle excise taxes, reported separately in fiscal year 2012 due to material increases, were included with "other taxes" in prior years.

[2] In fiscal year 2017, the State restructured its managed care organization enrollment tax to conform to federal Medicaid requirements. This tax revenue was included with "insurance taxes" in prior years.

[3] In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.

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Revenue Capacity

Revenue capacity schedules contain information to help the reader assess the State's capacity to raise revenue and the sources of that revenue. This section includes the following revenue capacity schedules.

Schedule of Revenue Base
Schedule of Revenue Payers by Income Level/Industry
Schedule of Personal Income Tax Rates

Schedule of Revenue Base

For the Past Ten Calendar Years
(amounts in thousands)

	2008	2009	2010	2011
Personal Income by Industry				
(items restated as footnoted) [1]				
Farm earnings	$ 11,106,106	$ 12,353,918	$ 13,158,193	$ 15,198,140
Forestry, fishing, and other natural resources	5,846,897	5,843,512	6,400,497	6,693,485
Mining	7,161,014	4,407,806	4,620,076	5,251,493
Construction and utilities	73,677,307	63,527,010	64,196,131	62,972,017
Manufacturing	122,746,904	113,311,993	115,565,437	119,852,946
Wholesale trade	56,664,424	51,178,861	52,651,124	56,488,847
Retail trade	70,141,490	66,566,961	69,564,024	72,732,632
Transportation and warehousing	33,195,174	31,539,745	33,579,755	36,376,555
Information, finance, and insurance	118,514,884	119,984,148	130,737,220	135,321,324
Real estate and rental and leasing	31,513,132	33,474,649	36,963,992	47,395,981
Services	433,280,763	417,996,629	439,206,312	467,337,237
Federal, civilian	22,294,322	23,413,156	25,736,809	26,083,443
Military	14,559,860	15,579,596	16,264,215	16,062,725
State and local government	179,150,537	177,405,543	177,461,935	181,063,132
Other [2]	426,911,691	417,646,137	441,733,296	489,583,154
Total personal income	**$ 1,606,764,505**	**$ 1,554,229,664**	**$ 1,627,839,016**	**$ 1,738,413,111**
Average effective rate [3]	5.7%	5.2%	4.7%	5.3%

	2012	2013	2014	2015	2016	2017
Personal Income by Industry						
(items restated as footnoted) [1]						
Farm earnings	$ 17,356,593	$ 20,049,107	$ 22,059,308	$ 21,372,154	$ 18,530,925	$ 22,523,816
Forestry, fishing, and other natural resources	7,504,590	7,928,931	8,377,804	9,306,866	9,839,986	10,174,653
Mining	6,041,129	6,522,865	6,767,639	5,039,127	3,837,717	3,026,435
Construction and utilities	67,862,415	75,578,567	81,245,751	89,612,217	94,829,175	102,994,717
Manufacturing	124,666,659	126,302,825	133,264,173	139,817,905	145,764,299	154,388,705
Wholesale trade	59,067,338	61,598,279	66,001,226	70,528,366	70,466,840	73,976,742
Retail trade	77,323,055	79,202,104	82,466,141	86,378,279	86,199,023	89,451,738
Transportation and warehousing	37,949,820	39,849,739	42,798,845	46,656,349	49,806,143	53,857,784
Information, finance, and insurance	144,204,507	157,149,112	160,946,504	175,499,613	191,586,390	209,566,441
Real estate and rental and leasing	55,245,202	52,971,172	50,451,414	52,958,405	55,357,883	59,699,575
Services	506,565,209	515,553,620	553,295,287	590,143,886	611,756,625	642,486,823
Federal, civilian	26,157,961	25,771,225	26,498,641	27,663,625	28,560,772	29,370,219
Military	15,933,633	15,353,761	15,043,948	14,905,222	15,395,195	15,031,600
State and local government	179,834,589	190,303,808	200,325,665	212,335,637	221,798,464	230,772,194
Other [2]	527,754,528	511,537,315	572,097,688	631,082,019	655,684,428	666,807,962
Total personal income	**$ 1,853,467,228**	**$ 1,885,672,430**	**$ 2,021,640,034**	**$ 2,173,299,670**	**$ 2,259,413,865**	**$ 2,364,129,404**
Average effective rate [3]	5.0%	6.1%	5.6%	6.1%	6.0%	5.9%

(continued)

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

[1] Prior years were updated based on more current information.

[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)

	2008	2009 [1]	2010	2011	2012	2013	2014	2015 [5]	2016 [5]	2017
Taxable Sales by Industry [1]										
Retail:										
Apparel	$ 22,120,094									
General merchandise	56,425,472									
Specialty	27,380,740									
Food	21,504,308									
Restaurants and bars	52,051,404									
Household	17,199,187									
Building materials	26,647,007									
Automotive	106,555,420									
Other	27,434,795									
Business and personal service	22,045,958									
All other	152,289,155									
Total taxable sales	**$ 531,653,540**									
Direct sales tax rate [2]	5.25%									
Taxable Sales by Industry (Using NAICS Codes) [1]										
Retail and Food Services:										
Motor vehicle and parts dealers		$ 44,488,198	$ 47,355,568	$ 53,303,501	$ 61,547,848	$ 67,986,436	$ 73,232,242	$ 80,346,595	$ 84,225,652	$ 86,983,283
Furniture and home furnishings stores		8,481,020	8,742,984	9,280,688	9,937,187	10,645,523	11,408,837	12,169,888	12,790,041	13,035,519
Electronics and appliance stores		13,384,338	13,749,019	14,297,402	14,744,723	14,765,485	15,148,893	16,349,542	17,120,030	17,170,722
Building materials, garden equipment, and supplies		23,978,313	24,750,865	26,064,428	27,438,083	29,680,053	31,299,110	33,601,538	35,238,333	37,504,338
Food and beverage		22,546,285	22,787,407	23,606,132	24,511,714	25,289,203	26,298,414	27,134,034	27,678,056	28,799,204
Health and personal care stores		9,244,958	9,525,910	10,309,491	10,787,801	11,294,049	11,640,870	12,364,559	13,163,569	13,668,611
Gasoline stations		39,077,835	45,226,491	55,210,076	58,006,168	56,860,585	55,733,384	48,203,205	43,273,082	47,435,052
Clothing and clothing accessories stores		25,641,272	27,267,430	29,600,057	32,357,516	34,918,036	36,822,241	38,438,074	39,698,156	40,206,357
Sporting goods, hobby, book, and music stores		10,294,172	10,365,480	10,602,711	10,751,814	11,113,831	11,056,024	11,341,328	11,441,556	10,900,749
General merchandise stores		44,921,639	46,323,804	48,219,018	49,996,451	51,431,094	52,013,855	48,371,010	48,255,569	49,352,728
Miscellaneous store retailers		16,385,169	16,569,690	17,187,402	17,880,765	18,382,224	19,024,905	19,852,685	19,617,820	19,720,375
Nonstore retailers		2,849,864	2,830,615	3,081,188	4,375,432	7,296,839	8,292,788	9,531,606	11,717,407	13,600,147
Food services and drinking places		49,921,543	51,282,453	54,755,944	59,037,320	62,776,360	67,864,614	73,889,708	78,494,623	82,354,453
All other outlets		145,278,339	150,570,269	165,050,017	177,014,427	184,399,899	195,985,698	202,290,022	206,365,477	211,755,043
Total taxable sales		**$ 456,492,945**	**$ 477,347,985**	**$ 520,568,055**	**$ 558,387,249**	**$ 586,839,617**	**$ 615,821,875**	**$ 633,883,794**	**$ 649,079,371**	**$ 672,486,581**
Direct sales tax rate [2]		7.25% [3]	7.25%	6.25% [4]	6.25%	6.50%	6.50%	6.50%	6.50%	6.00%

Source: California State Board of Equalization (BOE) and California Department of Tax and Fee Administration

(concluded)

[1] Due to the BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 and forward is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008; as a result, 2009 was the first year that the BOE used the new format with NAICS codes.

[2] The direct sales tax rate used is the state tax rate that provides revenue to the State's General Fund. It does not include the 1% local tax rate that is allocated to cities and counties.

[3] Rate change was effective on April 1, 2009.

[4] Rate change was effective on July 1, 2011.

[5] Updated based on more current information.

Schedule of Revenue Payers by Income Level/Industry

For Calendar Years 2008 and 2016

Personal Income Tax Filers and Liability by Income Level [1]

	2008			
	Number of Filers	Percent of Total	Tax Liability [2]	Percent of Total
Under $ 50,000	9,290,000	62.8 %	$ 1,496,521	3.6 %
50,000 to 99,999	3,212,195	21.7	5,320,210	12.8
100,000 to 149,999	1,201,298	8.1	5,302,549	12.7
150,000 to 199,999	491,523	3.3	3,992,510	9.6
200,000 to 299,999	330,664	2.2	4,532,627	10.8
300,000 to 399,999	110,417	0.7	2,494,343	6.0
400,000 to 499,999	51,888	0.4	1,652,743	4.0
500,000 to 599,999	29,717	0.2	1,210,439	2.9
600,000 to 699,999	17,343	0.1	857,937	2.1
700,000 to 799,999	13,150	0.1	770,004	1.8
800,000 to 899,999	8,659	0.1	573,667	1.4
900,000 to 999,999	6,963	0.1	523,996	1.3
1,000,000 to 1,999,999	26,331	0.2	2,996,315	7.2
2,000,000 to 2,999,999	6,882	0.0	1,463,676	3.5
3,000,000 to 3,999,999	2,906	0.0	899,907	2.1
4,000,000 to 4,999,999	1,624	0.0	663,001	1.6
$ 5,000,000 and over	4,774	0.0	6,925,765	16.6
Total	**14,806,334**	**100.0 %**	**$ 41,676,210**	**100.0 %**

	2016			
	Number of Filers	Percent of Total	Tax Liability [2]	Percent of Total
Under $ 50,000	9,755,887	58.8 %	$ 1,509,985	2.1 %
50,000 to 99,999	3,574,318	21.5	6,119,052	8.6
100,000 to 149,999	1,475,266	8.9	7,080,004	9.9
150,000 to 199,999	709,610	4.3	6,096,817	8.5
200,000 to 299,999	558,698	3.5	8,039,777	11.2
300,000 to 399,999	206,208	1.2	4,803,103	6.7
400,000 to 499,999	97,256	0.6	3,194,024	4.5
500,000 to 599,999	54,109	0.3	2,295,071	3.2
600,000 to 699,999	34,244	0.2	1,788,836	2.5
700,000 to 799,999	23,558	0.1	1,477,134	2.1
800,000 to 899,999	15,838	0.1	1,171,183	1.6
900,000 to 999,999	12,188	0.1	1,032,658	1.4
1,000,000 to 1,999,999	43,638	0.3	5,788,099	8.1
2,000,000 to 2,999,999	10,873	0.1	2,842,154	4.0
3,000,000 to 3,999,999	4,736	0.0	1,824,089	2.5
4,000,000 to 4,999,999	2,656	0.0	1,356,961	1.9
$ 5,000,000 and over	7,538	0.0	15,138,867	21.2
Total	**16,586,621**	**100.0 %**	**$ 71,557,814**	**100.0 %**

Source: California Franchise Tax Board

[1] For California resident tax returns. Calendar year 2016 is the most recent year for which data is available.

[2] Amounts are in thousands.

For Calendar Years 2008 and 2017

Sales Tax Permits and Tax Liability by Industry

	2008 (Using Business Codes) [1]			
	Number of Permits [2]	Percent of Total	Tax Liability [3]	Percent of Total
Retail:				
Apparel	53,510	5.2 %	$ 1,161,305	4.2 %
General merchandise	23,055	2.2	2,962,337	10.6
Specialty	75,430	7.3	1,437,489	5.2
Food	24,773	2.5	1,128,976	4.1
Restaurants and bars	91,554	8.8	2,732,699	9.8
Household	33,469	3.2	902,957	3.2
Building materials	12,130	1.2	1,398,968	5.0
Automotive	44,300	4.3	5,594,160	20.0
Other	140,042	13.5	1,440,327	5.2
Business and personal service	101,690	9.8	1,157,413	4.1
All other	434,722	42.0	7,995,181	28.6
Total	**1,034,675**	**100.0 %**	**$ 27,911,812**	**100.0 %**

	2017 (Using NAICS Codes) [1]			
	Number of Permits	Percent of Total	Tax Liability	Percent of Total
Retail and Food Services:				
Motor vehicle and parts dealers	35,046	3.1 %	$ 5,218,997	13.0 %
Furniture and home furnishings stores	20,224	1.8	782,131	1.9
Electronics and appliance stores	24,229	2.0	1,030,243	2.6
Building materials, garden equipment, and supplies	18,306	1.6	2,250,260	5.6
Food and beverage	35,294	3.1	1,727,952	4.3
Health and personal care stores	44,701	3.9	820,117	2.0
Gasoline stations	10,093	0.9	2,846,103	7.1
Clothing and clothing accessories stores	107,777	9.4	2,412,381	6.0
Sporting goods, hobby, book, and music stores	35,454	3.1	654,045	1.6
General merchandise stores	26,105	2.3	2,961,164	7.3
Miscellaneous store retailers	184,116	15.9	1,183,223	2.9
Nonstore retailers	60,494	5.3	816,009	2.0
Food services and drinking places	114,010	9.9	4,941,267	12.2
All other outlets	432,898	37.7	12,705,303	31.5
Total	**1,148,747**	**100.0 %**	**$ 40,349,195**	**100.0 %**

Source: California Board of Equalization (BOE) and California Department of Tax and Fee Administration

[1] Due to the BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 and forward is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008; as a result, 2009 was the first year that the BOE used the new format with NAICS codes.

[2] As of July 1.

[3] Calculated by multiplying the taxable sales by industry shown on pages 306 and 307 by the direct sales tax rate. Amounts are in thousands.

Schedule of Personal Income Tax Rates

For Calendar Years 2008-2017

Married Filing Jointly and Surviving Spouse

Tax Rate [1]	2008 Income Level	2009 Income Level	2010 Income Level	2011 Income Level	2012 Income Level	2013 Income Level	2014 Income Level	2015 Income Level	2016 Income Level	2017 Income Level
1.0	Up to $14,336	Up to $14,120	Up to $14,248	Up to $14,632	Up to $14,910	Up to $15,164	Up to $15,498	Up to $15,700	Up to $16,030	Up to $16,446
2.0	14,337 – 33,988	14,121 – 33,478	14,249 – 33,780	14,633 – 34,692	14,911 – 35,352	15,165 – 35,952	15,499 – 36,742	15,701 – 37,220	16,031 – 38,002	16,447 – 38,990
4.0	33,989 – 53,642	33,479 – 52,838	33,781 – 53,314	34,693 – 54,754	35,353 – 55,794	35,953 – 56,742	36,743 – 57,990	37,221 – 58,744	38,003 – 59,978	38,991 – 61,538
6.0	53,643 – 74,466	52,839 – 73,350	53,315 – 74,010	54,755 – 76,008	55,795 – 77,452	56,743 – 78,768	57,991 – 80,500	58,745 – 81,546	59,979 – 83,258	61,539 – 85,422
8.0	74,467 – 94,110	73,351 – 92,698	74,011 – 93,532	76,009 – 96,058	77,453 – 97,884	78,769 – 99,548	80,501 – 101,738	81,547 – 103,060	83,259 – 105,224	85,423 – 107,960
9.3	94,111 – 1,000,000	92,699 – 1,000,000	93,533 –1,000,000	96,059 – 1,000,000	97,885 – 500,000	99,549 – 508,500	101,739 – 519,688	103,061 – 526,444	105,225 – 537,500	107,961 – 551,476
10.3	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	500,001 – 600,000	508,501 – 610,200	519,689 – 623,624	526,445 – 631,732	537,501 – 644,998	551,477 – 661,768
11.3	—	—	—	—	600,001 – 1,000,000	610,201 – 1,000,000	623,625 – 1,000,000	631,733 – 1,000,000	644,999 – 1,000,000	661,769 – 1,000,000
12.3	—	—	—	—	$1,000,001 and over	1,000,001 – 1,017,000	1,000,001 – 1,039,374	1,000,001 – 1,052,886	1,000,001 – 1,074,996	1,000,001 – 1,102,946
13.3	—	—	—	—	—	$1,017,001 and over	$1,039,375 and over	$1,052,887 and over	$1,074,997 and over	$1,102,946 and over

Single and Married Filing Separately

Tax Rate [1]	2008 Income Level	2009 Income Level	2010 Income Level	2011 Income Level	2012 Income Level	2013 Income Level	2014 Income Level	2015 Income Level	2016 Income Level	2017 Income Level
1.0	Up to $7,168	Up to $7,060	Up to $7,124	Up to $7,316	Up to $7,455	Up to $7,582	Up to $7,749	Up to $7,850	Up to $8,015	Up to $8,223
2.0	7,169 – 16,994	7,061 – 16,739	7,125 – 16,890	7,317 – 17,346	7,456 – 17,676	7,583 – 17,976	7,750 – 18,371	7,851 – 18,610	8,016 – 19,001	8,224 – 19,495
4.0	16,995 – 26,821	16,740 – 26,419	16,891 – 26,657	17,347 – 27,377	17,677 – 27,897	17,977 – 28,371	18,372 – 28,995	18,611 – 29,372	19,002 – 29,989	19,496 – 30,769
6.0	26,822 – 37,233	26,420 – 36,675	26,658 – 37,005	27,378 – 38,004	27,898 – 38,726	28,372 – 39,384	28,996 – 40,250	29,373 – 40,773	29.990 – 41,629	30,770 – 42,711
8.0	37,234 – 47,055	36,676 – 46,349	37,006 – 46,766	38,005 – 48,029	38,727 – 48,942	39,385 – 49,774	40,251 – 50,869	40,774 – 51,530	41,630 – 52,612	42,712 – 53,980
9.3	47,056 – 1,000,000	46,350 – 1,000,000	46,767 – 1,000,000	48,030 –1,000,000	48,943 – 250,000	49,775 – 254,250	50,870 – 259,844	51,531 – 263,222	52,613 – 268,750	53,981 – 275,738
10.3	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	250,001 – 300,000	254,251 – 305,100	259,845 – 311,812	263,223 – 315,866	268,751 – 322,499	275,739 – 330,884
11.3	—	—	—	—	300,001 – 500,000	305,101 – 508,500	311,813 – 519,687	315,867 – 526,443	322,500 – 537,498	330,885 – 551,473
12.3	—	—	—	—	500,001 – 1,000,000	508,501 – 1,000,000	519,688 – 1,000,000	526,444 – 1,000,000	537,499 – 1,000,000	551,474 – 1,000,000
13.3	—	—	—	—	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over

Head of Household

Tax Rate [1]	2008 Income Level	2009 Income Level	2010 Income Level	2011 Income Level	2012 Income Level	2013 Income Level	2014 Income Level	2015 Income Level	2016 Income Level	2017 Income Level
1.0	Up to $14,345	Up to $14,130	Up to $14,257	Up to $14,642	Up to $14,920	Up to $15,174	Up to $15,508	Up to $15,710	Up to $16,040	Up to $16,457
2.0	14,346 – 33,989	14,131 – 33,479	14,258 – 33,780	14,643 – 34,692	14,921 – 35,351	15,175 – 35,952	15,509 – 36,743	15,711 – 37,221	16,041 – 38,003	16,458 – 38,991
4.0	33,990 – 43,814	33,480 – 43,157	33,781 – 43,545	34,693 – 44,721	35,352 – 45,571	35,953 – 46,346	36,744 – 47,366	37,222 – 47,982	38,004 – 48,990	38,992 – 50,264
6.0	43,815 – 54,225	43,158 – 53,412	43,546 – 53,893	44,722 – 55,348	45,572 – 56,400	46,347 – 57,359	47,367 – 58,621	47,983 – 59,383	48,991 – 60,630	50,265 – 62,206
8.0	54,226 – 64,050	53,413 – 63,089	53,894 – 63,657	55,349 – 65,376	56,401 – 66,618	57,360 – 67,751	58,622 – 69,242	59,384 – 70,142	60,631 – 71,615	62,207 – 73,477
9.3	64,051 – 1,000,000	63,090 – 1,000,000	63,658 – 1,000,000	65,377 – 1,000,000	66,619 – 340,000	67,752 – 345,780	69,243 – 353,387	70,143 – 357,981	71,616 – 365,499	73,478 – 375,002
10.3	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	340,001 – 408,000	345,781 – 414,936	353,388 – 424,065	357,982 – 429,578	365,500 – 438,599	375,003 – 450,003
11.3	—	—	—	—	408,001 – 680,000	414,937 – 691,560	424,066 – 706,774	429,579 – 715,962	438,600 – 730,997	450,004 – 750,003
12.3	—	—	—	—	680,001 – 1,000,000	691,561 – 1,000,000	706,775 – 1,000,000	715,963 – 1,000,000	730,998 – 1,000,000	750,004 – 1,000,000
13.3	—	—	—	—	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$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)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Personal income tax revenue [1]	$ 55,197,062	$ 45,482,726	$ 43,884,798	$ 51,691,153	$ 54,442,733	$ 66,220,132	$ 67,584,256	$ 76,879,115	$ 78,510,777	$ 84,253,851
Adjusted gross income [2]	$ 972,420,100	$ 881,160,200	$ 939,888,500	$ 980,167,100	$ 1,087,823,400	$ 1,091,080,300	$ 1,216,002,700	$ 1,265,341,200	$ 1,318,362,700	$ 1,430,332,000
Average effective rate [3]	5.7%	5.2%	4.7%	5.3%	5.0%	6.1%	5.6%	6.1%	6.0%	5.9%

[1] Personal income tax revenue is reported on a fiscal year basis.

[2] Source: California Franchise Tax Board. Fiscal year 2017 information reflects returns processed as of December 2018.

[3] The average effective rate equals personal income tax revenue divided by adjusted gross income.

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Debt Capacity

Debt capacity schedules contain information to help the reader understand the State's outstanding debt, the capacity to repay that debt, and the ability to issue additional debt in the future. This section includes the following debt capacity schedules.

Schedule of Ratios of Outstanding Debt by Type

Schedule of Ratios of General Bonded Debt Outstanding

Schedule of General Obligation Bonds Outstanding

Schedule of Pledged Revenue Coverage

Sources: Unless otherwise noted, the information in the following schedules is derived from the State's Comprehensive Annual Financial Reports.

Schedule of Ratios of Outstanding Debt by Type

For the Past Ten Fiscal Years
(amounts in thousands, except per capita)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities										
General obligation bonds [1]	$ 68,653,507	$ 77,745,789	$ 79,469,085	$ 81,060,111	$ 82,346,211	$ 83,276,347	$ 80,509,802	$ 79,043,295	$ 79,503,871	$ 79,663,028
Revenue bonds [2]	7,767,855	7,611,939	7,511,092	7,421,198	7,735,053	18,917,443	18,409,971	17,210,499	16,879,900	16,364,255
Certificates of participation and commercial paper [3]	1,407,908	1,342,119	1,335,340	46,098	538,593	598,094	493,770	771,215	1,158,080	859,695
Capital lease obligations [4]	4,456,039	4,967,290	4,882,233	5,176,341	5,319,487	260,088	274,760	370,182	416,468	481,261
Total governmental activities	**82,285,309**	**91,667,137**	**93,197,750**	**93,703,748**	**95,939,344**	**103,051,972**	**99,688,303**	**97,395,191**	**97,958,319**	**97,368,239**
Business-type activities										
General obligation bonds [1]	1,702,377	1,477,663	1,218,639	1,118,634	887,053	674,394	650,133	794,369	703,754	694,100
Revenue bonds [2]	23,053,114	24,538,094	23,290,315	24,790,918	25,558,129	12,991,827	12,670,619	13,928,374	14,955,858	14,319,372
Commercial paper	51,307	64,518	139,974	67,325	77,560	204,647	237,186	47,416	147,765	749,877
Capital lease obligations	—	—	791,489	817,687	909,871	1,250,274	1,210,409	389,385	353,453	309,928
Total business-type activities	**24,806,798**	**26,080,275**	**25,440,417**	**26,794,564**	**27,432,613**	**15,121,142**	**14,768,347**	**15,159,544**	**16,160,830**	**16,073,277**
Total primary government	**$ 107,092,107**	**$ 117,747,412**	**$ 118,638,167**	**$ 120,498,312**	**$ 123,371,957**	**$ 118,173,114**	**$ 114,456,650**	**$ 112,554,735**	**$ 114,119,149**	**$ 113,441,516**
Debt as a percentage of personal income [5, 7]	6.7%	7.6%	7.3%	6.9%	6.7%	6.3%	5.7%	5.2%	5.1%	4.8%
Amount of debt per capita [6, 7]	$ 2,926	$ 3,186	$ 3,178	$ 3,199	$ 3,245	$ 3,082	$ 2,957	$ 2,884	$ 2,904	$ 2,869

Note: Details regarding the State's outstanding debt can be found in Notes 9, 12, 13, 15, and 16 of the financial statements.

[1] Beginning in fiscal year 2013, refunding gains/losses are no longer included in bonds payable, but are shown as deferred inflows and deferred outflows of resources.

[2] Prior to fiscal year 2014, the Public Buildings Construction Fund was included in business-type activities.

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

[4] Prior to fiscal year 2014, governmental activities reported a capital lease obligation to the Public Buildings Construction Fund. In fiscal year 2014, the fund was reclassified from an enterprise fund to an internal service fund and the governmental activities' obligation and the fund's net investment in direct financing leases were netted against each other within governmental activities.

[5] Ratio calculated using personal income data shown on pages 324 and 325 for the prior calendar year.

[6] Amount calculated using population data shown on pages 324 and 325 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)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net general bonded debt										
General obligation bonds [1]	$ 61,724,439	$ 71,284,447	$ 73,516,674	$ 75,791,795	$ 78,001,049	$ 79,368,794	$ 80,215,650	$ 79,837,664	$ 79,503,871	$ 80,357,128
Economic Recovery bonds	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	894	113,172	143,777	330,297	278,425	318,171	818,321	—	—	—
Net Economic Recovery bonds [2]	**8,630,551**	**7,825,833**	**7,027,273**	**6,056,653**	**4,953,790**	**4,263,574**	**125,964**	**—**	**—**	**—**
Net general bonded debt	**$ 70,354,990**	**$ 79,110,280**	**$ 80,543,947**	**$ 81,848,448**	**$ 82,954,839**	**$ 83,632,368**	**$ 80,341,614**	**$ 79,837,664**	**$ 79,503,871**	**$ 80,357,128**
Net general bonded debt as a percentage of personal income [3, 5]	4.4%	5.1%	4.9%	4.7%	4.5%	4.4%	4.0%	3.7%	3.5%	3.4%
Amount of net general bonded debt per capita [4, 5]	$ 1,922	$ 2,140	$ 2,158	$ 2,173	$ 2,182	$ 2,181	$ 2,076	$ 2,045	$ 2,023	$ 2,032

Note: Details regarding the State's general bonded debt outstanding can be found in Note 15 of the financial statements.

[1] Beginning in fiscal year 2013, refunding gains/losses are no longer included in bonds payable, but are shown as deferred inflows and deferred outflows of resources.

[2] In fiscal year 2016, the outstanding balance of the Economic Recovery bonds was defeased and the balance in the restricted debt service fund was transferred out.

[3] Ratio calculated using personal income data shown on pages 324 and 325 for the prior calendar year.

[4] Amount calculated using population data shown on pages 324 and 325 for the prior calendar year.

[5] Some prior years were updated based on more current information.

Schedule of General Obligation Bonds Outstanding

June 30, 2018
(amounts in thousands)

Governmental activity		
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection	$	1,955,675
California Library Construction and Renovation		228,940
California Park and Recreational Facilities		8,525
California Parklands		1,720
California Safe Drinking Water		40,960
California Stem Cell Research and Cures		1,262,700
California Wildlife, Coastal, and Park Land Conservation		81,610
Children's Hospital		1,280,435
Class Size Reduction Public Education Facilities		4,610,950
Clean Air and Transportation Improvement		560,110
Clean Water		6,415
Clean Water and Water Conservation		3,150
Clean Water and Water Reclamation		14,605
Community Parklands		1,775
County Correctional Facility Capital Expenditure		9,655
County Correctional Facility Capital Expenditure and Youth Facility		45,105
Disaster Preparedness and Flood Prevention		2,591,070
Earthquake Safety and Public Buildings Rehabilitation		39,025
Fish and Wildlife Habitat Enhancement		4,120
Higher Education Facilities		266,340
Highway Safety, Traffic Reduction, Air Quality, and Port Security		16,653,215
Housing Emergency Shelter		1,560,605
Housing and Homeless		1,025
Kindergarten-University Public Education Facilities		28,458,975
New Prison Construction		15,585
Passenger Rail and Clean Air		13,600
Public Education Facilities		1,080,505
Safe, Clean, Reliable Water Supply		437,710
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection		1,221,070
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection		3,129,355
Safe Neighborhood Parks		1,259,015
Safe, Reliable High-Speed Passenger Train		2,684,455
School Building and Earthquake		10,640
School Facilities		710,570
Seismic Retrofit		927,010
State, Urban, and Coastal Park		2,795
Veterans' Homes		32,725
Veterans Housing and Homeless Prevention		7,240
Voting Modernization		60
Water Conservation		15,435
Water Conservation and Water Quality		20,535
Water Quality, Supply, and Infrastructure		445,345
Water Security, Clean Drinking Water, Coastal and Beach Protection		2,460,135
Total governmental activity		**74,160,490**
Business-type activity		
California Water Resources Development		54,065
Veterans' Farm and Home Building		634,585
Total business-type activity		**688,650**
Total outstanding general obligation bonds		**74,849,140**
Unamortized bond premiums/discounts		5,507,988
Total general obligation bonds payable	**$**	**80,357,128**

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	2009	$ 109,636	$ 21,838	$ 87,798	$ 22,205	$ 33,699	$ 55,904	1.57
	2010	85,321	16,404	68,917	111,085	34,874	145,959	0.47
	2011	89,224	15,802	73,422	130,770	32,619	163,389	0.45
	2012	84,830	20,322	64,508	88,105	24,914	113,019	0.57
	2013	66,050	18,369	47,681	51,554	16,271	67,825	0.70
	2014	65,247	19,452	45,795	47,620	14,926	62,546	0.73
	2015	57,742	24,413	33,329	12,960	14,095	27,055	1.23
	2016	53,428	21,916	31,512	64,085	21,525	85,610	0.38
	2017	52,117	30,926	21,191	118,685	11,368	130,053	0.16
	2018	52,480	25,943	26,537	8,290	10,380	18,670	1.42
Water Resources	2009	$ 914,837	$ 694,598	$ 220,239	$ 80,347	$ 130,219	$ 210,566	1.04
	2010	1,042,843	837,459	205,384	97,360	124,296	221,656	0.93
	2011	1,096,196	880,540	215,656	108,870	117,668	226,538	0.95
	2012	1,045,812	852,404	193,408	116,150	121,804	237,954	0.81
	2013	1,127,195	822,637	304,558	174,660	145,660	320,320	0.95
	2014	973,508	798,653	174,855	150,911	107,727	258,638	0.68
	2015	1,019,378	607,407	411,971	203,481	200,563	404,044	1.02
	2016	1,086,650	796,591	290,059	171,455	84,099	255,554	1.14
	2017	1,223,340	941,984	281,356	134,185	34,408	168,593	1.67
	2018	1,221,866	820,163	401,703	138,570	75,670	214,240	1.88
Water Pollution Control	2009	$ 59,923	$ 4,416	$ 55,507	$ 22,930	$ 7,747	$ 30,677	1.80
	2010	53,365	9,880	43,485	23,655	6,928	30,583	1.42
	2011	49,585	4,876	44,709	24,390	5,996	30,386	1.47
	2012	50,183	2,849	47,334	24,285	4,984	29,269	1.62
	2013	51,642	1,055	50,587	45,755	533	46,288	1.09
	2014	54,968	1,739	53,229	13,000	355	13,355	3.99
	2015	56,350	1,092	55,258	13,000	293	13,293	4.16
	2016	59,034	321	58,713	13,000	2,199	15,199	3.86
	2017	65,635	350	65,285	12,940	12,458	25,398	2.57
	2018	77,135	183	76,952	27,350	28,748	56,098	1.37

(continued)

Source: California State Controller's Office

[1] Total gross revenue includes non-operating interest revenue. Building authorities' revenue includes operating transfers in. The nature of the revenue pledged for each type of debt is as follows: investment and interest earnings for Housing Loans bonds and Water Pollution Control bonds; charges for services and sales for Water Resources bonds; power sales revenue for Electric Power bonds; rental revenue for Public Buildings Construction bonds, High Technology Education bonds, CSU Channel Island Financing Authority bonds, and building authorities bonds; residence fees for California State University bonds; tobacco settlements and investment earnings for the Golden State Tobacco Securitization Corporation bonds; and federal transportation funds for Grant Anticipation Revenue Vehicles.

[2] Total operating expenses are exclusive of depreciation, interest expense, and amortization (recovery) of long-term prepaid charges and refunding gains/losses. Prior to fiscal year 2012, bond issuance costs were amortized over the term of the bond. Beginning fiscal year 2012, bond issuance costs are operating expenses in the fiscal year incurred.

[3] Debt service requirements include principal and interest of revenue bonds.

[4] All revenue bonds have been redeemed.

[5] In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.

[6] Federal transportation funds are the only source of state revenue to pay these bonds, and the state obligation to pay debt service on these bonds is limited to and dependent on receipt of the federal funds.

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	2009	$ 4,560,000	$ 3,604,000	$ 956,000	$ 493,000	$ 399,000	$ 892,000	1.07
	2010	3,908,000	3,007,000	901,000	518,000	373,000	891,000	1.01
	2011	2,317,000	1,427,000	890,000	460,000	344,000	804,000	1.11
	2012	915,000	29,000	886,000	556,000	354,000	910,000	0.97
	2013	488,000	(408,000)	896,000	574,000	341,000	915,000	0.98
	2014	835,000	(46,000)	881,000	611,000	312,000	923,000	0.95
	2015	799,000	(132,000)	931,000	618,000	268,000	886,000	1.05
	2016	728,000	(182,000)	910,000	669,000	253,000	922,000	0.99
	2017	945,000	(29,000)	974,000	690,000	215,000	905,000	1.08
	2018	952,000	—	952,000	719,000	175,000	894,000	1.06
Public Buildings Construction	2009	$ 366,151	$ 78,489	$ 287,662	$ 360,559	$ 335,248	$ 695,807	0.41
	2010	430,069	120,565	309,504	377,998	367,055	745,053	0.42
	2011	423,775	507	423,268	394,490	383,185	777,675	0.54
	2012	426,960	13,211	413,749	405,585	384,400	789,985	0.52
	2013	616,041	13,479	602,562	554,985	395,073	950,058	0.63
	2014	431,890	14,403	417,487	412,085	439,888	851,973	0.49
	2015	462,703	3,646	459,057	782,975	492,868	1,275,843	0.36
	2016	413,807	6,455	407,352	1,192,065	452,796	1,644,861	0.25
	2017	447,238	6,899	440,339	481,680	402,201	883,881	0.50
	2018	440,902	4,023	436,879	709,805	415,551	1,125,356	0.39
High Technology Education [4]	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]	2009	$ 811,454	$ 261,628	$ 549,826	$ 43,572	$ 129,238	$ 172,810	3.18
	2010	599,572	577,765	21,807	47,815	151,988	199,803	0.11
	2011	3,722,414	5,455,059	(1,732,645)	56,344	172,231	228,575	(7.58)
	2012	4,165,118	5,770,880	(1,605,762)	138,535	174,914	313,449	(5.12)
	2013	4,215,258	5,754,800	(1,539,542)	126,395	181,969	308,364	(4.99)
	2014	4,505,589	6,376,502	(1,870,913)	257,964	173,424	431,388	(4.34)
	2015	4,780,280	6,363,534	(1,583,254)	400,412	177,642	578,054	(2.74)
	2016	4,937,116	6,672,956	(1,735,840)	114,585	166,964	281,549	(6.17)
	2017	5,030,325	7,479,645	(2,449,320)	120,570	200,678	321,248	(7.62)
	2018	5,393,953	9,225,942	(3,831,989)	296,516	255,133	551,649	(6.95)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
Building Authorities	2009	$ 78,733	$ 68	$ 78,665	$ 48,594	$ 25,028	$ 73,622	1.07
	2010	76,535	—	76,535	50,948	34,058	85,006	0.90
	2011	63,168	—	63,168	51,957	20,071	72,028	0.88
	2012	57,386	—	57,386	36,473	22,889	59,362	0.97
	2013	53,441	—	53,441	38,400	18,390	56,790	0.94
	2014	53,157	—	53,157	39,895	29,882	69,777	0.76
	2015	54,090	—	54,090	38,800	19,701	58,501	0.92
	2016	48,722	—	48,722	19,815	14,502	34,317	1.42
	2017	40,718	—	40,718	27,420	10,096	37,516	1.09
	2018	38,251	—	38,251	30,180	7,441	37,621	1.02
Golden State Tobacco Securitization Corporation	2009	$ 493,448	$ —	$ 493,448	$ 116,960	$ 320,679	$ 437,639	1.12
	2010	393,487	—	393,487	138,260	316,038	454,298	0.87
	2011	361,974	—	361,974	60,230	315,268	375,498	0.96
	2012	368,853	—	368,853	65,765	312,815	378,580	0.97
	2013	555,392	—	555,392	623,510	308,056	931,566	0.60
	2014	355,918	—	355,918	50,910	325,884	376,794	0.94
	2015	414,992	394	414,598	133,900	292,173	426,073	0.97
	2016	365,300	586	364,714	70,535	299,935	370,470	0.98
	2017	370,612	462	370,150	745,888	308,638	1,054,526	0.35
	2018	433,836	518	433,318	2,044,750	319,550	2,364,300	0.18
Grant Anticipation Revenue Vehicles [6]	2009	$ 77,193	$ —	$ 77,193	$ 55,275	$ 21,918	$ 77,193	1.00
	2010	83,272	—	83,272	62,335	20,937	83,272	1.00
	2011	84,294	—	84,294	64,785	19,509	84,294	1.00
	2012	84,290	—	84,290	67,730	16,560	84,290	1.00
	2013	84,296	—	84,296	70,990	13,306	84,296	1.00
	2014	84,289	—	84,289	74,400	9,889	84,289	1.00
	2015	84,289	—	84,289	78,090	6,199	84,289	1.00
	2016	11,393	—	11,393	8,970	2,423	11,393	1.00
	2017	11,390	—	11,390	9,360	2,030	11,390	1.00
	2018	11,393	—	11,393	9,830	1,563	11,393	1.00

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Demographic and Economic Information

The ***demographic and economic*** schedules contain trend information to help the reader understand the environment in which the State's financial activities occur. This section includes the following demographic and economic schedules.

Schedule of Demographic and Economic Indicators

For the Past Ten Calendar Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Population (in thousands) [1]										
California	36,604	36,961	37,328	37,673	38,019	38,347	38,701	39,032	39,296	39,537
% Change	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	0.7%	0.6%
United States	304,094	306,772	309,338	311,644	313,993	316,235	318,623	321,040	323,406	325,719
% Change	1.0%	0.9%	0.8%	0.7%	0.8%	0.7%	0.8%	0.8%	0.7%	0.7%
Total personal income (in millions) [1]										
California	$ 1,606,765	$ 1,554,230	$ 1,627,839	$ 1,738,413	$ 1,853,467	$ 1,885,672	$ 2,021,640	$ 2,173,300	$ 2,259,414	$ 2,364,129
% Change	1.5%	-3.3%	4.7%	6.8%	6.6%	1.7%	7.2%	7.5%	4.0%	4.6%
United States	$ 12,438,527	$ 12,051,307	$ 12,541,995	$ 13,315,478	$ 13,998,383	$ 14,175,503	$ 14,983,140	$ 15,711,634	$ 16,115,630	$ 16,820,250
% Change	3.6%	-3.1%	4.1%	6.2%	5.1%	1.3%	5.7%	4.9%	2.6%	4.4%
Per capita personal income [1, 2]										
California	$ 43,895	$ 42,050	$ 43,609	$ 46,145	$ 48,751	$ 49,173	$ 52,237	$ 55,679	$ 57,497	$ 59,796
% Change	0.5%	-4.2%	3.7%	5.8%	5.6%	0.9%	6.2%	6.6%	3.3%	4.0%
United States	$ 40,904	$ 39,284	$ 40,545	$ 42,727	$ 44,582	$ 44,826	$ 47,025	$ 48,940	$ 49,831	$ 51,640
% Change	2.7%	-4.0%	3.2%	5.4%	4.3%	0.5%	4.9%	4.1%	1.8%	3.6%
Labor force and employment (in thousands)										
California										
Civilian labor force	18,203	18,208	18,316	18,385	18,511	18,573	18,941	18,996	19,099	19,319
Employed	16,890	16,145	16,052	16,227	16,740	17,044	17,600	17,894	18,141	18,515
Unemployed	1,313	2,064	2,265	2,158	1,771	1,530	1,341	1,102	957	804
Unemployment rate	7.2%	11.3%	12.4%	11.7%	9.6%	8.2%	7.1%	5.8%	5.0%	4.2%
United States employment rate	5.8%	9.3%	9.6%	8.9%	8.1%	7.4%	6.2%	5.3%	4.9%	4.4%

Sources: Economic Research Unit, California Department of Finance; Bureau of Economic Analysis, U.S. Department of Commerce; Labor Market Information Division, California Employment Development Department; and Bureau of Labor Statistics, U.S. Department of Labor.

Note: This schedule presents data available as of January 2019.

[1] Some prior years were updated based on more current information.

[2] Calculated by dividing total personal income by population.

Schedule of Employment by Industry

For Calendar Years 2008 and 2017

	2008		2017	
	Employees	Percent of Total State Employment	Employees	Percent of Total State Employment
Industry				
Services	6,369,800	40.4 %	7,714,200	44.6 %
Government				
Federal	248,300	1.6	248,100	1.4
Military	54,700	0.3	60,800	0.4
State and Local	2,270,600	14.4	2,305,400	13.3
Retail trade	1,639,700	10.4	1,693,600	9.8
Manufacturing	1,432,700	9.1	1,311,900	7.6
Information, finance, and insurance	1,042,700	6.6	1,076,100	6.2
Construction and utilities	846,700	5.4	867,500	5.0
Wholesale trade	703,900	4.5	723,000	4.2
Transportation and warehousing	446,100	2.8	567,600	3.3
Farming	389,300	2.5	427,600	2.5
Real estate	275,900	1.8	283,100	1.6
Natural resources and mining	26,600	0.2	22,000	0.1
Total	**15,747,000**	**100.0 %**	**17,300,900**	**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
2009	22,347	135,720	50,996	21,985	16,350	42,254	60,957	350,609
2010	30,390	133,642	43,663	22,223	15,868	40,590	59,401	345,777
2011	32,535	138,017	48,638	23,611	17,043	44,844	67,272	371,960

Fiscal Year	General Government[1]	Education	Health and Human Services	Natural Resources and Environmental Protection	Business, Consumer Services, and Housing[1]	Transportation[1]	Corrections and Rehabilitation	Total
2012	44,673	131,039	46,431	24,199	6,236	41,758	62,472	356,808
2013	43,241	132,492	43,431	23,796	5,395	39,222	58,742	346,319
2014	43,858	136,244	44,343	24,156	5,409	39,015	60,871	353,896
2015	45,383	139,958	44,589	24,996	5,552	39,636	60,745	360,859
2016	42,904	146,552	40,943	22,804	5,083	39,050	53,344	350,680
2017	44,844	154,479	41,350	23,880	5,153	38,375	53,662	361,743
2018	44,041	161,842	40,399	21,785	5,327	38,488	56,638	368,520

Source: Annual Governor's Budget Summary, California Department of Finance

Note: The number of full-time equivalent employees is calculated by counting each person who works full time as one full-time equivalent and those who work part time as fractional equivalents based on time worked.

[1] Effective July 1, 2013, under the Governor's 2012 Reorganization Plan No. 2, a significant reorganization took place that impacted previously reported functions. The Government Operations Agency, including but not limited to Franchise Tax Board, Department of General Services, and the Public Employees' Retirement System, was created and added to the General Government function. Also, the business and housing components under the previously reported Business, Transportation, and Housing function merged with the State and Consumer Services function and the remaining transportation components now comprise the Transportation Agency. Information reported under the new functions are not comparable to that of prior years.

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Schedule of Operating Indicators by Function

For the Past Ten Fiscal Years

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Government										
State Lottery										
Total revenue [1]	$ 2,955	$ 3,041	$ 3,439	$ 4,371	$ 4,446	$ 5,035	$ 5,525	$ 6,276	$ 6,233	$ 6,966
Allocation to Education Fund [1]	$ 1,028	$ 1,072	$ 1,103	$ 1,300	$ 1,262	$ 1,328	$ 1,364	$ 1,563	$ 1,499	$ 1,665
Judicial Council of California										
Supreme Court [2, 9]										
Cases filed	9,485	9,759	10,328	9,232	8,029	7,907	7,860	8,079	7,317	N/A
Cases disposed	9,674	9,528	10,186	9,713	8,481	7,765	7,546	7,947	7,262	N/A
Courts of Appeal [9]										
Notices of appeal filed [3]										
Civil	5,958	6,122	6,258	6,505	6,052	5,983	6,062	5,935	5,975	N/A
Criminal	6,819	6,857	6,877	6,387	6,004	6,373	7,113	6,714	5,593	N/A
Juvenile	2,858	2,759	2,106	2,830	2,713	2,857	3,036	3,025	3,029	N/A
Trial Courts [9]										
Total civil cases [4]										
Filings	1,729,796	1,648,074	1,572,623	1,458,898	1,358,481	1,264,983	1,145,937	1,145,242	1,198,883	N/A
Dispositions	1,537,400	1,530,314	1,591,033	1,436,658	1,327,078	1,216,185	1,118,443	1,028,086	1,108,773	N/A
Department of Food and Agriculture										
Milk production (million lbs.) [5, 9]	39,512	40,385	41,462	41,801	41,256	42,339	40,897	40,469	39,798	N/A
Farm land (thousand acres) [5, 9]	25,500	25,500	25,600	25,600	25,500	25,500	25,400	25,400	25,300	N/A
Education										
Public Colleges and Universities										
Fall enrollment [9]										
Community Colleges	1,822,835	1,747,231	1,655,073	1,582,302	1,582,453	1,578,780	1,593,896	1,591,280	1,595,225	N/A
California State University	433,054	412,372	426,534	436,560	446,530	460,200	474,571	478,638	484,297	N/A
University of California	231,853	234,464	236,691	238,617	244,126	252,263	257,438	270,112	278,996	286,271
K-12 Schools										
Fall enrollment										
Public	6,252,011	6,190,425	6,217,002	6,220,993	6,226,989	6,236,672	6,235,520	6,226,737	6,228,235	6,220,413
Private	536,393	531,111	515,143	497,019	516,119	511,286	503,295	500,543	490,966	488,854

(continued)

Sources: California State Lottery; Judicial Council of California; U.S. Department of Agriculture, National Agricultural Statistics Service; California Departments of the California Highway Patrol, Finance, Fish and Wildlife, Education, Public Health, Motor Vehicles, Transportation, and Corrections and Rehabilitation; Employment Development Department; California Energy Commission; and Franchise Tax Board.

Note: This schedule presents data available as of January 2019.

[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 2018 is projected.

N/A = Not Available

Schedule of Operating Indicators by Function (continued)

For the Past Ten Fiscal Years

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Health and Human Services										
Department of Public Health										
Vital statistics										
Live births [5, 9, 10]	526,774	509,979	502,023	503,788	494,392	502,973	491,789	488,490	485,901	482,467
Department of Social Services										
Calfresh programs households (avg. per month)	1,067,358	1,340,857	1,576,042	1,757,387	1,898,283	2,004,016	2,102,031	2,130,583	2,032,818	1,979,526
Employment Development Department										
Number of employed [5, 6, 9]	14,326,300	14,476,400	14,614,600	15,240,400	16,109,200	16,062,300	16,474,800	16,904,100	17,240,200	N/A
Resources										
Department of Fish and Wildlife										
Sport fishing licenses sold [5, 9]	2,838,776	2,410,008	2,483,680	2,580,762	2,539,244	2,490,383	2,484,124	2,507,149	2,501,394	2,493,140
Hunting licenses sold [5, 9]	1,679,864	1,677,864	1,863,202	1,988,422	2,032,788	1,979,809	2,130,872	2,142,312	2,142,121	2,047,639
California Energy Commission										
Electrical energy generation plus net imports (gigawatt hours) [9]	298,483	291,224	293,898	302,486	296,464	297,344	296,124	290,775	292,031	N/A
Business, Consumer Services, and Housing										
Franchise Tax Board										
Personal Income Tax [5, 9]										
Number of tax returns filed	14,638,204	14,814,427	15,042,359	15,152,800	15,487,100	15,877,000	16,257,600	16,547,100	16,868,000	N/A
Taxable income [1]	$ 729,658	$ 794,758	$ 838,347	$ 948,523	$ 949,655	$ 1,064,347	$ 1,107,474	$ 1,154,906	$ 1,254,483	N/A
Total tax liability [1]	$ 38,870	$ 44,472	$ 43,921	$ 58,652	$ 55,679	$ 66,583	$ 68,498	$ 71,348	$ 79,927	N/A
Corporation Tax [5, 9]										
Number of tax returns filed	727,675	738,224	754,315	784,086	801,045	828,080	865,593	900,358	N/A	N/A
Income reported for taxation [1]	$ 55,367	$ 96,965	$ 93,456	$ 96,772	$ 101,913	$ 122,976	$ 140,534	$ 129,452	N/A	N/A
Total tax liability [1]	$ 7,858	$ 8,604	$ 7,808	$ 6,921	$ 7,166	$ 8,593	$ 9,235	$ 9,276	N/A	N/A
Transportation										
California Highway Patrol										
Total number of DUI arrests [5, 9]	95,135	89,814	86,901	79,993	76,860	73,425	65,016	60,202	58,195	60,336
Department of Motor Vehicles										
Motor vehicle registration [5, 9]	31,799,398	31,987,821	31,802,483	31,946,422	32,903,847	33,550,486	34,346,325	35,310,563	35,391,347	N/A
License issued by age [5, 7, 9]										
Under age 18	229,545	218,997	227,069	224,809	221,385	223,024	221,250	225,569	219,572	N/A
Between 18-80	22,910,011	23,001,119	23,150,222	23,462,971	23,824,697	24,195,705	25,089,910	25,639,270	26,078,773	N/A
Over age 80	560,491	579,397	579,207	602,508	597,350	595,739	603,691	619,807	659,530	N/A
Department of Transportation										
Highway center-line miles – rural [5, 8, 9]	10,808	10,785	10,780	10,784	10,315	10,312	10,407	10,259	10,259	N/A
Highway center-line miles – urban [5, 8, 9]	4,384	4,375	4,353	4,363	4,789	4,787	4,685	4,833	4,833	N/A
Correctional Programs										
Department of Corrections and Rehabilitation										
Division of Adult Institutions										
Institution population at December 31 each year	167,922	162,200	147,181	132,768	134,333	134,431	127,815	129,415	130,263	127,709
Division of Juvenile Justice										
Institution population at June 30 each year	1,589	1,474	1,263	922	712	675	681	690	638	629

(concluded)

Schedule of Capital Asset Statistics by Function

For the Past Ten Fiscal Years

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Government										
Department of Food and Agriculture										
Vehicles and mobile equipment	803	746	809	804	792	747	747	752	677	823
Square footage of structures (in thousands)	466	466	466	466	455	455	455	455	462	384
Department of Justice										
Vehicles and mobile equipment	870	816	677	531	527	520	520	484	511	509
Department of Military										
Vehicles and mobile equipment	182	208	249	233	211	211	211	217	218	261
Square footage of structures (in thousands)	3,383	3,154	3,530	3,511	3,623	4,019	3,977	3,965	3,954	3,770
Department of Veterans Affairs										
Veterans homes	5	6	6	6	8	8	8	8	8	8
Vehicles and mobile equipment	120	113	132	143	267	285	285	235	280	292
Square footage of structures (in thousands)	1,683	1,600	2,086	2,086	2,488	2,543	2,541	2,541	2,552	2,552
Education										
California State University [1]										
Vehicles and mobile equipment	4,015	4,338	4,415	4,326	4,467	4,555	4,619	4,945	4,838	5,216
Campuses	23	23	23	23	23	23	23	23	23	23
Square footage of structures (in thousands)	66,686	69,049	71,287	73,785	73,866	73,316	73,988	75,292	75,786	76,227
Health and Human Services										
Department of Developmental Services										
Vehicles and mobile equipment	701	569	818	789	632	424	571	640	559	616
Developmental centers	7	5	5	5	4	4	3	3	3	3
Square footage of structures (in thousands)	5,187	5,185	5,294	5,294	5,279	5,308	4,699	3,664	3,664	3,595
Department of State Hospitals [2]										
Vehicles and mobile equipment	658	665	709	718	699	886	752	678	674	728
State hospitals	5	5	5	5	7	7	7	8	5	5
Square footage of structures (in thousands)	6,348	6,331	6,331	6,336	6,457	6,460	6,445	6,445	5,944	5,944

(continued)

Source: California Department of General Services (DGS)

Note: This schedule presents data available as of February 2019.

[1] Some prior years were updated based on more current information provided by California State University.

[2] In fiscal year 2012, portions of the Department of Mental Health became the Department of State Hospitals.

Schedule of Capital Asset Statistics by Function (continued)

For the Past Ten Fiscal Years

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Resources										
Department of Fish and Wildlife										
Vehicles and mobile equipment	3,640	2,630	3,180	3,012	2,896	2,954	2,954	3,104	3,126	2,970
Square footage of structures (in thousands)	1,269	1,301	1,313	1,317	1,317	1,311	1,311	1,297	1,322	1,322
Department of Forestry and Fire Protection										
Vehicles and mobile equipment	3,067	2,598	2,804	2,810	2,845	2,748	2,748	3,151	3,073	3,115
Square footage of structures (in thousands)	3,851	3,947	3,943	3,935	3,641	3,632	3,664	3,666	3,677	3,640
Department of Parks and Recreation										
Vehicles and mobile equipment	3,220	3,102	3,715	4,200	3,311	3,489	3,489	3,538	3,542	3,804
State Parks	278	278	279	280	280	279	280	280	280	280
Acres of state park land (in thousands)	1,331	1,365	1,334	1,333	1,590	1,590	1,605	1,605	1,617	1,619
Square footage of structures (in thousands)	6,350	6,350	6,433	6,623	6,598	6,751	6,761	6,790	7,363	7,360
State Lands Commission										
Vehicles and mobile equipment	57	47	50	42	42	41	41	41	43	48
Acres of land (in thousands)	4,491	4,491	4,491	4,491	4,489	4,489	4,482	4,480	4,480	4,480
Business, Consumer Services, and Housing										
Department of Consumer Affairs										
Vehicles and mobile equipment	718	574	578	574	518	554	554	588	596	600
Department of General Services										
Vehicles and mobile equipment	6,736	5,761	5,670	4,991	5,226	5,053	5,053	4,697	4,476	4,465
Square footage of structures (in thousands)	18,084	18,394	18,602	19,180	19,098	19,367	19,448	19,311	19,487	19,565
Transportation										
California Highway Patrol										
Vehicles and mobile equipment	5,914	5,422	5,337	5,013	5,341	5,170	5,170	5,167	5,336	4,912
Square footage of structures (in thousands)	1,118	1,135	1,135	1,149	1,149	1,166	1,169	1,211	1,191	1,182
Department of Motor Vehicles										
Vehicles and mobile equipment	417	366	366	366	294	295	295	287	276	283
Square footage of structures (in thousands)	1,855	1,855	1,842	1,842	1,842	1,845	1,786	1,780	1,777	1,785
Department of Transportation										
Vehicles and mobile equipment	13,346	11,302	12,759	12,690	11,767	11,596	11,596	11,776	11,585	11,494
Square footage of structures (in thousands)	6,434	6,444	6,519	8,131	8,170	7,960	7,965	7,968	7,960	7,933
Correctional Programs										
Department of Corrections and Rehabilitation										
Vehicles and mobile equipment	7,778	5,787	5,985	5,952	5,156	5,137	5,968	5,291	8,079	7,571
Prisons and juvenile facilities	39	39	39	39	37	37	39	39	40	39
Square footage of structures (in thousands)	40,852	41,228	41,399	41,399	40,606	40,726	40,590	40,485	42,198	42,209

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Office of the State Controller

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California State Controller

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Editors

Jenna Lewis
Estelle Manticas

BETTY T. YEE
California State Controller's Office
State Accounting and Reporting Division
P.O. Box 942850
Sacramento, CA 94250
(916) 445-2636
www.sco.ca.gov

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