**APPENDIX A**

**THE STATE OF CALIFORNIA**


March 21, 2017

NOTE: Since the date of the Preliminary Official Statement, certain information in Appendix A has been updated, shown in *italics* on pages A-5, A-7, A-8, A-9, A-20, A-26, A-27, A-28, and A-88.

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## INTRODUCTION TO APPENDIX A

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

APPENDIX A is divided into two Parts. PART I contains information about the current state budget and economic forecasts, including an identification of certain Recent Developments since the state's last Official Statement, and the 2017-18 Governor's Budget. As the state (including certain of its agencies) issues bonds from time to time during the remainder of fiscal year 2016-17, PART I of APPENDIX A (including EXHIBIT 2) will be updated as needed to provide the most current, material information. PART II of APPENDIX A (including EXHIBIT 1 – "PENSION SYSTEMS") contains information on the basic structure of the state's finances, including details on revenues, expenditures and reserves, cash management, outstanding indebtedness and other information. The information in PART II will typically be updated twice per year: following release of the proposed Governor's Budget in January, and following enactment of the annual budget. The latter update will include revenue and economic forecasts presented in the May Revision of the Governor's January budget proposal. In the event there are material changes to the information contained in PART II after each update, such information will be highlighted in the "Recent Developments" section of PART I in the next published version of APPENDIX A, and the updated material will be clearly identified within PART II, such as by use of italics.

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

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

## PART I

## OVERVIEW

### Population and Economy of the State

California is by far the most populous state in the nation, nearly 50 percent larger than the second-ranked state according to the 2010 United States Census. The estimate of California's population as of July 2016 was 39.4 million residents, which was 12 percent of the total United States population.

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

Demographic and economic statistical information and a discussion of economic assumptions are included in APPENDIX A under "GOVERNOR'S PROPOSED FISCAL YEAR 2017-18 BUDGET—Economic Assumptions Underlying the 2017-18 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, although at a slightly slower rate than estimated at the 2016 Budget Act. The state's General Fund budget has achieved structural balance for the last several fiscal years. As part of the development of the proposed 2017-18 Governor's Budget, a $1.6 billion deficit was projected, absent corrective actions. The 2017-18 Governor's Budget proposed a total of $3.2 billion of solutions to achieve balanced budgets for 2017-18 and future years and to provide a prudent operating reserve. Based on the proposals in the 2017-18 Governor's Budget, by the end of fiscal year 2017-18, the Budget Stabilization Account ("BSA"), the state's "rainy day fund", is projected to have a balance of $7.9 billion. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves—Budget Stabilization Account."

In addition, in recent years, the state paid off billions of dollars of budgetary borrowings, debts and deferrals which were accumulated to balance budgets during the Great Recession and years prior. Under the Proposition 2 requirements, the 2017-18 Governor's Budget proposes to pay down an additional $1.2 billion in various debts and liabilities in fiscal year 2017-18. 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. Some of these risks include the threat of recession, potential changes to federal fiscal policies, and the significant unfunded liabilities of the two main retirement systems managed by state entities, the California Public Employees' Retirement System ("CalPERS") and the California State Teachers' Retirement System ("CalSTRS"). In recent years, the state has committed to significant increases in annual payments to these systems to reduce the unfunded liabilities. The state also has a significant unfunded liability with respect to other postemployment benefits. Important strategies to start prefunding these costs have been put in place since 2015. The recent collective bargaining efforts resulted in essentially all state employees contributing towards these prefunding costs. See "CURRENT STATE BUDGET—Budget Risks" and "STATE FINANCES—OTHER ELEMENTS—Pension Systems" and "—Retiree Health Care Costs."

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

**General Fund Revenues, Expenditures and Cash Management**

The moneys of the state are segregated into the General Fund and over 1,000 other funds, including special, bond, federal, and other funds. The General Fund consists of revenues received by the State Treasury and not required by law to be credited to any other fund, as well as earnings from the investment of state moneys not allocable to another fund. The General Fund is the principal operating fund for the majority of governmental activities and is the depository of most of the major tax revenue sources of the state. For additional financial data relating to the General Fund, see the State Controller's unaudited report of General Fund cash receipts and disbursements attached to APPENDIX A as EXHIBIT 2 and the state's audited basic financial statements in APPENDIX G 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 2016-17 and 2017-18, the 2017-18 Governor's Budget projects $123.8 billion and $125 billion in resources for the General Fund, respectively, and $122.8 billion and $122.5 billion in expenditures from the General Fund, respectively. The fiscal year 2016-17 resources are comprised of $118.8 billion of revenues and transfers, and a $5 billion fund balance carried over from fiscal year 2015-16. The fiscal year 2017-18 resources are comprised of $124 billion of revenues and transfers, and a $1 billion fund balance carried over from fiscal year 2016-17. The 2017-18 Governor's Budget projects $1.6 billion in the Special Fund for Economic Uncertainties ("SFEU") and $7.9 billion in the BSA at the end of fiscal year 2017-18. See "GOVERNOR'S PROPOSED FISCAL YEAR 2017-18 BUDGET", "CURRENT STATE BUDGET" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

Over the years, a number of laws and constitutional amendments have been enacted, often through voter initiatives, which have made it more difficult for the state to raise taxes, restricted the use of the General Fund or special fund revenues, or otherwise limited the Legislature and the Governor's discretion in enacting budgets. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Restrictions on Raising or Using General Fund Revenues."

The state manages its cash flow requirements during the fiscal year primarily with a combination of external borrowing, if required, and internal borrowing by the General Fund from over 700 special funds. The state ended fiscal year 2015-16 with a net borrowing of $646 million from special funds as of June 30, 2016. The state is projected to end fiscal years 2016-17 and 2017-18 with net borrowings from special funds of $7.3 billion and $6.1 billion, respectively. Similar to fiscal year 2015-16 and 2016-17, the 2017-18 Governor's Budget projects the state will not have any need to use external cash flow borrowing in fiscal year 2017-18. See "CASH MANAGEMENT—Traditional Cash Management Tools—External Borrowing" for a description of the priority of payment of the state's obligations, including the repayment of external and internal borrowing and see also "CASH MANAGEMENT—Inter-Fund Borrowings."

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

**State Indebtedness and Other Obligations**

As of February 1, 2017, the state had approximately $83.1 billion of outstanding general obligation bonds and lease revenue bonds payable principally from the state's General Fund or from lease payments paid from the operating budget of the respective lessees, which operating budgets are primarily, but not exclusively, derived from the General Fund. As of February 1, 2017, there were approximately $35.6 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 $3.4 billion of authorized and unissued lease-revenue bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Future Issuance Plans; General Fund Debt Ratio."

Certain state agencies and authorities issue revenue obligations for which the General Fund has no liability. These revenue obligations are either payable from state revenue-producing enterprises and projects, and not payable from the General Fund, or are conduit obligations payable only from revenues paid by local governments or private users of facilities financed by the revenue obligations.

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

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

### State Pension Systems and Retiree Health Care Costs

The two main state pension funds (CalPERS and CalSTRS) each face unfunded future liabilities in the tens of billions of dollars. General Fund pension contributions to CalPERS and CalSTRS are estimated to be approximately $3.5 billion and $2.8 billion, respectively, for fiscal year 2017-18. The combined contributions, which include contributions for California State University ("CSU"), represent about 5.1 percent of all General Fund expenditures in fiscal year 2017-18. See "GOVERNOR'S PROPOSED FISCAL YEAR 2017-18 BUDGET."

Recent legislation with respect to both CalPERS and CalSTRS and changes made by both systems in actuarial assumptions, including expected investment returns and funding methodologies, are expected to result in significant annual increases in the amount the state is required to pay from the General Fund. The 2017-18 Governor's Budget included these factors in estimating General Fund contributions to both pension systems. See "RECENT DEVELOPMENTS" and EXHIBIT 1—"PENSION SYSTEMS—Prospective Funding Status; Future Contributions."

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." As reported in the state's OPEB Actuarial Valuation Report, the state has an Actuarial Accrued Liability ("AAL") relating to OPEB estimated at $76.7 billion as of June 30, 2016 (virtually all unfunded) as compared to an AAL of $74.2 billion estimated as of June 30, 2015.

In 2015, the Administration initiated a comprehensive strategy to eliminate the OPEB unfunded AAL over approximately 30 years with increased prefunding shared equally between state employers and employees. The Administration is pursuing the prefunding strategy, as well as changes to retiree health benefits for new employees, through the collective bargaining process. Statutory language passed as part of the 2015-16 Budget contains the funding policy and framework designed to support the elimination of the unfunded AAL. The recently negotiated contracts with labor unions through collective bargaining include MOUs that reflect this prefunding strategy and lower employer contribution for future retiree health benefits for new employees. See "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs—Ongoing Efforts."

### Financial Statements

APPENDIX *G* to this Official Statement, which is incorporated into APPENDIX A, contains the Audited Basic Financial Statements of the state for the year ended June 30, 2015, together with certain information required by governmental accounting and financial reporting standards to be included in the Financial Statements, including a "Management's Discussion and Analysis" that describes and analyzes the financial position of the state and provides an overview of the state's activities for the fiscal year ended June 30, 2015. The State Controller expects that the Audited Basic Financial Statements of the state for the year ended June 30, 2016 will be released and available on the website of the State Controller in late March.

In addition, EXHIBIT 2 to APPENDIX A contains the State Controller's unaudited reports of General Fund cash receipts and disbursements for the period from July 1, 2015 through June 30, 2016 and July 1, 2016 through February 28, 2017. Information which may appear in APPENDIX A from the Department of Finance concerning monthly receipts of "agency cash" may differ from the State Controller's reports of cash receipts for the same periods generally because of timing differences. Agency cash represents cash received by agencies. The Controller's report represents cash received by agencies as reported to and recorded by the Controller, which may be a day or so later than when cash is received by agencies.

**Certain Defined Terms**

The following terms and abbreviations are used in APPENDIX A:

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

"BSA" or "Budget Stabilization Account" means the Budget Stabilization Account 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, 2015 through June 30, 2016 and July 1, 2016 through February 28, 2017 as attached to APPENDIX A as EXHIBIT 2.

"LAO" means the Legislative Analyst's Office, an entity of the State Legislature.

"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 52" means an initiative measure approved by the voters in the November 2016 statewide general election that amended provisions of the Medi-Cal Hospital Reimbursement Improvement Act of 2013. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

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

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

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

"2016-17 Budget" means the 2016 Budget Act plus related legislation to implement the budget.

"2016 Budget Act" means the Budget Act for fiscal year 2016-17, adopted on June 27, 2016.

"2016-17 May Revision" means the May Revision of the 2016-17 Governor's Budget released on May 13, 2016.

"2016-17 Governor's Budget" means the proposed Governor's Budget for fiscal year 2016-17 released on January 7, 2016.

"2017-18 Governor's Budget" means the proposed Governor's Budget for fiscal year 2017-18 released on January 10, 2017.

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 2017-18 Governor's Budget

On January 10, 2017, the Governor released his proposed budget for fiscal year 2017-18. The proposal continues to pay down debts and liabilities, increases the rainy day fund, invests in education and health care and maintains a structurally balanced budget. See "GOVERNOR'S PROPOSED FISCAL YEAR 2017-18 BUDGET."

### Recent Cash Receipts

The Department of Finance reported that, based on agency cash receipts, tax receipts for cash for January *were* $747 million above the 2017-18 Governor's Budget forecast of $14.518 billion. *Fiscal year-to-date cash receipts for January, including revisions to prior months, were $9 million below the 2017-18 Governor's Budget forecast of $68.48 billion.*

*The Department of Finance reported that, based on agency cash receipts, tax receipts for cash for February were $256 million below the 2017-18 Governor's Budget forecast of $5.186 billion*. Fiscal year-to-date cash receipts, *including* revisions to prior months, are $253 million below the 2017-18 Governor's Budget forecast of $*73.66* billion.

## Pension Fund Actions

The CalPERS Board of Administration voted at its December 21, 2016 meeting to reduce its assumed rate of return on investments to 7 percent over the next three years. The CalSTRS Board also approved new actuarial assumptions at its February 1, 2017 meeting, including the reduction of its assumed rate of return on investments to 7 percent on a phased basis over the next two years. These actions will result in an increase in state contributions over time. See EXHIBIT 1 – "PENSION SYSTEMS."

## Change in Federal Administration

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

*The U.S. Congress is currently considering replacement legislation for the provisions of the Affordable Care Act, which, if enacted, could result in a significant shift of costs from the federal government to California beginning in 2020. The State's preliminary assessment of the fiscal impact of the March 21 version of the proposed American Health Care Act on the Medi-Cal budget estimates it could result in several billion dollars in additional state costs in 2020, growing to tens of billions of dollars in increased yearly costs by 2027, of which approximately 70 percent would be payable from the General Fund. The actual fiscal impact will depend on the final legislation, if any, enacted by the federal government, and could vary significantly from the current estimate, and may also be materially affected by policy choices the Governor and the Legislature may make to address any proposed or enacted federal legislation.*

## Recent Storms in California

Following five years of drought conditions, California has experienced rainfall significantly in excess of the average amount of rainfall through this point in the water year (a water year consists of twelve consecutive calendar months beginning with the month of October). The high volume of rain and snowmelt has, among other effects, caused localized flooding in some areas and damage to roads and other infrastructure, including spillways at the Oroville Dam. The President has issued Presidential Disaster Declarations for the winter storms affecting 30 counties across California. At this time the effects of the high volume of rain and snow fall are not expected to materially impact the state's economy or budget; and repairs to the Oroville Dam are expected to be paid from sources other than the General Fund.

## Collective Bargaining

On February 28, 2017, the Administration reached a tentative agreement with the employee organization representing Physicians and Dentists, the last bargaining unit without an agreement. Similar to the other agreements, it includes provisions to address the state's retiree health care costs and the associated unfunded liability. Upon approval of the Legislature and the Governor, and ratification by the employee organization's membership, this agreement will be effective July 1, 2016 through July 1, 2020. See “STATE FINANCES – OTHER ELEMENTS – Retiree Health Care Costs.”

**Updates to Part II of Appendix A**

Information under the *heading “OVERVIEW OF STATE GOVERNMENT-Employee Relations” has* been updated.

## GOVERNOR’S PROPOSED FISCAL YEAR 2017-18 BUDGET

The 2017-18 Governor’s Budget, released on January 10, 2017, proposes a multi-year plan that is balanced through fiscal year 2020-21, and continues to build up the BSA (or rainy day fund) and pay down budgetary debt from past years.

However, the state faces its first budgetary challenge since 2012. Because of slowed economic growth resulting in lagging revenues, and higher than expected expenditures in fiscal year 2016-17, the state faces a projected deficit of $1.6 billion in fiscal year 2017-18, absent corrective actions. The 2017-18 Governor’s Budget proposes a variety of solutions to bring the state’s finances back into balance for 2017-18 and future years. With the budget solutions in place, the proposed budget provides increased funding for education while slowing the rate of spending growth in other areas to maintain a balanced budget through fiscal year 2020-21.

The 2017-18 Governor’s Budget includes the following $3.2 billion in proposed solutions:

> Adjust Proposition 98 Funding ($1.7 billion)—Keeps funding K-14 education at the guarantee level for 2015-16 through 2017-18.
>
> Recapture 2016 Allocations ($0.9 billion)—Eliminates mostly uncommitted one-time funding. The two largest components are $400 million set aside for affordable housing and $300 million to modernize state office buildings planned for 2017-18.
>
> Constrain Spending Growth ($0.6 billion)—Limits spending proposals to keep spending flat in 2017-18 compared to 2016-17.

General Fund revenues and transfers for fiscal year 2017-18 are projected at $124.0 billion, an increase of $5.3 billion, or 4.4 percent, compared with a revised estimate of $118.8 billion for fiscal year 2016-17. These estimates include transfers to the BSA of $1.2 billion in 2017-18 and $3.2 billion in 2016-17. The transfers have the effect of lowering the total reported levels of General Fund revenues and transfers for the fiscal years by the amounts of the transfers. See “STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue.”

General Fund expenditures for fiscal year 2017-18 are projected at $122.5 billion, a decrease of over $0.2 billion, or 0.2 percent, compared with a revised estimate of $122.8 billion for fiscal year 2016-17. The main components of the decrease in expenditures are: a $1.3 billion decrease in Health and Human Services costs, a $1.0 billion decrease in one-time Government Operations expenditures for state infrastructure in 2016-17, and a $1.6 billion increase for K-12 education (about $1.0 billion from Proposition 98). See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures."

The 2017-18 Governor's Budget assumes continued expansion of the economy, but recognizes state revenues are beginning to lag expectations and the state must plan for and save for the next recession. In connection with preparing the 2017-18 Governor's Budget, the Department of Finance estimates a moderate recession could reduce General Fund revenues by as much as $20 billion annually for several years. However, the state's financial obligation under Proposition 98 would also decrease.

The 2017-18 Governor's Budget has the following major components:

Proposition 98 – proposes $73.5 billion guaranteed total funding for 2017-18, of which $51.4 billion is General Fund. See "STATE FINANCES – Proposition 98 and K-14 Funding."

Higher Education – proposes total state funding of $15.1 billion for all major segments of Higher Education, including $14.6 billion from the General Fund (both Non-Proposition 98 and Proposition 98). The remaining funds include special and bond funds.

Health and Human Services – proposes $59.8 billion, including $34.0 billion General Fund and $25.8 billion from special funds, for these programs. Implementing federal health care reform has provided coverage to millions of Californians, beginning in January 2014. See "STATE FINANCES – Health and Human Services."

Public Safety – proposes total state funding of $13.8 billion, including $11.1 billion General Fund and $2.7 billion from special funds, for Corrections and Rehabilitation. See "STATE FINANCES – California Department of Corrections and Rehabilitation."

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The following table summarizes the General Fund budget in the 2017-18 Governor's Budget and compares it to the General Fund budget for the current fiscal year:

**TABLE 1**
**General Fund Budget Summary**
**(Dollars in Millions)**

| | As of 2016 Budget Act | As of 2017-18 Governor's Budget | |
|---|---|---|---|
| | Fiscal Year 2016-17 | Fiscal Year 2016-17 | Fiscal Year 2017-18 |
| Prior Year Balance | $ 4,874 | $ 5,023 | $ 1,027 |
| Revenues and Transfers | 120,310 | 118,765 | 124,027 |
| Total Resources Available | $ 125,184 | $ 123,788 | $ 125,054 |
| Non-Proposition 98 Expenditures | 71,418 | 72,431 | 71,169 |
| Proposition 98 Expenditures | 51,050 | 50,330 | 51,351 |
| Total Expenditures | $ 122,468 | $ 122,761 | 122,520 |
| Fund Balance | $ 2,716 | $ 1,027 | $ 2,534 |
| Reserve for Liquidation of Encumbrances | 966 | 980 | 980 |
| Special Fund for Economic Uncertainties | 1,750 | 47 | 1,554 |
| Budget Stabilization Account/ "Rainy Day Fund" | $ 6,714 | $ 6,713 | $ 7,869 |

Source: State of California, Department of Finance.

### Development of Revenue Estimates

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

After finalizing the forecasts of major national and California economic indicators, revenue estimates are generated using revenue forecasting models developed and maintained by the Department of Finance. With each forecast, adjustments are made for any legislative, judicial, or administrative changes, as well as for recent cash flow results. 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 economic forecast for the 2017-18 Governor's Budget projects continued growth in both the national and state economies. Certain significant elements of the forecast are set forth in Table 2.

*National Economy*. The national economy grew unevenly in 2016, with annual real Gross Domestic Product (GDP) growth expected to be 1.5 percent. More than 2 million people joined the labor force and nonfarm employment grew by 2.5 million in 2016. The national unemployment rate reached 5 percent in October 2015 and has since stayed close to that level. There are still risks to the economy. Economic expansions do not last forever. Since World War II, the average economic expansion length is almost five years and the longest expansion was ten years. The current economic expansion began in July 2009, and while there are few immediate signs of a contraction, it would be a historical anomaly for the U.S. not to see another recession before 2020. A stock market correction remains a risk as well. In addition, significant policy changes in the U.S. or in foreign countries, such as to international trade or immigration, could lead to disruptions in the economy.

*California Economy*. California's real GDP increased by 4.1 percent in 2015, and totaled $2.46 trillion at current prices, making California the sixth largest economy in the world (2016 California GDP information will be available in June 2017). California has continued to add jobs at a faster rate than the nation since 2012, and the economy is expected to continue to grow throughout the forecast period. Despite the increase in the minimum wage from $9 to $10 per hour on January 1, 2016, lower-wage sectors such as leisure and hospitality, and educational and health services continued to grow in 2016. The stronger-than-expected growth in these lower-wage sectors led to greater labor force participation, but also led to slower overall wage and personal income growth than expected in 2016. The unemployment rate in 2016 was 5.4 percent and is expected to remain low despite the increase in the minimum wage to $10.50 for larger employers on January 1, 2017. However, housing permits were essentially the same in 2016 compared to 2015, falling well below population or job growth. Continued lack of housing growth is a risk for California's economy.

**Economic Assumptions Underlying the 2017-18 Governor's Budget**

The revenue and expenditure assumptions incorporated into the 2017-18 Governor's Budget were based upon certain assumptions concerning the performance of the California, national, and global economies in calendar years 2017 and 2018. These economic assumptions are set forth below. Additional information on the state's economy is set out in the section "ECONOMY AND POPULATION."

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## TABLE 2
## Selected National and California Economic Data

| | 2016 | 2017 (Projected) | 2018 (Projected) |
|---|---|---|---|
| **United States** | | | |
| Real gross domestic product (percent change) | 1.5 | 2.2 | 2.2 |
| Personal income (percent change) | 3.3 | 4.3 | 4.9 |
| Nonfarm wage and salary employment (millions) | 144.3 | 146.1 | 147.4 |
| (percent change) | 1.7 | 1.2 | 0.9 |
| Housing starts (thousands) | 1,152 | 1,226 | 1,320 |
| (percent change) | 3.9 | 6.4 | 7.7 |
| **California** | | | |
| Personal income ($ billions) | 2,190.5 | 2,287.6 | 2,387.5 |
| (percent change) | 4.1 | 4.4 | 4.4 |
| Nonfarm wage and salary employment (thousands) | 16,467.8 | 16,760.5 | 16,898.7 |
| (percent change) | 2.5 | 1.8 | 0.8 |
| Unemployment rate (percent) | 5.5 | 5.5 | 5.5 |
| Housing units authorized (thousands) | 97.4 | 104.7 | 115.0 |
| (percent change) | (0.8) | 7.5 | 9.8 |
| Total taxable sales ($ billions) | 657.2 | 681.2 | 711.3 |
| (percent change) | 3.0 | 3.7 | 4.4 |

Note: Percentage changes calculated from unrounded data.

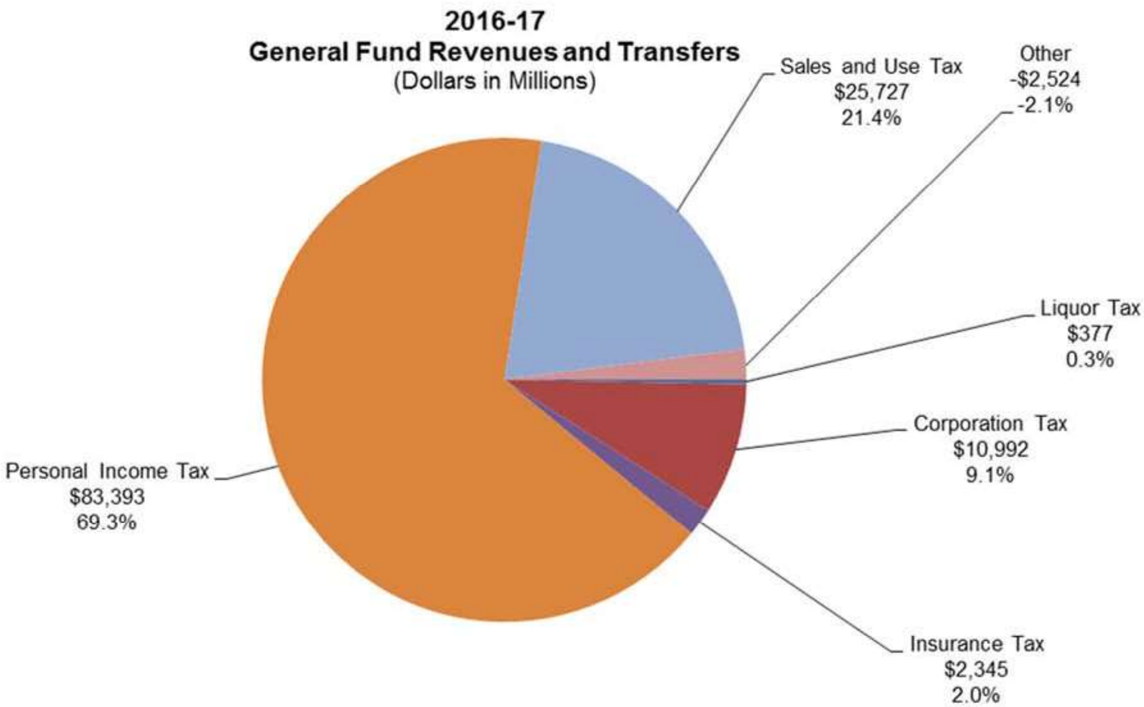
Source: State of California, Department of Finance, 2017-18 Governor's Budget forecast.

## CURRENT STATE BUDGET

When the 2016-17 Budget was enacted in June 2016, General Fund revenues and transfers for fiscal year 2016-17 were projected at $120.3 billion. As of the 2017-18 Governor's Budget, they are projected to decrease to $118.8 billion (net of a $3.2 billion transfer to the BSA that was originally estimated to be $3.3 billion), a net decrease of $1.5 billion or 1.2 percent. General Fund expenditures for fiscal year 2016-17 were projected at $122.5 billion when the current fiscal year budget was enacted. As of the 2017-18 Governor's Budget, they are projected to be $122.8 billion, an increase of $0.3 billion or 0.2 percent.

For more information on revised fiscal year 2016-17 estimates, see "Fiscal Year 2016-17 Revised General Fund Estimates in the 2017-18 Governor's Budget" and "GOVERNOR'S PROPOSED FISCAL YEAR 2017-18 BUDGET—Development of Revenue Estimates" and "—Economic Assumptions Underlying the 2017-18 Governor's Budget."

The following chart summarizes the principal revenue and transfer components of the 2016 Budget Act at the time of enactment.




Note: "Other" includes $3,294 million transfer from the General Fund to the BSA, which has the effect of lowering the total reported levels of General Fund revenues and transfers by the amount of the transfer.

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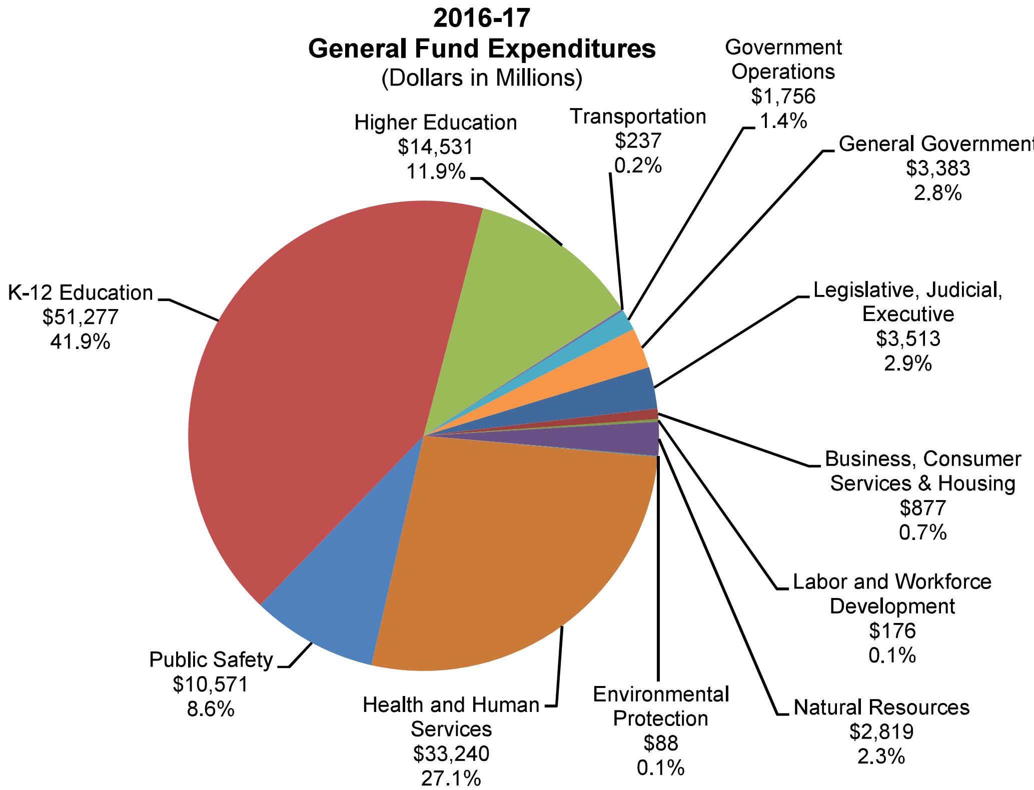
The following chart summarizes the principal expenditure components of the 2016 Budget Act at the time of enactment.




Note: The state's expenditures for contributions to the pension funds (4.6 percent of total General Fund expenditures when combined) and for debt service on bonds (net of various reimbursements) payable from the General Fund (4.5 percent of total General Fund expenditures when combined) are not shown separately in this chart, but are included within the applicable expenditure categories in the chart.

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The 2016-17 Budget included the following major General Fund expenditure components at the time of enactment:

- Proposition 98 – $71.9 billion total funding for fiscal year 2016-17, of which $51.1 billion is General Fund, and the balance is primarily from local property taxes.

- Higher Education – total state funding of $14.9 billion for all major segments of higher education, including $14.5 billion from the General Fund (both Non-Proposition 98 and Proposition 98). The remaining funds include special and bond funds.

- Health and Human Services – $53.8 billion in state funding, of which $33.2 billion is General Fund and $20.6 billion is from special funds.

- Public Safety – total state funding of $13.3 billion, including $10.6 billion General Fund and $2.7 billion from special funds, for Corrections and Rehabilitation.

**Budget Risks**

The 2016-17 Budget and the 2017-18 proposed Governor's Budget are based on a variety of estimates and assumptions. If actual results differ from those assumptions, the state's financial condition could be adversely or positively affected. There can be no assurance that the financial condition of the state will not be materially and adversely affected by actual conditions or circumstances in fiscal year 2016-17 and beyond.

While the state projects a multi-year balanced budget, budget risks still exist. Risks with potentially significant General Fund impact include, but may not be limited to, the following:

- Threat of Recession — The economic forecast used in connection with the 2017-18 Governor's Budget assumes continued expansion of the economy; however, the current expansion is approaching three years longer than average. The Administration understands that another recession during this period is possible, particularly in light of the length of the current expansion. In connection with the development of the 2017-18 Governor's Budget, the Department of Finance modeled an alternative scenario with a moderate one-year recession for the U.S. in 2018-19. This model indicated that such a recession could result in General Fund revenue losses that would approach $20 billion per year for several years. See "GOVERNOR'S PROPOSED FISCAL YEAR 2017-18 BUDGET."

- Federal Fiscal Policy — The 2017-18 Governor's Budget assumes the continuation of existing federal fiscal policy. The new presidential administration and leaders in Congress have suggested major changes to the Affordable Care Act, Medicaid, trade and immigration policy and the federal tax structure, in addition to other actions. Many of these proposed changes could have detrimental effects on the state's economy and budget. At this point, it is not clear what those changes will be or when they will take effect.

- Capital Gains Volatility — Capital gains are the state's most volatile revenue source, and absent a recession, a stock market correction could significantly affect California. Under Proposition 2, some of this volatility is mitigated by requiring spikes in capital gains tax revenue be deposited in the Budget Stabilization Account and requiring pay down of the state's debts and liabilities. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue—Personal Income Tax" and "—Budget Reserves."

- Health Care Costs — The Medi-Cal program is currently the budget's second largest expenditure. Additionally, the state provides health benefits to its own employees and retirees. As the state implements federal health care reform, or the federal government makes significant policy changes, state budgetary spending could become more dependent upon the rate of health care 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."

- Debts and Liabilities — The state's past budget challenges were exacerbated by an unprecedented level of debts, deferrals, and budgetary obligations accumulated over the prior decade. Although the state has paid down a substantial amount of these debts in the past several years, see "DEBTS AND LIABILITIES UNDER PROPOSITION 2," the state faces hundreds of billions of dollars in other long-term cost pressures, debts, and liabilities, including state retiree pension and health care costs. See "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs" and EXHIBIT 1 – "PENSION SYSTEMS."

**Multi-Year Budget Projections**

As required by Proposition 2, in connection with the 2017-18 Governor's Budget, the Department of Finance prepared high level multi-year budget projections, as set forth below. The projections are based on current state and federal law and state policies, adjusted for proposed changes included in the 2017-18 Governor's Budget. They reflect a variety of assumptions, including assumptions concerning state revenues and expenditures and future economic conditions (but not assuming another recession in the near term).

The year-to-year changes in revenues and transfers are driven, in general, by expected continued moderate economic growth. However, due largely to the strength of the stock market since the end of the Great Recession, capital gains are expected to be modestly above normal levels for 2016 and 2017. (Normal level is considered to be 4.5 percent of personal income in the state.) General Fund revenue from the major tax sources is expected to grow by 3.9 percent from fiscal year 2015-16 to fiscal year 2016-17, 2.8 percent from fiscal year 2016-17 to fiscal year 2017-18, 3.8 percent from fiscal year 2017-18 to fiscal year 2018-19, 4.6 percent from fiscal year 2018-19 to fiscal year 2019-20, and 4.3 percent from fiscal year 2019-20 to fiscal year 2020-21.

These tax revenue growth rates in fiscal year 2016-17 and 2017-18 are affected by the expiration on December 31, 2016 of the sales tax portion of Proposition 30. The personal income tax portion of Proposition 30, which had been set to expire on December 31, 2018, was extended by Proposition 55 until 2030. Actual conditions may differ materially from the assumptions, and there can be no assurances the projections will be achieved.

Table 3 below includes the effect of Chapter 4, Statutes of 2016 (SB 3), which gradually increases the minimum wage in California to $15 per hour by 2023 for all employees. By full implementation, the General Fund cost is projected to be approximately $3.1 billion annually, primarily for increased wages for home health care workers and developmental disability workers.

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

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | **2016-17** | **2017-18** | **2018-19** | **2019-20** | **2020-21** |
| Prior Year Balance | $ 5,023 | $ 1,027 | $ 2,534 | $ 3,110 | $ 2,270 |
| Revenues and Transfers[a] | 121,949 | 125,183 | 129,981 | 135,904 | 142,307 |
| Transfer to BSA/Rainy Day Fund[b] | -3,184 | -1,156 | -1,191 | -1,195 | -1,201 |
| **Total Resources Available** | **$ 123,788** | **$ 125,054** | **$ 131,324** | **$ 137,819** | **$ 143,376** |
| Proposition 98 Expenditures | 50,330 | 51,351 | 52,736 | 54,322 | 55,341 |
| Non-Proposition 98 Expenditures | 72,431 | 71,169 | 75,478 | 81,227 | 85,548 |
| **Total Expenditures** | **$ 122,761** | **$ 122,520** | **$ 128,214** | **$ 135,549** | **$ 140,889** |
| **Fund Balance** | **$ 1,027** | **$ 2,534** | **$ 3,110** | **$ 2,270** | **$ 2,487** |
| Reserve for Encumbrances | $ 980 | $ 980 | $ 980 | $ 980 | $ 980 |
| **Special Fund for Economic Uncertainties** | **$ 47** | **$ 1,554** | **$ 2,130** | **$ 1,290** | **$ 1,507** |
| **Budget Stabilization Account/** (“Rainy Day Fund”) | **$ 6,713** | **$ 7,869** | **$ 9,060** | **$ 10,255** | **$ 11,456** |
| Operating Surplus/-Deficit with BSA/”Rainy Day Fund” Transfer | -$ 3,996 | $ 1,507 | $ 576 | -$ 840 | $ 217 |

Source: State of California, Department of Finance.

(a) The personal income tax portion of Proposition 30 expires at the end of the 2018 tax year (December 31, 2018). Proposition 55, approved by the voters in November 2016, extends the three personal income tax brackets added by Proposition 30 until 2030. The sales tax portion of Proposition 30 expired December 31, 2016. The Proposition 30 and Proposition 55 revenue amounts projected in the 2017-18 Governor’s Budget are shown below (in millions):

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|
| Prop 30/55 – Income Tax | $6,787 | $6,915 | $7,166 | $7,491 |
| Prop 30 – Sales Tax | $803 | $0 | $0 | $0 |

(b) Transfers to the BSA are pursuant to Proposition 2. The 2016-17 fiscal year includes a $1.8 billion transfer to the BSA in addition to the $1.3 billion required by Proposition 2. (For fiscal year 2016-17, the required $1.3 billion BSA deposit was made in September 2016 while the supplemental $1.8 billion deposit is projected to be made in May 2017.) See “STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves.”

### Fiscal Year 2016-17 Revised General Fund Estimates in the 2017-18 Governor’s Budget

The 2017-18 Governor’s Budget makes various revisions to General Fund estimates for fiscal year 2016-17 involving the beginning fund balance, revenues, expenditures, and ending reserve balance. The revised revenue and expenditure estimates are set forth in Table 4 below. In addition to the information shown in Table 4, the 2017-18 Governor’s Budget estimates that the beginning fund balance for the General Fund at July 1, 2016 was $148 million higher than had been assumed when the 2016 Budget Act was adopted. These figures are preliminary estimates subject to further adjustment after receipt of additional information concerning final amounts for fiscal year 2016-17.

Offsetting the modest gain in the beginning fund balance as described above for fiscal year 2016-17, as shown in Table 5, is a decrease of $1.5 billion of revenues and transfers, primarily due to lower than projected tax revenues. Estimated expenditures increased by a net amount of $0.3 billion, the main components of which are the following:

> $0.7 billion downward adjustment in Proposition 98 spending (which keeps K-14 education at the updated guarantee level);
>
> $0.6 billion decrease to recapture allocations or spending authority made as part of the 2016-17 Budget, including $0.4 billion set aside for affordable housing that was never allocated;
>
> $0.2 billion net decrease in various other spending issues; and
>
> $1.8 billion increase in Medi-Cal program costs which includes two significant adjustments: (1) one-time retroactive payment of drug rebates to the federal government of nearly $500 million and (2) correction of a miscalculation of costs associated with the Coordinated Care Initiative of nearly $1.5 billion. For additional information relating to these adjustments, see "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES – State Expenditures - Health and Human Services."

The 2016 Budget Act projected an ending balance in the SFEU of $1.8 billion for fiscal year 2016-17. After taking into account the revised revenue and expenditure estimates, the revised estimate for the SFEU at June 30, 2017 is $47 million.

**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 2013-14 through 2014-15, estimated results for fiscal years 2015-16 and 2016-17, and projected results for 2017-18 (fiscal years 2015-16 through 2017-18 are from the 2017-18 Governor's Budget, while fiscal years 2013-14 and 2014-15 are provided by the State Controller's Office). In addition to the SFEU, the 2017-18 Governor's Budget projects a cumulative balance of $7.9 billion in the BSA ("rainy day fund"), at June 30, 2018.

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

# TABLE 4
## General Fund Revenues, Expenditures, and Fund Balance (Budgetary Basis)(Dollars in Millions)

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2013-14 | 2014-15 | Estimated 2015-16 | Estimated 2016-17 | Proposed/ Projected 2017-18 |
| Fund Balance–Beginning of Period | $ 4,285 | $8,410 | $ 6,460 | $5,023 | $1,027 |
| Restatements | | | | | |
| Prior Year Adjustment | (316) | 164 | (2,953) | – | – |
| **Fund Balance–Beginning of Period, as Restated** | **$ 3,969** | **$ 8,574** | **$ 3,507** | **$5,023** | **$ 1,027** |
| Revenues | $ 102,420 | $ 114,985 | $ 118,538 | $ 122,441 | $ 125,738 |
| Other Financing Sources | | | | | |
| Transfers from Other Funds[a] | 1,154 | 421 | (3,038) | (3,676) | (1,711) |
| Other Additions | 213 | 277 | – | – | – |
| **Total Revenues and Other Sources** | **$ 103,787** | **$ 115,683** | **$ 115,500** | **$ 118,765** | **$ 124,027** |
| Expenditures | | | | | |
| State Operations[b] | $ 25,811 | $ 29,863 | $ 29,620 | $ 31,806 | $ 32,353 |
| Local Assistance | 72,040 | 85,109 | 84,228 | 89,753 | 89,980 |
| Capital Outlay | 158 | 168 | 66 | 1,202 | 187 |
| Unclassified | – | – | 70 | – | – |
| Other Uses | – | – | – | – | – |
| Transfer to Other Funds[a] | 1,339 | 2,657 | – | – | – |
| **Total Expenditures and Other Uses** | **$ 99,347** | **$ 117,797** | **$ 113,984** | **$ 122,761** | **$ 122,520** |
| Revenues and Other Sources Over or (Under) Expenditures and Other Uses | $4,441 | $(2,114) | $ 1,516 | $ (3,996) | $ 1,507 |
| Fund Balance | | | | | |
| Deferred Payroll[c] | 949 | 1,026 | – | – | – |
| Reserved for Encumbrances | 840 | 967 | 980 | 980 | 980 |
| Reserved for Unencumbered Balances of Continuing Appropriations[d] | 1,192 | 1,145 | – | – | – |
| Unreserved–Undesignated [e] | 5,429 | 3,322 | 4,043 | 47 | 1,554 |
| **Fund Balance–End of Period** | **$8,410** | **$6,460** | **$ 5,023** | **$1,027** | **$2,534** |

General Note: Totals may not add due to rounding. These statements have been prepared on a budgetary basis in accordance with state law and some modifications would be necessary in order to comply with generally accepted accounting principles ("GAAP"). The Supplementary Information contained in the state's Audited Basic Financial Statements for the year ended June 30, 2015, attached as APPENDIX *G* 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, 2015 fund balance between the two methods. See "FINANCIAL STATEMENTS."

[a] For the State Controller's accounting purposes, the actuals for fiscal year 2014-15 reflect the $1.6 billion transfer to the BSA as Transfer to Other Funds as an expenditure transfer. For budgeting purposes, the Transfers to Other Funds line is netted with Transfers from Other Funds for 2015-16 through 2017-18. For those years, the transfers to the BSA are reflected within the Transfers from Other Funds amounts as revenue transfers.

[b] Includes debt service on general obligation bonds. The estimated amount of debt service is approximately $4.8 billion and $4.9 billion for fiscal years 2016-17 and 2017-18, respectively. These amounts are net of the federal Build America Bonds subsidy, various reimbursements to the General Fund from other funds, and amounts included in UC and CSU support budgets for debt service on UC and CSU debt, totaling approximately $2.0 billion and $2.2 billion in fiscal years 2016-17 and 2017-18, respectively, to offset debt service costs of certain bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—Build America Bonds." Debt service amounts for earlier years are set forth in the table titled "Outstanding State Debt Fiscal Years 2011-12 through 2015-16" under "STATE DEBT TABLES."

(Footnotes Continued on Following Page)

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[(c)] Deferred Payroll, which began with the June 2010 payroll, is on-going and represents the amount of June payroll expenses deferred to July of the following fiscal year, for all state departments paid through the uniform payroll system. The Department of Finance, pursuant to Government Code Sections 12472.5 and 13302, implements the deferrals of June payroll expenditures for various governmental and nongovernmental cost funds. For fiscal years 2015-16 through 2017-18, the General Fund Deferred Payroll amounts are estimated at $1.1 billion per year and are included in the Unreserved-Undesignated row. Per statute, these expenditures are not recognized until the following July, under the budgetary basis of accounting and budgeting.

[(d)] 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 is made, should be an item of disclosure, but the amount shall not be deducted from the fund balance. In accordance with Government Code Section 12460, the State Controller's Budgetary/Legal Basis Annual Report reflects a specific reserve for the encumbered balance for continuing appropriations.

[(e)] Actual, estimated and projected amounts include SFEU. The Department of Finance generally includes in its estimates of the SFEU and other reserves, if any, the items reported as actual amounts by the Office of the State Controller under "Reserved for Unencumbered Balances of Continuing Appropriations."

Source: Actual amounts for fiscal years 2013-14 to 2014-15: State of California, Office of the State Controller. Estimated and projected amounts for fiscal years 2015-16 through 2017-18: State of California, Department of Finance.

## 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 2016-17 and 2017-18, as set forth in the 2017-18 Governor's Budget.

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

| Revenue<br>Source | 2016-17 Enacted (as of June 2016) | 2016-17 Revised (as of January 2017) | 2017-18 Proposed (as of January 2017) |
|---|---|---|---|
| Personal Income Tax | $83,393 | $83,136 | $85,866 |
| Sales and Use Tax | 25,727 | 24,994 | 25,179 |
| Corporation Tax | 10,992 | 10,389 | 10,878 |
| Insurance Tax | 2,345 | 2,309 | 2,368 |
| Alcoholic Beverage Taxes and Fees | 377 | 370 | 372 |
| Cigarette Tax | 85 | 79 | 65 |
| Motor Vehicle Fees | 22 | 24 | 24 |
| Other[(a)] | 663 | 648 | 431 |
| **Subtotal** | $ 123,604 | $ 121,949 | $ 125,183 |
| Transfer to the Budget Stabilization Account/"Rainy Day Fund" | -3,294 | -3,184 | -1,156 |
| **Total Revenue** | $ 120,310 | $ 118,765 | $ 124,027 |

| Expenditures<br>Agency | 2016-17 Enacted (as of June 2016) | 2016-17 Revised (as of January 2017) | 2017-18 Proposed (as of January 2017) |
|---|---|---|---|
| Legislative, Judicial and Executive | $ 3,513 | $ 3,500 | $ 3,322 |
| Business, Consumer Services & Housing | 877 | 493 | 388 |
| Transportation | 237 | 225 | 243 |
| Natural Resources | 2,819 | 3,110 | 2,811 |
| Environmental Protection | 88 | 90 | 89 |
| Health and Human Services | 33,240 | 35,263 | 33,994 |
| Public Safety (includes Corrections and Rehabilitation) | 10,571 | 10,889 | 11,088 |
| K-12 Education | 51,277 | 50,589 | 52,169 |
| Higher Education | 14,531 | 14,527 | 14,627 |
| Labor and Workforce Development | 176 | 177 | 122 |
| Government Operations | 1,756[(b)] | 1,772[(b)] | 741 |
| General Government | | | |
| Non-Agency Departments | 752 | 787 | 691 |
| Tax Relief/Local Government | 474 | 459 | 435 |
| Statewide Expenditures | 2,157[(c)] | 880 | 1,800[(c)] |
| **Total Expenditures** | $ 122,468 | $ 122,761 | $ 122,520 |

(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) Includes $1 billion for state office buildings infrastructure.

(c) Amounts for the enacted and proposed budgets include unallocated funds for statewide expenditures such as deferred maintenance, potential employee compensation increases, subject to good faith bargaining and approval by unions/Legislature, and employee benefits that will be distributed to departments as authorized in subsequent legislation.

Source: State of California, Department of Finance.

## DEBTS AND LIABILITIES UNDER PROPOSITION 2

Voters approved Proposition 2 in November 2014, which revised the state's method of funding the BSA, the state's "rainy day fund." Starting in fiscal year 2015-16, 1.5 percent of annual General Fund revenues, plus the excess of capital gains tax receipts above a certain level, not necessary to fund Proposition 98, is applied equally to funding the BSA and paying down state debts and liabilities. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves." Debts and liabilities eligible under Proposition 2 include certain budgetary borrowing accumulated over a number of years and specified payments over and above the base payments for state pensions and retiree health costs. The two main retirement systems managed by state entities, CalPERS and CalSTRS, each have substantial unfunded liabilities. See EXHIBIT 1 – "PENSION SYSTEMS." The state also has a substantial unfunded liability relating to postemployment healthcare benefits for state employee retirees. See "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs." Table 6 displays the categories of debts and liabilities the Administration considers eligible for accelerated payments under Proposition 2. Although included as an eligible use of Proposition 2 funds as shown in Table 6, the state is not legally responsible for the pension and retiree health care costs of the University of California, an independent corporate entity under state law.

The 2017-18 Governor's Budget will repay loans from special funds ($252 million), repay prior years of Proposition 98 underfunding (referred to as "settle up," $400 million), repay pre-Proposition 42 (2002) transportation loans ($235 million), prefund state retiree health care benefits ($100 million), and help pay down the unfunded liability associated with the University of California's retirement system ($169 million). The Administration projects that borrowing from pre-Proposition 42 transportation funds will be repaid by the end of fiscal year 2019-20, and the loans from special funds and from underfunding of Proposition 98 (settle up payments) will be repaid by the end of fiscal year 2020-21.

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## TABLE 6
## Debts and Liabilities Under Proposition 2
## 2017-18 Governor's Budget
### (Dollars in Millions)

| | Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| | Outstanding Amount at Start of 2017-18 | Proposed 2017-18 Pay Down | Proposed 2018-19 Pay Down | Proposed 2019-20 Pay Down | Proposed 2020-21 Pay Down | Remaining Amount Not Currently Scheduled[b] |
| **Budgetary Borrowing** | | | | | | |
| Loans from special funds | $1,365 | $252 | $465 | $407 | $241 | $0 |
| Underfunding of Proposition 98—Settle-Up | 1,026 | 400 | 291 | 302 | 33 | 0 |
| Repayment of pre-Proposition 42 Transportation Loans | 706 | 235 | 235 | 236 | 0 | 0 |
| **State Retirement Liabilities (Unfunded Actuarial Estimate)** | | | | | | |
| State Retiree Health | 74,103 | 100 | 200 | 250 | 300 | N/A |
| State Employee Pensions | 49,592 | 0 | 0 | 0 | 0 | N/A |
| Teachers' Pensions[a] | 72,626 | 0 | 0 | 0 | 0 | N/A |
| Judges' Pensions | 3,279 | 0 | 0 | 0 | 0 | N/A |
| Deferred payments to CalPERS | 627 | 0 | 0 | 0 | 0 | N/A |
| **University of California Retirement Liabilities (Unfunded Actuarial Estimate)** | | | | | | |
| University of California Employee Pensions | 15,141 | 169 | 0 | 0 | 0 | N/A |
| University of California Retiree Health | 21,087 | 0 | 0 | 0 | 0 | N/A |
| **Unallocated Debt Payments** | | 0 | 0 | 0 | 627 | N/A |
| **Total** | **$239,552** | **$1,156** | **$1,191** | **$1,195** | **$1,201** | **N/A** |

(a) The state portion of the unfunded liability for teachers' pensions is $14 billion. See EXHIBIT 1 – "PENSION SYSTEMS—CalSTRS."

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

## LITIGATION

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

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

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

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

**Budget-Related Litigation**

1. Actions Challenging Cap and Trade Program Auctions

In two consolidated matters, *California Chamber of Commerce, et al. v. California Air Resources Board*, (Sacramento County Superior Court, Case No. 34-2012-80001313) and *Morning Star Packing Co., et al. v. California Air Resources Board* (Sacramento County Superior Court, Case No. 34-2013-80001464), petitioners challenge the authority of the California Air Resources Board to conduct auctions under the state's cap and trade program and allege that the auction revenues are an unconstitutional tax under the state Constitution. The trial court ruled for the Board. Petitioners appealed. The appellate court heard argument on January 24, 2017, and took the matter under submission. (Court of Appeal, Third Appellate District, Case Nos. C075930, C075954).

2. Action Challenging School Financing

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

3. Actions Challenging Statutes That Reformed California Redevelopment Law

There are approximately 75 pending actions that challenge the statutory process for winding down the affairs of the redevelopment agencies ("RDAs"), asserting a variety of claims, including constitutional claims. Some of the pending cases contend that various obligations incurred by the RDAs are entitled to payment from certain property tax revenues. For example, in *Affordable Housing Coalition v. Sandoval* (Sacramento County Superior Court, Case No. 34-2012-80001158), plaintiffs argue that all former RDAs had obligations to pay for affordable housing that should be funded going forward. The court denied a motion for class action status, and subsequently ruled against plaintiffs in this matter and ordered that judgment be entered for the state. Plaintiffs appealed (Court of Appeal, Third Appellate District, Case No. C083811).

**Tax Cases**

A pending case challenges the fee imposed by former Revenue and Taxation Code Section 17942 upon the plaintiff and a purported class of similarly situated limited liability companies ("LLCs") registered in California, alleging that the fee violates the federal and state constitutions, is an improper exercise of the state's police powers, and has been misapplied by the Franchise Tax Board. *Bakersfield Mall LLC v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-07-462728). The purported class action is on behalf of all LLCs operating both in and out of California during the years at issue. A second virtually identical lawsuit also seeks to proceed as a class action. *CA-Centerside II, LLC v. Franchise Tax Board* (Fresno County Superior Court, Case No. 10 CECG00434). In each case, the individual plaintiff seeks a refund of $56,000 for itself and alleges a purported class of over 50,000 members. The cases are coordinated for hearing in San Francisco as the *Franchise Tax Board LLC Tax Refund Cases*, Judicial Council Proceeding No. 4742. The coordination trial judge denied plaintiffs' joint motion for class certification and plaintiffs appealed (Court of Appeal, First Appellate District, Case No. A140518). If the trial court order is reversed and plaintiffs prevail on the merits on behalf of themselves and the purported classes, the potential refunds could total $1.2 billion.

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

A pending case challenges the validity of a Board of Equalization regulation (Cal. Code Regs., tit. 18, § 1585) that requires the sales tax on mobile telephones to be based on the full "unbundled" price of the telephone rather than any discounted price that is contingent on a service plan commitment. In *Bekkerman et al. v. Board of Equalization* (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, should the court in the first action rule that the regulation is invalid. The second action, *Bekkerman et al. v. Board of Equalization, et al.* (Sacramento County Superior Court, Case No. 34-2016-80002287) could result in an order requiring sales tax refunds, potentially exceeding $1 billion. The second action *was* removed to federal court *but the federal court returned the case to state court* (United States District Court, Eastern District of California, Case No. 2:16-cv-00709-MCE-EFB).

**Environmental Matters**

In *Consolidated Suction Dredge Mining Cases* (coordinated for hearing in San Bernardino County Superior Court, Case No. JCPDS4720), environmental and mining interests challenge the state's regulation of suction dredge gold mining. The Legislature placed a moratorium on all suction dredging until certain conditions are met by the Department of Fish and Wildlife. Plaintiffs, who have pled a class action but have yet to seek certification, claim that as many as 11,000 claims, at a value of $500,000 per claim, have been taken. Following a hearing on certain of plaintiffs' claims, the trial court stayed the matters pending a California Supreme Court ruling in a separate pending matter, addressing whether federal law preempts state environmental regulation of suction dredge gold mining. The California Supreme Court issued its decision, holding that federal law does not preempt state regulation, and a petition for writ of certiorari in the United States Supreme Court seeking review of that decision has been filed. Trial of the takings claims is set for November 2017.

**Action Regarding Special Education**

Plaintiffs in *Morgan Hill Concerned Parents Assoc. v. California Department of Education* (U.S. District Court, Eastern District of California, Case No. 2:11-cv-3471-KJM), challenge the oversight and operation by the California Department of Education ("CDE") of the federal Individuals with Disabilities Education Act ("IDEA"). The complaint alleges that CDE, as the designated State Education Agency, has failed to monitor, investigate, and enforce the IDEA statewide. Under the IDEA, local school districts are the Local Educational Agencies responsible for delivering special education directly to eligible students. The complaint seeks injunctive and declaratory relief, and asks the court to retain jurisdiction to monitor the operation of the IDEA by the state.

**Prison Healthcare Reform and Reduction of Prison Population**

The adult prison health care delivery system includes medical health care and mental health care. There are two significant cases pending in federal district courts challenging the constitutionality of prison health care. *Plata v. Brown* (U.S. District Court, Northern District, Case No. C 01-1351 TEH) is a class action regarding the adequacy of medical health care; and *Coleman v. Brown* (U.S. District Court, Eastern District, Case No. CIV S-90-0520 KJM KLN P) is a class action regarding mental health care. A third case, *Armstrong v. Brown* (U.S. District Court, Northern District, Case No. C 94-02307 CW) is a class action on behalf of inmates with disabilities alleging violations of the Americans with Disabilities Act and Section 504 of the Rehabilitation Act. In *Plata* the district court appointed a Receiver, who took office in April 2006, to run and operate the medical health care portion of the health care delivery system. The *Plata* Receiver and the Special Master appointed by the *Coleman* court, joined by the court representative appointed by the *Armstrong* court, meet routinely to coordinate efforts in these cases. To date, ongoing costs of remedial activities have been incorporated into the state's budget process. However, at this time, it is unknown what future financial impact this litigation may have on the state's General Fund. In March 2015, the *Plata* court modified its order to update and clarify the process to transition responsibility for inmate medical care back to the state. This transition process is ongoing.

In *Plata* and *Coleman*, discussed above, a three-judge panel issued orders requiring the state to meet a final population-reduction benchmark by February 28, 2016, and to implement a number of measures designed to reduce the prison population. In January 2015, the state met this court-ordered population benchmark. The three-judge panel's order requires ongoing oversight until the state demonstrates compliance with the population benchmark is durable. The state has agreed not to pursue further court appeals.

**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' request for* a temporary restraining order *and scheduled a hearing on a* preliminary injunction *for April 19, 2017*. Plaintiffs have stated that they may file additional claims *challenging the approval of* the Authority's plans for expenditure of bond proceeds by the Director of the Department of Finance.

In the event a final decision in this matter prevented the use of bond proceeds, it is possible that the federal government may require the state to reimburse federal funds provided for the high-speed rail project if the state failed to provide other matching funds consistent with the federal grant agreement. As of February 2017, the amount of unmatched federal spending on the project was approximately $1.9 billion.

**Action Regarding State Mandates**

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

## FINANCIAL STATEMENTS

The Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2015 (the "Financial Statements") are included as APPENDIX *G* to this Official Statement and incorporated into APPENDIX A. The Financial Statements consist of an Independent Auditor's Report, a Management Discussion and Analysis, Basic Financial Statements of the state for the Year Ended June 30, 2015 ("Basic Financial Statements"), and Required Supplementary Information. Only the Basic Financial Statements have been audited, as described in the Independent Auditor's Report. A description of the accounting and financial reporting standards set by the Governmental Accounting Standards Board and used in the Basic Financial Statements is contained in Note 1 of the Basic Financial Statements. The State

Controller expects that the Audited Basic Financial Statements of the state for the year ended June 30, 2016 will be released and available on the website of the State Controller in late March.

The State Controller issues a monthly report on General Fund cash receipts and disbursements. These reports are available on the State Controller's website, and are normally released by the 10th day of every calendar month for the period ended on the last day of the prior month. The State Controller's unaudited reports of General Fund cash receipts and disbursements for the period July 1, 2015 through June 30, 2016 and July 1, 2016 through February 28, 2017 are included as EXHIBIT 2 to APPENDIX A.

Periodic reports on revenues and/or expenditures during the fiscal year are issued by the Administration, the State Controller's Office and the LAO. 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. These bulletins and reports are available on the internet at websites maintained by the agencies and by contacting the agencies at their offices in Sacramento, California. Such bulletins and reports are not part of or incorporated into APPENDIX A. Investors are cautioned that interim financial information is not necessarily indicative of results for a fiscal year. Information which may appear in APPENDIX A from the Department of Finance concerning monthly receipts of "agency cash" may differ from the State Controller's reports of cash receipts for the same periods generally because of timing differences. Agency cash represents cash received by agencies. The Controller's report represents cash received by agencies as reported to and recorded by the Controller, which may be a day or so later than when cash is received by agencies.

# PART II

# STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES

## The Budget Process

The state's fiscal year begins on July 1 and ends on June 30 of the following year. The state's General Fund budget operates on a legal basis, generally using a modified accrual system 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 proposed Governor's Budget 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. As required by the Balanced Budget Amendment ("Proposition 58") adopted by the voters in 2004, beginning with fiscal year 2004-05, the Legislature may not pass a budget bill in which General Fund expenditures exceed estimated General Fund revenues and beginning fund balances at the time of the passage and as set forth in the budget bill. Proposition 58 also provides for mid-year adjustments in the event that the budget falls out of balance and the Governor calls a special legislative session to address the shortfall. Proposition 58 prohibits the use of general obligation bonds, revenue bonds, and certain other forms of borrowing to cover fiscal year end budget deficits. The restriction does not apply to certain other types of borrowing, such as: (i) short-term borrowing to cover cash shortfalls in the General Fund (including RANs or RAWs), or (ii) inter-fund borrowings.

Under the state Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of annual expenditure appropriations is the annual budget act as approved by the Legislature and signed by the Governor (the "Budget Act"). Pursuant to Proposition 25, enacted in 2010, the Budget Act (and other appropriation bills/"trailer bills" which are related to the budget) must be approved by a majority vote of each House of the Legislature, and legislators must forfeit their pay if the Legislature fails to pass the budget bill on time. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill 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.

Appropriations also may be included in legislation other than the Budget Act. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the state Constitution. Funds necessary to meet an appropriation are not required to be in the State Treasury at the time an appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

## The General Fund

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

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

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

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

**Restrictions on Raising or Using General Fund Revenues**

Over the years, a number of laws and constitutional amendments have been enacted, often through voter initiatives, which have reduced the state's budgetary flexibility by making it more difficult for the state to raise taxes or restricting or earmarking the use of tax revenues.

For example, Proposition 13, passed 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. More recently, in 2010 the voters approved Proposition 26, which specifies that a two-thirds vote of both houses of the Legislature is required 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 requiring two-thirds vote. A related measure, Proposition 4, approved in 1979, limits government spending by establishing an annual limit on the appropriation of proceeds of taxes.

Several initiatives have earmarked certain taxes or funds for specific expenditures. For example, in 2012, voters approved Proposition 30, which provided temporary increases in personal income tax rates for high-income taxpayers and a temporary increase in the state sales tax rate, and specified that the additional revenues will support K-12 public schools and community colleges as part of the Proposition 98 guarantee. Proposition 30 also placed into the state Constitution the current statutory provisions transferring 1.0625 percent of the state sales tax to local governments to fund the "realignment" program for many services including housing criminal offenders. The sales tax provisions of Proposition 30 expired December 31, 2016; and the personal income tax rates for high-income taxpayers was extended through tax year 2030 by Proposition 55 in the November 2016 election. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue." 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.

Proposition 98, enacted in 1988, directs a minimum portion of General Fund revenues to support K-12 schools and community colleges. In 2002, the voters approved Proposition 49 which requires the state to expand funding for before and after school programs in the state's public elementary, middle and junior high schools. These funds are part of the Proposition 98 minimum funding guarantee for K-14 education and expenditures can only be reduced in certain low revenue years. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—K-12 Education under Proposition 98."

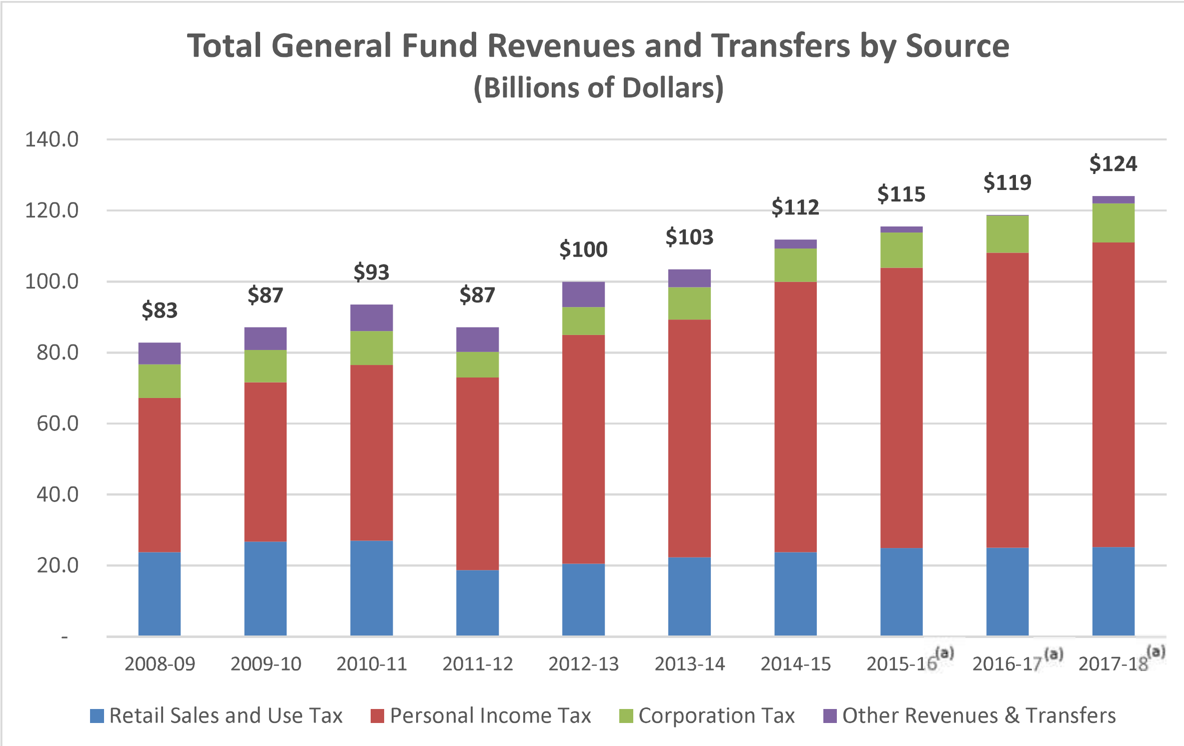
In 1998, Proposition 10 raised taxes on tobacco products and mandated how the additional revenues would be expended. In 2016, Proposition 56 further raised taxes on tobacco products and specified how the additional revenues could be expended.

In 2004, the voters approved Proposition 63 which imposes a 1 percent tax surcharge on taxpayers with annual taxable income of more than $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. Another measure affecting tax receipts was Proposition 39 (2012), discussed below under "Sources of Tax Revenue – Corporation Tax."

Proposition 2, passed in 2014, directs the transfer of specified amounts of General Fund revenues to the BSA and to pay down specified debts and liabilities. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves—Budget Stabilization Account."

**Sources of Tax Revenue**

The following is a summary of the state's major tax revenues and tax laws. In fiscal year 2017-18, 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 2014-15 that are represented as reductions in the total amount of other General Fund revenues and transfers.




(a) Estimated (2015-16 and 2016-17) and Projected (2017-18).
Note: Chart reflects transfer of $1.9 billion in fiscal year 2015-16, $3.2 billion in fiscal year 2016-17, and $1.2 billion in fiscal year 2017-18 from the General Fund to the BSA for rainy day purposes. These transfers have the effect of lowering the total reported levels of General Fund revenues and transfers for those fiscal years by the amounts of the transfers.

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

| Fiscal Year | Personal Income Tax | | Sales & Use Tax | | Corporate Income Tax | | Other Revenues and Transfers | | Total |
|---|---|---|---|---|---|---|---|---|---|
| 2008-09 | $43,376 | *52%* | $23,753 | *29%* | $9,536 | *12%* | $6,107 | *7%* | $82,772 |
| 2009-10 | 44,852 | *52* | 26,741 | *31* | 9,115 | *10* | 6,333 | *7* | 87,041 |
| 2010-11 | 49,445 | *53* | 26,983 | *29* | 9,614 | *10* | 7,447 | *8* | 93,489 |
| 2011-12 | 54,261[b][c] | *62* | 18,658[d] | *21* | 7,233 | *8* | 6,919[f] | *8* | 87,071 |
| 2012-13 | 64,484[c] | *65* | 20,482[c] | *20* | 7,783[e] | *8* | 7,166 | *7* | 99,915 |
| 2013-14 | 67,025[c] | *65* | 22,263[c] | *22* | 9,093[e] | *9* | 4,994 | *5* | 103,375 |
| 2014-15 | 76,169[c] | *68* | 23,682[c] | *21* | 9,417[e] | *8* | 2,521[g] | *2* | 111,789 |
| 2015-16[a] | 78,947[c] | *68* | 24,890[c] | *22* | 9,902[e] | *9* | 1,761[g] | *2* | 115,500 |
| 2016-17[a] | 83,136[c] | *70* | 24,994[c] | *21* | 10,389[e] | *9* | 246[g] | *0* | 118,765 |
| 2017-18[a] | 85,866[c] | *69* | 25,179 | *20* | 10,878[e] | *9* | 2,104[g] | *2* | 124,027 |

[a] Estimated (2015-16 and 2016-17) and Projected (2017-18).

[b] Reflects the expiration of a temporary 0.25-percent surcharge and the reduced dependent exemption credit for the 2009 and 2010 tax years. These two changes decrease General Fund revenues by an estimated $3.5 billion in fiscal year 2011-12.

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

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

[e] Reflects the passage of Proposition 39, which requires single sales factor apportionment for most multi-state businesses. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue—Corporation Tax."

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

[g] Reflects transfer of $1.6 billion in fiscal year 2014-15, $1.9 billion in fiscal year 2015-16, $3.2 billion in fiscal year 2016-17, and $1.2 billion in fiscal year 2017-18 from the General Fund to the BSA for rainy day purposes.

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

Source: State of California, Department of Finance.

### 1. *Personal Income Tax*

California models its personal income tax after the federal income tax. It is imposed on net taxable income (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 Mental Health Services Fund. The personal income tax brackets, along with other tax law parameters, are adjusted annually by the change in the consumer price index to prevent taxpayers from being pushed into higher tax brackets without a real increase in income. Personal, dependent, and other credits are allowed against the gross tax liability. In addition, taxpayers may be subject to an alternative minimum tax ("AMT"), which is similar to the federal AMT. California's personal income tax structure is highly progressive. For example, the state's Franchise Tax Board indicates that the top 1 percent of California state income taxpayers paid 48 percent of the state's total personal income tax in tax year 2014.

The 2017-18 Governor's Budget revenue projections include the revenue expected from Proposition 30. This measure provides for a one percent increase in the personal income tax 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. 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 Proposition 30 income tax increases are in effect for calendar years 2012 through 2018. The Administration estimates the additional revenue from the higher income tax was $5.8 billion in fiscal year 2013-14, $6.5 billion in fiscal year 2014-15, and $6.7 billion in fiscal year 2015-16; the administration projects the revenue from these additional tax brackets to be $6.8 billion in fiscal year 2016-17, and $6.9 billion in 2017-18. Voters approved Proposition 55 in November 2016, extending the three additional tax brackets through tax year 2030.

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

**TABLE 8**
**Personal Income Tax General Fund Revenues (PIT)**
**(Includes Percentage of Total General Fund Revenues and Transfers)**
**Dollars in Millions**

| Fiscal Year | Capital Gains | | All Other PIT | | Total PIT | |
|---|---|---|---|---|---|---|
| 2008-09 | $3,863 | 4.7% | $ 39,513 | 47.7% | $43,376 | 52.4% |
| 2009-10[(a)] | 2,983 | 3.4 | 41,869 | 48.1 | 44,852 | 51.5 |
| 2010-11[(a)] | 4,526 | 4.8 | 44,919 | 48.0 | 49,445 | 52.9 |
| 2011-12[(b)] | 6,020 | 6.9 | 48,241 | 55.4 | 54,261 | 62.3 |
| 2012-13[(b)] | 9,552 | 9.6 | 54,932 | 55.0 | 64,484 | 64.5 |
| 2013-14[(b)] | 8,711 | 8.4 | 58,314 | 56.4 | 67,025 | 64.8 |
| 2014-15[(b)(c)] | 11,433 | 10.2 | 64,736 | 57.9 | 76,169 | 68.1 |
| 2015-16[(b)(c)(d)] | 11,687 | 10.1 | 67,260 | 58.2 | 78,947 | 68.4 |
| 2016-17[(b)(c)(d)] | 11,297 | 9.5 | 71,839 | 60.5 | 83,136 | 70.0 |
| 2017-18[(b)(c)(d)] | 10,888 | 8.8 | 74,978 | 60.5 | 85,866 | 69.2 |

(a) Includes revenue from the temporary 0.25 percent surcharge on all personal income tax brackets and a reduction in the dependent exemption credit in 2009 and 2010.

(b) Includes revenue from the higher rates imposed by Proposition 30 that are dedicated to the Education Protection Account. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—K-12 Education under Proposition 98."

(c) Estimated. For fiscal year 2014-15, only the portion of total PIT attributable to capital gains remains subject to possible further revision.

(d) Revenue for fiscal year 2015-16 includes a reduction of $200 million, fiscal year 2016-17 reflects a reduction of $240 million, and fiscal year 2017-18 a reduction of $264 million, due to the state Earned Income Tax Credit.

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 based on actual capital gains realizations for 2012, 2013, and 2014, and the forecasted realizations for 2015 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.

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

Income taxes on capital gains realizations, which are linked to stock market and real estate performance, can add significant volatility to personal income tax receipts. For example, capital gains tax receipts accounted for nearly 9 percent of General Fund revenues and transfers in fiscal year 2007-08, but dropped below 5 percent in fiscal year 2008-09, and below 4 percent in fiscal year 2009-10. The 2017-18 Governor's Budget projects that capital gains will account for 9.5 percent of General Fund revenues and transfers in fiscal year 2016-17, and 8.8 percent in fiscal year 2017-18. 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 "CURRENT STATE BUDGET—Budget Risks."

### 2. *Sales and Use Tax*

The sales tax is imposed upon retailers for the privilege of selling tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions have been provided for certain essentials such as food for home consumption, prescription drugs, gas delivered through mains, and electricity. Other exemptions provide relief for a variety of sales ranging from custom computer software to aircraft.

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

As of January 1, 2017, the breakdown for the uniform statewide state and local sales and use tax (referred to herein as the "sales tax") rate of 7.25 percent was as follows (many local jurisdictions have additional sales taxes for local purposes):

- 3.9375 percent imposed as a state General Fund tax;
- 1.0625 percent dedicated to local governments for realignment purposes (Local Revenue Fund 2011);
- 0.5 percent dedicated to local governments for health and welfare program realignment (Local Revenue Fund);
- 0.5 percent dedicated to local governments for public safety services (Local Public Safety Fund); and
- 1.25 percent local tax imposed under the Uniform Local Sales and Use Tax Law, with 0.25 percent dedicated to county transportation purposes and 1.0 percent for city and county general-purpose use.

Passage of Proposition 30 added a 0.25 percent additional sales tax rate from January 1, 2013 through December 31, 2016. Proposition 30 also 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 $6.6 billion in fiscal year 2016-17 and $6.9 billion in fiscal year 2017-18.

Existing law provides that 0.25 percent of the base state and local sales tax rate may be suspended in any calendar year upon certification by the Director of Finance, by November 1 in the prior year, that both of the following have occurred: (1) the General Fund reserve (excluding the revenues derived from the 0.25 percent special sales tax) is expected to exceed 3 percent of revenues in that fiscal year (excluding the revenues derived from the 0.25 percent special sales tax) and (2) actual revenues for the period May 1 through September 30 equal or exceed the previous May Revision forecast. The 0.25 percent rate will be reinstated the following year if the Director of Finance subsequently determines conditions (1) or (2) above are not met for that fiscal year. The Department of Finance estimates that the reserve level was insufficient to trigger a reduction for calendar year 2017. See "Governor's Proposed Budget —Summary of State Revenues and Expenditures" for a projection of the fiscal years 2016-17 and 2017-18 General Fund reserve.

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.

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

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

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

- Fees and taxes paid by limited liability companies ("LLCs"), which accounted for 10.1 percent of corporation tax revenue in fiscal year 2015-16, are considered "corporation taxes."

Legislation enacted in the Budget Acts of 2008, 2009, and 2010 significantly reduced corporation tax revenues beginning in fiscal year 2011-12. However, the passage of Proposition 39 in November 2012 reverses portions of the reductions in revenue due to those tax changes. Proposition 39 amended a provision giving corporations an option on how to calculate the portion of worldwide income attributable to California. By requiring corporations to base their state tax liability on sales in California, it is estimated that state revenues will increase by $918 million in fiscal year 2016-17, $968 million in fiscal year 2017-18, and will further increase to over $1 billion by fiscal year 2018-19. The measure also, for fiscal years 2013-14 through 2017-18, dedicates 50 percent, up to $550 million, per year from the annual estimate of this increased revenue to funding of projects that create energy efficiency and clean energy jobs in California.

The legislative changes, offset by Proposition 39, are expected to reduce net revenue by $482 million in fiscal year 2016-17 and $542 million in fiscal year 2017-18.

*4. Insurance Tax*

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

Chapter 2, Statutes of 2016, authorized a tax on the enrollment of Medi-Cal managed care plans and commercial health plans and also reduced insurance and corporation taxes paid by the health plan industry. The 2017-18 Governor's Budget forecasts that this new law will reduce insurance tax revenue by $280 million annually in fiscal years 2016-17, 2017-18, and 2018-19, while corporation tax revenue is forecast to decrease by $90 million for each fiscal year 2016-17, 2017-18, and 2018-19. See "STATE EXPENDITURES - Health and Human Services-Replacement of the Managed Care Organization Tax."

*5. Other Taxes*

Other general fund taxes and licenses include: alcoholic beverage taxes; horse racing license fees; and trailer coach license fees.

*6. Special Fund Revenues*

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

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

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

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

Motor vehicle-related taxes and fees are projected to account for approximately 27 percent of all special fund revenues in fiscal year 2017-18. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees and vehicle license fees. In fiscal year 2017-18, $13.7 billion of special fund revenues are projected to come from the ownership or operation of motor vehicles. For a discussion of Proposition 1A of 2004, which replaced a portion of vehicle license fees with increased property tax revenues, see "STATE FINANCES—OTHER ELEMENTS—Local Government Impacts on State Finances."

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

**TABLE 9**
**Comparative Yield of State Taxes – Special Funds**
**(Modified Accrual Basis)**
**(Dollars in Thousands)**

| Fiscal Year | Sales and Use[(a)] | Personal Income[(b)] | Tobacco[(c)] | Insurance[(d)] | Motor Vehicle Fuel | Motor Vehicle Fees[(e)] | Managed Care Organization Tax |
|---|---|---|---|---|---|---|---|
| 2011-12 | $17,962,461 | $1,063,543 | $800,677 | $251,073 | $5,544,530 | $5,817,168 | -- |
| 2012-13 | 19,161,183 | 1,683,780 | 778,703 | 21,379 | 5,492,850 | 5,838,702 | -- |
| 2013-14 | 20,167,858 | 1,281,664 | 746,748 | -- | 6,063,356 | 6,204,720 | $827,561 |
| 2014-15 | 21,025,351 | 1,830,637 | 746,062 | -- | 5,711,160 | 6,489,447 | 1,464,288 |
| 2015-16[(f)] | 20,774,834 | 1,805,958 | 754,690 | -- | 5,000,539 | 6,809,481 | 1,632,534 |
| 2016-17[(f)] | 21,169,691 | 1,863,048 | 1,077,384 | -- | 4,803,903 | 7,023,674 | 2,283,263 |
| 2017-18[(f)] | 22,983,388 | 1,887,584 | 2,026,162 | -- | 5,110,500 | 8,539,318 | 2,428,921 |

(a) These figures include allocations to Public Transportation Account, State Fiscal Recovery Fund, Local Public Safety Fund, and 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.

(b) These figures include the revenue estimate for a 1.0 percent surcharge on taxpayers with taxable income over $1 million, with the proceeds funding mental health programs pursuant to Proposition 63.

(c) Figures include allocations to the California Children and Families First Trust Fund, Breast Cancer Fund, and the Cigarette and Tobacco Products Surtax Fund, and the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund.

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

(e) Registration and weight fees, motor vehicle license fees and other fees. Includes $1.1 billion in 2017-18 from the Governor's proposed $65 per vehicle road improvement charge. See "STATE FINANCES—OTHER ELEMENTS—Local Government Impacts on State Finances."

(f) Estimated for fiscal years 2016-17 and 2017-18.

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.

7. *Taxes on Tobacco Products*

Cigarette and tobacco taxes primarily affect special funds, with $85 million going to the General Fund and $758 million to special funds in 2015-16. The California Healthcare, Research and Prevention Tobacco Tax Act of 2016 (Proposition 56), passed by the voters in November 2016, increases the excise tax rate on cigarettes, tobacco products, and electronic cigarettes, effective April 1, 2017. The excise tax increases by $2 from 87 cents to $2.87 per pack of 20 cigarettes on distributors selling cigarettes in California. The equivalent excise tax on the distribution of other tobacco products such as cigars, chewing tobacco, pipe tobacco, and snuff also increases by $2 from a $1.37-equivalent to a $3.37-equivalent tax. Lastly, Proposition 56 newly imposes the $3.37-equivalent tobacco products tax to electronic cigarettes. All of the new money from Proposition 56 goes to special funds.

*8. Taxes on Marijuana Products*

Proposition 64, The California Legal Marijuana Initiative, passed by the voters in November 2016, legalizes the recreational use of marijuana within California for persons age 21 and over, effective November 9, 2016. The measure also levies new excise taxes on the cultivation and retail sale of both recreational and medical marijuana as of January 1, 2018. The cultivation tax is $9.25 per ounce of flower and $2.75 per ounce of leaves, adjusted for inflation beginning in 2020. In addition, there will be a 15-percent tax on the retail price of both recreational and medical marijuana. Recreational marijuana will also be subject to state and local sales taxes. Medical marijuana, on the other hand, is exempted from existing state and local sales taxes. However, future taxes on both medical and recreational marijuana can be levied by local governments.

**State Expenditures**

The four biggest categories of state expenditures—comprising approximately 90 percent of the annual budget each year—are K-12 Education, Higher Education, Health and Human Services and Public Safety (including Corrections and Rehabilitation). Other expenditure categories are shown in Table 17 below.

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

*1. K-14 Education under Proposition 98*

General. California provides instruction and support services to roughly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. K-12 education programs are primarily funded under Proposition 98, and will receive funding of $52.2 billion from the General Fund for fiscal year 2016-17 (both Non-Proposition 98 and Proposition 98).

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

Although the Constitution requires a minimum level of funding for education, the state may provide more or less than the minimum guarantee. If the state provides more than is required, the minimum guarantee is increased on an ongoing basis. If the state provides less than required, the minimum guarantee must be suspended in statute with a two-thirds vote of the Legislature. When the minimum guarantee is suspended, the suspended amount is owed to schools in the form of a maintenance factor. A maintenance factor obligation is also created in years when the operative minimum guarantee is calculated using a per capita General Fund inflation factor (Test 3) and is lower than the calculation using a per capita personal income inflation factor (Test 2). (In Test 1 years, a fixed percentage of General Fund revenues is used in the calculation.) In Test 3 years, the amount of maintenance factor obligation created is equal to the difference between the funded level and the Test 2 level. Under a suspension, the maintenance obligation created is the difference between the funded level and the operative minimum guarantee. Maintenance factor is repaid according to a Constitutional formula in years when the growth in per capita General Fund revenues exceeds the growth in per capita personal income.

The passage of Proposition 30 temporarily created an additional source of funds for K-14 education. The Education Protection Account ("EPA"), created by Proposition 30, is available to offset Proposition 98 General Fund expenditures for fiscal years 2012-13 through 2018-19, freeing up General Fund resources for other purposes. In November 2016, voters passed Proposition 55, which extends the personal income tax increase imposed by Proposition 30 through the 2030 tax year. See "Funding for Fiscal Years 2016-17 and 2017-18" below.

Proposition 2, approved by the voters in November 2014, 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 of the 2017-18 Governor's Budget, there is no balance in the PSSSA as these conditions have not been met and no deposit into the PSSSA is currently anticipated.

<u>Funding for Fiscal Years 2016-17 and 2017-18 for K-12 and Community Colleges Under Proposition 98.</u> As shown in Table 1, the 2017-18 Governor's Budget estimates the Proposition 98 minimum guarantee to be $71.4 billion in fiscal year 2016-17 and $73.5 billion in fiscal year 2017-18, decreases of $506 million and $953 million, respectively, when compared to the levels assumed in the 2016 Budget Act. The decrease in these estimates is primarily due to a lower than previously expected revenue forecast. Despite the lower estimates, the minimum guarantee is still projected to grow over prior-year levels by $2.7 billion in 2016-17 and $2.1 billion in 2017-18. The General Fund share of the minimum guarantee is $50.3 billion in 2016-17 and $51.4 billion in 2017-18, which includes approximately $7 billion each year from the EPA. Property taxes, which combine with General Fund to meet the minimum guarantee requirement, are estimated to increase significantly over the two-year period mostly due to an increase in base property tax revenues.

The 2017-18 Governor's Budget reflects Proposition 98 General Fund expenditures in fiscal years 2015-16 through 2017-18, as outlined in the table below.

**TABLE 10**
**Proposition 98 Funding**
**(Dollars in Millions)**

| | 2015-16 | | Fiscal Year 2016-17 | | 2017-18 | Change From Revised 2016-17 to Proposed 2017-18 | |
|---|---|---|---|---|---|---|---|
| | **Enacted**[a] | **Revised**[c] | **Enacted**[b] | **Revised**[c] | **Proposed**[c] | **Amount** | **Percent** |
| **K-12 Proposition 98** | | | | | | | |
| State General Fund | $36,884 | $36,483 | $38,738 | $ 38,226 | $ 39,815 | $ 1,589 | 4.2% |
| Education Protection Account | 7,231 | 7,202 | 6,784 | 6,661 | 6,071 | (590) | -8.9% |
| Local property tax revenue[d] | 16,380 | 17,052 | 18,057 | 18,236 | 19,201 | 965 | 5.3% |
| Subtotals [e] | $60,495 | $ 60,737 | $63,579 | $ 63,123 | $ 65,087 | $ 1,964 | 3.1% |
| **CCC Proposition 98** | | | | | | | |
| State General Fund | $ 4,407 | $ 4,414 | $ 4,690 [e] | $ 4,620 | $ 4,715 | $ 95 | 2.1% |
| Education Protection Account | 894 | 890 | 838 | 823 | 750 | (73) | -8.9% |
| Local property tax revenue[d] | 2,613 | 2,629 | 2,767 | 2,803 | 2,959 | 156 | 5.6% |
| Subtotals [e] | $ 7,914 | $ 7,933 | $ 8,295 | $ 8,246 | $ 8,424 | $ 178 | 2.2% |
| **Total Proposition 98** | | | | | | | |
| State General Fund | $41,291 | $ 40,897 | $43,428 | $ 42,846 | $ 44,530 | $ 1,684 | 3.9% |
| Education Protection Account | 8,125 | 8,092 | 7,622 | 7,484 | 6,821 | (663) | -8.9% |
| Local property tax revenue[d] | 18,993 | 19,681 | 20,824 | 21,039 | 22,160 | 1,121 | 5.3% |
| **Totals**[f] | $68,409 | $ 68,670 | $71,874 | $ 71,369 | $ 73,511 | $ 2,142 | 3.0% |

(a) As of the 2015 Budget Act, adopted on June 24, 2015.

(b) As of the 2016 Budget Act, adopted on June 27, 2016.

(c) As of the 2017-18 Governor's Budget, January 10, 2017.

(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 2015-16, 2016-17, and 2017-18 include the one-time distribution of cash assets held by redevelopment agencies.

(e) Beginning in fiscal year 2015-16, the community college funding includes $500 million for the K-14 Adult Education Block Grant.

(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: maintenance factor and settle-up payments. Both of these obligations have been created in years leading up to fiscal year 2017-18. The following table shows the estimated balances of Proposition 98 future obligations as of the 2017-18 Governor's Budget:

**TABLE 11**
**Proposition 98 Future Obligations Balances**
**(Dollars in Millions)**

| | Estimated Fiscal Year-End Balances[a] | | | | |
|---|---|---|---|---|---|
| **Obligation** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** |
| **Maintenance Factor** | $6,175 | $482 | $500 | $1,364 | $1,628 |
| **QEIA Settle-up[b]** | 410 | 0 | 0 | 0 | 0 |
| **Other Settle-Up** | 1,500 | 1,500 | 1,244[c] | 1,026[c] | 626[c] |

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

[b] The Quality Education Improvement Act ("QEIA") enacted the settlement of a lawsuit concerning the proper amount of the guarantee in fiscal years 2004-05 and 2005-06 that obligated the state to pay a total of $2.7 billion in settle-up based on a statutory repayment plan. The final payment was made in fiscal year 2014-15.

[c] Included in "Underfunding of Proposition 98" in Table 6.

Note: Proposition 98 budgetary deferrals are not included in this Table. The 2014 Budget Act included deferral payments of $5.2 billion: $662 million made toward the deferral balance in fiscal year 2014-15 and additional payments of $4.5 billion made in fiscal year 2014-15 toward deferral balances in fiscal years 2012-13 and 2013-14. In addition, a trigger mechanism included in the 2014 Budget Act resulted in the remaining deferral balance of $992 million being paid in fiscal year 2014-15. In total, these payments eliminated the remaining deferral balance at the end of fiscal year 2014-15. To align fiscal year 2016-17 General Fund expenditures to the minimum required under Proposition 98, a one-time budgetary deferral of $859 million is included in the 2017-18 Governor's Budget. The payment to retire this deferral balance is included in the estimated expenditures for the 2017-18 fiscal year.

Maintenance factor payments are included in the multi-year projection (as shown in Table 3) developed by the Department of Finance based on factors known as of the 2017-18 Governor's Budget. The maintenance factor balance is adjusted by average daily attendance and per capita personal income growth each year. No maintenance factor payment is required in fiscal years 2015-16 through 2018-19. Payments of $88 million and $206 million, respectively, as required by Constitutional formula, are built into fiscal years 2019-20 and 2020-21.

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, and the 2017-18 Governor's Budget provides a projected $8.4 billion Proposition 98 funds for community colleges (consisting of $5.5 billion from the General Fund and $3 billion from local property taxes). There are 113 community college campuses operated by 72 community college districts. These colleges provide associate degrees and certificates to students. Additionally, students may attend CCCs to meet basic skills or complete general education requirements prior to transferring to a four-year undergraduate institution. The CCCs awarded 223,938 associate degrees, certificates, and other awards in the 2015-16 school year. For the 2015-16 school year, approximately 1.1 million full-time equivalent students were enrolled at CCCs.

The CSU provides undergraduate and graduate programs, awarding about 113,000 degrees in the 2015-16 school year. The CSU enrolled 391,121 full-time students at 23 campuses in the 2015-16 school year.

The UC provides a range of undergraduate, graduate and professional programs, awarding about 69,000 degrees in the 2015-16 school year. The ten UC campuses and the Hastings College of Law enrolled 254,421 full time students in the 2015-16 school year.

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

**TABLE 12**
**Higher Education**
**General Fund Expenditures**
**(Dollars in Billions)**

| Fiscal Year | CSU[a][b] | UC[c] | CCCs |
|---|---|---|---|
| 2013-14 | $2.6 | $2.8 | $4.2 |
| 2014-15 | 3.0 | 3.0 | 5.0 |
| 2015-16 | 3.3 | 3.3 | 5.3 |
| 2016-17 | 3.6 | 3.5 | 5.4 |
| 2017-18 | 3.7 | 3.5 | 5.5 |

(a) Includes costs of health benefits for CSU retirees.
(b) Includes general obligation bond debt service costs beginning in fiscal year 2014-15.
(c) Includes general obligation bond debt service costs beginning in fiscal year 2013-14.

3. *Health and Human Services*

Medi-Cal. Medi-Cal, California's Medicaid program, is a health care entitlement program for low-income individuals and families who receive public assistance or otherwise lack health care coverage. Medi-Cal serves approximately 36 percent of all Californians.

Average monthly caseload in Medi-Cal is estimated to be 14 million in fiscal year 2016-17. Caseload is expected to increase in fiscal year 2017-18 by 256,400, or 1.8 percent, to approximately 14.3 million people. The increase in caseload and expenditures in recent years is largely due to the implementation of federal health care reform. In addition, the current year increase of $1.8 billion includes two significant adjustments: (1) one-time retroactive payment of drug rebates to the federal government of nearly $500 million and (2) correction of a miscalculation of costs associated with the Coordinated Care Initiative of nearly $1.5 billion. In January 2017, Securities and Exchange Commission ("S.E.C.") staff contacted the state by telephone and requested information related to these adjustments. The state is cooperating with the S.E.C. and is providing the requested information. (The Coordinated Care Initiative allows persons eligible for both Medicare and Medi-Cal to receive medical, behavioral health, long-term services and supports, and home and community-based services coordinated through a single health plan.)

The following table shows Medi-Cal expenditures.

**TABLE 13**
**Medi-Cal Expenditures**
**(Dollars in Billions)**

| Fiscal Year | General Fund | Other State Funds | Federal Funds | Total |
|---|---|---|---|---|
| 2013-14 | $16.6 | $5.7 | $34.1 | $56.4 |
| 2014-15 | 17.1 | 8.3 | 54.1 | 79.5 |
| 2015-16 | 17.7 | 7.9 | 55.1 | 80.7 |
| 2016-17[(a)] | 19.6 | 13.7 | 66.8 | 100.1 |
| 2017-18[(a)] | 19.1 | 16.7 | 66.8 | 102.6 |

Note: Totals may not add due to rounding.
(a) Estimated. Above average growth in General Fund spending between 2015-16 and 2016-17 is largely attributable to a one-time pharmacy payment of nearly $500 million. This decreases costs in 2015-16 and increases costs by the same amount, resulting in year-over-year change of nearly $1 billion.

Health Care Reform. California continues implementation of the federal Affordable Care Act (ACA). Since January 1, 2014, approximately 6 million Californians have obtained health insurance, either through the state's new insurance exchange (Covered California) or through the two part (mandatory and optional) expansion of Medi-Cal. 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 parent and caretaker relatives with incomes up to 138 percent of the federal poverty level. The 2017-18 Governor's Budget includes costs of $18.9 billion ($1.6 billion General Fund) in fiscal year 2017-18 for the optional expansion. The federal government paid nearly 100 percent of the costs of this expansion for the first three years. As of January 1, 2017, California is responsible for 5 percent of these costs with California's contribution gradually increasing each fiscal year until fiscal year 2020-21, when the state will pay 10 percent of the total costs. By fiscal year 2020-21, the General Fund share for the optional expansion is projected to be $2.5 billion. The 2017-18 Governor's Budget projects the optional expansion caseload to be 4.1 million in fiscal year 2017-18.

Medi-Cal 1115 Waiver Renewal. California negotiated with the federal government to renew the Medi-Cal Section 1115 "Bridge to Reform" waiver, which was critical to the successful implementation of the ACA. The state received approval for the waiver renewal, called "Medi-Cal 2020", effective January 1, 2016 through December 21, 2020. The total federal funding in the renewal is approximately $7.2 billion over five years.

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 and prevent institutionalization.

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

**TABLE 14**
**IHSS Expenditures**
**(Dollars in Billions)**

| Fiscal Year | Caseload | General Fund Expenditures |
|---|---|---|
| 2013-14 | 425,526 | $1.9 |
| 2014-15 | 443,734 | 2.2 |
| 2015-16 | 466,493 | 2.7 |
| 2016-17(a)(b) | 507,463 | 3.5 |
| 2017-18(a)(c) | 531,069 | 3.2 |

(a) Estimated.
(b) The increase in estimated fiscal year 2016-17 General Fund expenditures is primarily due to (1) implementation of federal Department of Labor overtime regulations for IHSS effective February 2016; (2) implementation of the state hourly minimum wage increase from $10.00 to $10.50, effective January 1, 2017; and (3) growth in caseload and average service hours per case.
(c) The increase in projected fiscal year 2017-18 General Fund expenditures is primarily due to increased costs related to (1) the full-year impact of federal Department of Labor overtime regulations for IHSS; (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. These increased costs are partially offset by General Fund savings resulting from eliminating the IHSS County maintenance-of-effort requirement that has been in place since 2012-13 and restoring the prior state-county cost-sharing arrangement to support the program.

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. The federal government determined that California failed to meet this requirement for federal fiscal years ("FFYs") 2007 through 2014, and the state is therefore subject to a penalty. The federal government waived the penalties for FFYs 2007-2011 and the state is seeking relief from the FFYs 2012, 2013, and 2014 penalties, estimated to total approximately $1.1 billion. On January 5, 2017, the federal government determined that the state successfully completed a corrective compliance plan to meet work participation rate requirements in FFY 2015. In addition, on January 20, 2017, the federal government determined that the state successfully completed a corrective compliance plan to meet work participation rate requirements in FFY 2016. By meeting the work participation requirements, the state avoids $587.1 million in aggregate fiscal penalties in FFYs 2008, 2009, 2010, and 2011. Similar corrective compliance plans were submitted to the federal government in October 2015 to address the FFY 2012 penalty, in February 2016 to address the FFY 2013 penalty, and in September 2016 to address the FFY 2014 penalty, which require the state to continue to meet or exceed federal work participation rate requirements in FFYs 2016 and 2017.

The following table shows CalWORKs caseload and General Fund expenditures.

**TABLE 15**
**CalWORKs Expenditures**
**(Dollars in Billions)**

| Fiscal Year | Caseload | General Fund Expenditures |
|---|---|---|
| 2013-14 | 550,928 | $1.2 |
| 2014-15[(a)] | 535,089 | 0.6 |
| 2015-16[(a)] | 495,724 | 0.7 |
| 2016-17[(a) (b) (c)] | 463,540 | 0.8 |
| 2017-18 [(a) (c) (d)] | 459,173 | 0.6 |

(a) Reflects General Fund savings of approximately $741 million in fiscal year 2014-15, $746 million in fiscal year 2015-16, $586 million in fiscal year 2016-17, and $546 million in fiscal year 2017-18 from redirecting a portion of fiscal year 1991-92 realignment revenues from indigent health to CalWORKs, pursuant to Chapter 24, Statutes of 2013.

(b) Reflects increased General Fund costs primarily due to repeal of the maximum family grant rule, effective January 1, 2017.

(c) Estimated.

(d) Reflects a one-time shift of $265.9 million in costs from the General Fund to counties to reflect additional county indigent health care savings realized by counties in 2014-15, pursuant to Chapter 24, Statutes of 2013.

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 2017-18 Governor's Budget includes approximately $2.9 billion for the SSI/SSP program from the General Fund for fiscal year 2017-18, 2 percent more than the revised fiscal year 2016-17 funding level. The year-over-year increase is primarily due to a slight increase in caseload and the full-year costs associated with the 2.76-percent cost-of-living increase applied to the SSP portion of the SSI/SSP grant, effective January 1, 2017. The average monthly caseload in this program is estimated to be 1.3 million recipients in fiscal years 2016-17 and 2017-18.

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 serves approximately 304,000 individuals in the community and approximately 900 individuals in three state-operated developmental centers.

The following table shows the caseload and related General Fund expenditures for the Department of Developmental Services (excluding capital outlay and Proposition 98 funding).

**TABLE 16**
**Department of Developmental Services Expenditures**
**(Dollars in Billions)**

| Fiscal Year | Caseload | General Fund Expenditures |
|---|---|---|
| 2013-14 | 275,337 | $2.8 |
| 2014-15 | 280,570 | 3.1 |
| 2015-16 | 291,507 | 3.5 |
| 2016-17[a] | 304,410 | 4.0 |
| 2017-18[a] | 318,043 | 4.2 |

[a] Estimated.

Replacement of the Managed Care Organization Tax. Since 2005, the state has levied a tax on Medi-Cal managed care plans to increase payments to Medi-Cal providers and fund health care costs that would otherwise be paid from the General Fund. The state's previous managed care organization (MCO) tax structure, which expired on June 30, 2016, did not comply with certain federal guidance that such a tax be broad-based and not limited narrowly to Medi-Cal plans. In response, the Legislature passed a package of bills to modify and continue the MCO tax for 3 years to provide at least $1.1 billion annually for Medi-Cal. The bills were signed by the Governor on March 1, 2016, and the package was approved by the federal Centers for Medicare and Medicaid Services on May 17, 2016, with some minor adjustments. The modified MCO tax was implemented beginning in fiscal year 2016-17.

*4. Public Safety*

The California Department of Corrections and Rehabilitation ("CDCR") operates 37 youth and adult correctional facilities and 44 youth and adult camps as well as numerous other facilities. The CDCR also contracts for multiple adult parolee service centers and community correctional facilities. The CDCR's infrastructure includes more than 42 million square feet of building space on more than 24,000 acres of land (37 square miles) statewide. The 2017-18 Governor's Budget assumes an average daily adult inmate population of 128,159 in fiscal year 2017-18 and an average daily adult parole population of 44,761 in fiscal year 2017-18.

The 2017-18 Governor's Budget includes total expenditures (excluding capital outlay) of $11.3 billion ($11 billion from the General Fund) for CDCR, including salaries and benefits of approximately $7.7 billion. The 2017-18 Governor's Budget continues to include savings from the implementation of Chapter 15, Statutes of 2011 (AB 109). This legislation shifted responsibility for short-term, lower-level offenders from the state to county jurisdictions. In addition, counties are responsible for community supervision of lower-level offenders upon completion of their prison sentences.

Prison Population. Pursuant to various rulings issued by a panel of three federal judges, (some affirmed by the United States Supreme Court), the state was ordered to reduce its prison population to 137.5 percent of the system's design capacity by February 28, 2016. In January 2015, CDCR met this court-ordered population benchmark because of successful implementation of a variety of court-ordered population reduction measures and approval of Proposition 47 by the voters in November 2014, which required reclassification of certain felonies to misdemeanors (and related resentencing). Notwithstanding these changes, the fall 2016 adult inmate population projections estimate that population will increase by approximately 1,000 inmates per year. Given the need to establish a durable solution for prison crowding, the Governor sponsored, and the voters approved, Proposition 57 to maintain compliance with the court-ordered population cap, end federal court oversight, and establish more incentives for inmates to participate in rehabilitative programs. Proposition 57 reforms the juvenile and adult criminal justice system in California by creating a parole consideration process for non-violent offenders who have served the full term for their primary criminal offense in state prison, authorizing CDCR to award credits earned for good behavior 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.

Prison Medical Care. The federal receiver, the court appointed individual who oversees 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 2017-18 Governor's Budget includes $2 billion from the General Fund for the Receiver's Medical Services and Pharmacy Programs, compared to the 2016 Budget Act, which totaled $1.9 billion from the General Fund.

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 January 25, 2017, 10 institutions have been transitioned back to the state, with 25 facilities (including one leased facility) 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 2010-11 through 2014-15. The information for fiscal year 2015-16 will be part of the State Controller's Budgetary/Legal Basis Annual Report, which is expected to be released by March 2017, coinciding with release of the Audited General Purpose Financial Statements of the State for the Year Ended June 30, 2016.

# TABLE 17
## Governmental Cost Funds (Budgetary Basis)
## Schedule of Expenditures by Function and Character
## (Dollars in Thousands)

| Function | Fiscal Year 2010-11[e][f][g] | 2011-12[e] | 2012-13[e] | 2013-14[e] | 2014-15[e][h] |
|---|---|---|---|---|---|
| **Legislative, Judicial, and Executive** | | | | | |
| Legislative | $ 325,244 | $ 331,052 | $ 329,903 | $ 345,319 | $ 347,844 |
| Judicial | 3,742,539 | 3,360,882 | 2,961,759 | 3,257,190 | 3,540,001 |
| Executive | 1,810,506 | 1,543,381 | 1,548,666 | 1,879,794 | 1,843,252 |
| **State and Consumer Services** [a] | 1,173,185 | 1,249,034 | 1,275,754 | 622,493 | 668,873 |
| **Business, Transportation and Housing** | | | | | |
| Business and Housing [a] | 227,899 | 239,838 | 211,466 | 90,082 | 215,135 |
| Transportation[b] | 7,109,753 | 5,452,535 | 5,950,645 | 7,389,121 | 7,390,367 |
| **Natural Resources** | 3,414,859 | 3,358,016 | 3,505,612 | 3,431,142 | 4,350,235 |
| **Environmental Protection** | 962,109 | 1,027,911 | 907,427 | 1,000,477 | 1,159,685 |
| **Health and Human Services** | 41,642,841 | 41,359,564 | 44,613,839 | 46,257,581 | 49,929,687 |
| **Public Safety Programs** | 9,514,121 | 7,892,864 | 8,530,717 | 9,111,239 | 9,841,406 |
| **Education** | | | | | |
| Education – K through 12 | 33,193,396 | 32,755,642 | 39,789,023 | 38,742,395 | 48,853,440 |
| Higher Education | 10,623,763 | 9,256,322 | 9,055,279 | 10,659,644 | 12,658,443 |
| **Labor and Workforce Development** | 370,993 | 700,449 | 710,343 | 726,075 | 773,047 |
| **Government Operations** [a] | -- | -- | -- | 888,422 | 946,248 |
| **General Government** | | | | | |
| General Administration | 1,757,991 | 1,712,184 | 1,948,034 | 1,851,530 | 2,880,301 |
| Debt Service | 6,222,307 | 6,561,871 | 5,721,714 | 6,305,806 | 6,439,994 |
| Tax Relief | 438,082 | 434,385 | 427,285 | 421,734 | 416,755 |
| Shared Revenues | 2,231,710 | 1,997,607 | 3,660,110 | 2,082,676 | 1,879,362 |
| Other Statewide Expenditures | 1,330,757 | 1,453,787 | 1,365,657 | 1,109,007 | 2,891,100 |
| Expenditure Adjustment for Encumbrances [c] | 18,316 | 2,195,656 | (136,097) | 30,739 | (633,345) |
| Credits for Overhead Services by General Fund | (417,786) | (485,301) | (592,314) | (642,848) | (602,749) |
| Statewide Indirect Cost Recoveries | (100,543) | (109,807) | (132,847) | (133,400) | (147,349) |
| **Total** | $ 125,592,042 | $ 122,287,872 | $ 131,651,975 | $ 135,426,218 | $ 155,641,732 |
| **Character** | | | | | |
| State Operations | $ 40,451,395 | $ 39,579,635 | $ 39,122,859 | $ 39,266,400 | $ 43,274,995 |
| Local Assistance [d] | 84,254,039 | 81,820,212 | 91,890,033 | 95,620,340 | 111,421,332 |
| Capital Outlay | 886,608 | 888,025 | 639,083 | 539,478 | 945,405 |
| **Total** | $ 125,592,042 | $ 122,287,872 | $ 131,651,975 | $ 135,426,218 | $ 155,641,732 |

[a] The Governor's Reorganization Plan ("GRP"), which became operative on July 1, 2013, cut the number of state agencies from twelve to ten and eliminated or consolidated dozens of departments and entities, thereby making government more efficient and reducing unnecessary spending. The GRP created a new functional category called Government Operations and several departments/functions moved around. The State and Consumer Services and the Business and Housing functions were most affected.

[b] Beginning with fiscal year 2011-12, the Department of Transportation ("DOT") changed the basis of financial reporting from a modified accrual basis to a cash basis for the State Highway Account ("Fund 0042"), the Public Transportation Account ("Fund 0046"), the Traffic Congestion Relief Fund ("Fund 3007"), the Transportation Investment Fund ("Fund 3008"), and the Transportation Deferred Investment Fund ("Fund 3093"). This change resulted in a reduction of the reported expenditures by DOT in these funds for fiscal year 2011-12 due to expenditures incurred, but not paid in fiscal year 2011-12 not being accrued, and the fiscal year 2010-11 reported accruals being reversed. Therefore, in fiscal year 2012-13, reported expenditures increased. The change to cash basis financial reporting for these funds was done at the direction of the Department of Finance, in accordance with the following statutes: Streets and Highways Code Section 183(c), for Fund 0042; Public Utilities Code Section 99310.6, for Fund 0046; Government Code Section 14556.5(b), for Fund 3007; Revenue and Taxation Code Section 7104.3, for Fund 3008; and Revenue and Taxation Code Section 7105(g), for Fund 3093.

(Footnotes Continued on Following Page)

(Continued from Previous Page)

[c] Large variances between fiscal years are normal. Fiscal years 2010-11 and 2011-12 variances are due to the prior year reversal of over encumbered expenditures.

In fiscal years 2011-12 and 2012-13, the change to cash basis financial reporting by the DOT in Funds 0042, 0046, 3007, 3008, and 3093 accounts for most of the large variance between the two fiscal years.

In fiscal year 2014-15, the increase in Local Assistance expenditures in funds that had no prior year reversal of encumbered expenditures, such as the Greenhouse Gas Reduction Fund (Fund 3228), accounts primarily for the much greater encumbrance adjustment amount than in fiscal year 2013-14.

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

[e] Executive Orders 11/12-A, 12/13-A, 13/14-A, 14/15-A and 15/16-A were issued by the Department of Finance, as authorized under Control Section 12.45 of the Budget Acts of 2010, 2011, 2012, 2013 and 2014 respectively, and pursuant to Government Code Sections 12472.5 and 13302, to defer the June 2011, June 2012, June 2013, June 2014 and June 2015 payroll expenditures for various governmental and nongovernmental cost funds to July 2011, July 2012, July 2013, July 2014 and July 2015. This affected all State departments paid through the uniform payroll system.

[f] The Department of Conservation (DOC) did not submit the required year-end financial statements to the State Controller's Office for fiscal year 2010-11 in time to be included in the Budgetary/Legal Basis Annual Report (BLBAR). The DOC amounts reported in the BLBAR include the June 30, 2011 cash balances plus accruals derived from actual activity reported through December 5, 2011.

[g] The State Air Resources Board (ARB) did not submit the required year-end statements for the Motor Vehicle Account, in the State Transportation Fund, to the State Controller's office for fiscal year 2010-11 in time to be included in the BLBAR. The Motor Vehicle Account amounts reported in the BLBAR include the ARB's June 30, 2011 cash balances plus estimated (not reconciled) accrual amounts provided by the ARB.

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

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

## Budget Reserves

### 1. *Special Fund for Economic Uncertainties*

The SFEU is funded with General Fund revenues and was established to protect the state from unforeseen revenue reductions and/or unanticipated expenditure increases. The State Controller may transfer funds from the SFEU to the General Fund as necessary to meet cash needs of the General Fund and such transfers are characterized as "loans." The State Controller is required to return moneys so transferred, without payment of interest, as soon as there are sufficient moneys in the General Fund. At the end of each fiscal year, the State Controller is required to transfer from the SFEU to the General Fund any amount necessary to eliminate any deficit in the General Fund.

There is a continuous appropriation authorizing the State Controller to transfer the unencumbered balance of the General Fund to the SFEU as of the end of each fiscal year. However, if, at the end of any fiscal year it has been determined revenues exceed the amount that may be appropriated, then the transfer shall be reduced by the amount of the excess revenues. The estimates of the transfer shall be made jointly by the LAO and the Department of Finance.

See "STATE FINANCES—OTHER ELEMENTS—State Appropriations Limit." In certain circumstances, moneys in the SFEU may be used in connection with disaster relief.

For budgeting and accounting purposes, any appropriation made from the SFEU, other than the appropriations discussed above, is deemed an appropriation from the General Fund. For year-end reporting purposes, the State Controller is required to add the balance in the SFEU to the balance in the General Fund so as to show the total moneys then available for General Fund purposes.

See Table 1 and footnote (e) in Table 4 for information concerning the recent balances in the SFEU and projections of the balances for the previous and current fiscal years. The Budget Act and related trailer bills are not the only pieces of legislation which appropriate funds. Updated estimates of revenues and expenditures, existing statutory requirements and additional legislation introduced and passed by the Legislature may also impact the fiscal year-end balance in the SFEU.

*2.* *Budget Stabilization Account*

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

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

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

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

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

- Creates the Public School System Stabilization Account ("PSSSA"), a special fund that serves as a Proposition 98 reserve, in which spikes in funding will be saved for future years. This will smooth school spending and thereby minimize future cuts. This reserve does not change the Proposition 98 minimum guarantee calculation, and transfers to the PSSSA will not occur until various operational and economic conditions are met.

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

Proposition 2 also requires that the state provide a multiyear budget forecast to help better manage the state's longer term finances.

Under current projections, Proposition 2 will result in $11.5 billion in the BSA by fiscal year 2020-21 (including a $1.8 billion deposit to the BSA in fiscal year 2016-17 above the amount required by law) and $7.9 billion in additional reductions of debts and liabilities in its first six years of operation. See Table 6 for the current debt payment plan.

## STATE FINANCES – OTHER ELEMENTS

### Pension Systems

The state participates in two principal retirement systems, CalPERS and CalSTRS. In each case, the state makes annual contributions from the General Fund. Additional contributions are made by other employers which are part of the systems, and by employees. The state's annual contribution to CalPERS is determined by the CalPERS Board of Administration, and depends upon a variety of factors, including future investment performance, actuarial assumptions, and additional potential changes in retirement benefits. The state's annual contribution to CalSTRS is set by statute, and the CalSTRS Board has limited authority to adjust the state's contribution. The state has always made its mandatory contributions. General Fund contributions to CalPERS and CalSTRS are projected to be approximately $3.5 billion and $2.8 billion, respectively, for fiscal year 2017-18.

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), and, except as otherwise described below, utilizes a "pay-as-you-go" funding policy. These benefits are referred to as "Other Postemployment Benefits" or "OPEB."

As of June 30, 2015, approximately 173,244 retirees were enrolled to receive health benefits and 174,279 to receive dental benefits. Generally, employees vest for those benefits after serving 10 years with the state. Additional information on the State's OPEB plan can be found in the state's audited basic financial statements for the fiscal year ended June 30, 2015 included as APPENDIX G to this Official Statement.

Pursuant to the Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the state now reports on its liability for postemployment healthcare as well as other forms of postemployment benefits, such as life insurance, in its annual financial reports. The long-term costs for the state's OPEB may negatively affect the state's financial condition and impact its credit rating if the state does not adequately manage such costs.

On January 25, 2017, the State Controller's Office released the state's latest OPEB actuarial valuation report by the private actuarial firm, Gabriel, Roeder, Smith & Company ("GRS"), which was tasked with calculating the state's liability for these benefits. The actuarial valuation contained in the report covers the cost estimates for existing employees, retirees and dependents. The main objective of the report was to estimate the Actuarial Accrued Liability ("AAL"), which is the present value of future retiree healthcare costs attributable to employee service earned in prior fiscal years. The report was based on a variety of data and economic, demographic and healthcare trend assumptions described in the report. The primary assumption influencing annual OPEB costs and AAL is the assumed rate of return or discount rate on assets supporting the retiree healthcare liability. Based on PMIA's historical returns, investment policy and expected future returns, a discount rate of 4.25 percent was selected for the pay-as-you-go funding policy. The economic assumptions for price and wage inflation are 2.75 percent and 3 percent, respectively.

The report looked at three different scenarios: (i) continuation of the "pay-as-you-go" policy; (ii) a "full funding" policy under which assets would be set aside to prepay the future obligations, similar to the way in which pension obligations are funded, and (iii) a "partial funding" policy, a hybrid of the two scenarios. According to the state's OPEB actuarial valuation report, as of June 30, 2016, the pay-as-you go funding policy results in an AAL of $76.68 billion, of which $76.53 billion is unfunded. Additionally, the pay-as-you go funding policy results in an annual OPEB cost of $5.85 billion, estimated employer contributions of $2.07 billion and an expected net OPEB obligation of $29.85 billion for fiscal year 2016-17. The annual required contribution for fiscal year 2017-18 is projected at $5.97 billion.

The actuarial liability increased from $74.19 billion as of June 30, 2015, to $76.68 billion as of June 30, 2016. If the previous assumptions had been realized, the actuarial liability would have increased to $78.13 billion as of June 30, 2016. The key factors contributing to the unexpected decrease in actuarial liabilities of $1.45 billion include:

- During the year, favorable healthcare claims experience and plan design changes, including the new Medicare Advantage program effective January 1, 2016, decreased the actuarial liability by $3.78 billion. This change in accrued liability is mainly driven by the relationship between the assumed trend rate for claims cost in 2016 used in last year's valuation and the trend rate for 2016 based on actual experience.

- Demographic experience did not change the actuarial liabilities significantly. There were most likely offsetting gains and losses that led to this minimal change.
- Trend rates for the June 30, 2016, valuation were reviewed and updated since the last valuation. The trend rates are assumed to be 8.00 percent beginning in 2018 graded down to an ultimate rate of 4.50 percent beginning in 2023. This assumption change increased the liabilities by approximately $1.87 billion.

The valuation depended primarily on the interest discount rate assumption of 4.25% used to develop the present value of future benefits and on the assets available to pay benefits. The SCO plans to issue an actuarial valuation report annually.

The following table is the historic annual OPEB cost summary and the projected schedule of funding progress as of the valuation date for the five fiscal years indicated below:

**TABLE 18**
**OPEB Pay-As-You-Go Funding**
**(Dollars in Billions)**

| Fiscal Year | Annual OPEB Cost | Net Employer Contribution | Percentage of Annual OPEB Cost Contribution | Net OPEB Obligation | Unfunded Actuarial Accrued Liability[(b)] | Unfunded Actuarial Accrued Liability as Percent of Payroll[(b)] |
|---|---|---|---|---|---|---|
| 2012-13 | $4.99 | $1.78 | 36% | $16.12 | $64.57 | 358% |
| 2013-14 | 5.12 | 1.87 | 37 | 19.36 | 71.77 | 373 |
| 2014-15 | 5.13 | 2.01 | 39 | 22.48 | 74.10 | 367 |
| 2015-16 | 5.69 | 2.10 | 37 | 26.0 | 76.53 | 380 |
| 2016-17[(a)] | 5.85 | 2.07 | 35 | 29.85 | N/A | N/A |

(a) Net employer contribution and Net OPEB Obligation estimated for fiscal year ending June 30, 2017.
(b) Amounts are projected as of the valuation date.
N/A: Not available
Source: State of California OPEB Valuation as of June 30, 2016.

The following table illustrates the state's budget for postemployment benefits from fiscal years 2013-14 to 2017-18 and does not reflect any future liability for current employees or annuitants. It is anticipated that these costs will continue to grow in the future. The employer contribution for health premiums maintains the average 100/90 percent contribution formula established in the Government Code. Under this formula, the state averages the premiums of the four largest health benefit plans in order to calculate the maximum amount the state will contribute toward each retiree's health benefits. The state also contributes 90 percent of this average for the health benefits of each of the retiree's dependents.

Generally, with 10 years of service credit, employees are entitled to 50 percent of the state's full contribution. This rate increases by 5 percent per year and with 20 years of service, the employee is entitled to the full 100/90 formula. 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. Most state employees hired after January 1, 2016, or January 1, 2017, are subject to a longer vesting schedule and an 80/80 contribution formula. The effective date varies by contract.

**TABLE 19**
**Actual Costs/Budget for**
**Other Postemployment Benefits**

**(Dollars in Thousands)**

| Fiscal Year | State Employees All Funds(a) | State Employees General Fund | CSU Employees All General Fund | Total Contributions All Funds | Total General Fund Contributions |
|---|---|---|---|---|---|
| 2013-14 | $ 1,382,717 | $ 1,378,709 | $ 225,332 | $ 1,608,049 | $ 1,604,041[b] |
| 2014-15 | 1,461,931 | 1,455,931 | 255,638 | 1,717,569 | 1,711,569 |
| 2015-16 | 1,556,348 | 1,551,748 | 263,459 | 1,819,807 | 1,815,207 |
| 2016-17[c] | 1,646,829 | 1,642,229 | 272,695 | 1,919,524 | 1,914,924 |
| 2017-18[c] | 1,783,118 | 1,778,518 | 295,283 | 2,078,401 | 2,073,801 |

(a) "Pay-as-you-go" contributions from General Fund and Public Employee's Contingency Reserve Fund.

(b) Contributions for postemployment benefits are included for all years displayed in this table.

(c) Estimated Contributions.

Source: State of California, Department of Finance.

In accordance with state law, the Bureau of State Audits periodically identifies what it believes to be "high risk" issues facing the state. The funding of OPEB liabilities has been identified as a high-risk issue in the California State Auditor Report 2013-601 dated September 2013.

*1.* *Ongoing Efforts*

In 2015, the Administration initiated a comprehensive strategy to eliminate the OPEB unfunded AAL over approximately 30 years by increasing prefunding shared equally between state employers and employees and reducing the cost structure of employee and retiree health care benefits. The Administration is pursuing the prefunding strategy, as well as changes to retiree health benefits for new employees, through the collective bargaining process. Statutory language passed as part of the 2015-16 Budget contains the funding policy and framework designed to support the elimination of the unfunded AAL.

The centerpiece of the strategy is a collective bargaining proposal to negotiate contributions for OPEB prefunding equivalent to the normal costs of those benefits. The goal is to have the additional contributions equally shared between employers and employees and phased in over a three-year period. Collective bargaining has concluded for nearly all expired contracts, and recently negotiated contracts include MOUs requiring matching contributions to an OPEB trust fund to set aside 100 percent of the actuarially determined "normal costs." The funding schedule for these agreements generally phases in contributions over three years beginning July 1, 2016, July 1, 2017, or July 1, 2018, depending on the bargaining unit. Additionally, new employees will be subject to a lower employer contribution for future retiree health benefits, and a longer vesting period to qualify for the retiree health care contribution. State employees of the judicial branch are also subject to the prefunding strategy and retiree health provisions.

Additionally, 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. Currently, the state has approximately $400 million set aside in the prefunding trust fund to pay for future retiree health benefits. By the end of the 2017-18, the trust fund balance is projected to more than double and approach $1 billion in assets.

The funding plan to eliminate the OPEB unfunded actuarial accrued liability assumes that the state continues to pay for retiree health benefits on a pay-as-you-go basis while assets are accumulated in a trust fund, and that no investment income will be used to pay for benefits until the plan is fully funded. Statutory language passed as part of the 2015-16 Budget contains the framework for this funding plan preventing the use of investment income from the retiree health care trust fund for the payment of retiree health benefits until the earlier of:

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

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

**State Appropriations Limit**

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

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

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

The Appropriations Limit in each year is based on the Appropriations Limit for the prior year, adjusted annually for changes in state per capita personal income and changes in population, and adjusted, when applicable, for any transfer of financial responsibility of providing services to or from another unit of government or any transfer of the financial source for the provisions of services from tax proceeds to non-tax proceeds. The measurement of change in population is a blended average of statewide overall population growth and the change in attendance at local school and community college ("K-14") districts. The Appropriations Limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received over such two-year period above the combined Appropriations Limits for those two years is divided equally between transfers to K-14 districts and refunds to taxpayers.

An estimate of the Appropriations Limit is included in the 2017-18 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 2013-14 through 2017-18.

**TABLE 20**
**State Appropriations Limit**
**(Dollars in Millions)**

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** |
| **State Appropriations Limit** | $89,716 | $89,902 | $94,042 | $99,787 | $102,991[(a)] |
| Appropriations Subject to Limit | -71,352 | -78,274 | -69,151[(a)] | -72,802[(a)] | -78,232[(a)] |
| **Amount (Over)/Under Limit** | $18,364 | $11,628 | $24,891[(a)] | $26,985[(a)] | $24,759[(a)] |

(a) Estimated/projected.

Source: State of California, Department of Finance.

## Local Government Impacts on State Finances

The primary units of local government in California are the 58 counties, which range in population from approximately 1,200 in Alpine County to approximately 10.2 million in Los Angeles County. As summarized below, the fiscal condition of local governments and the relationship between local and state government finances can have an impact on the state's financial condition and flexibility.

*1. Constitutional and Statutory Limitations*

Counties are responsible for the provision of many basic services, including indigent health care, welfare, jails, and public safety in unincorporated areas. There are also 482 incorporated cities in California and thousands of special districts formed for education, utilities, and other services. The fiscal condition of local governments was changed when Proposition 13 was approved by California voters in 1978. Proposition 13 reduced and limited the future growth of property taxes and limited the ability of local governments to impose "special taxes" (those devoted to a specific purpose) without two-thirds voter approval.

Proposition 218, another constitutional amendment enacted by initiative 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.

In the aftermath of Proposition 13, the state provided aid to local governments from the General Fund to make up some of the loss of property tax moneys, including assuming principal responsibility for funding K-12 schools and community colleges. During the recession of the early 1990s, the Legislature reduced the post-Proposition 13 aid to local government entities other than K-12 schools and community colleges by requiring cities and counties to transfer some of their property tax revenues to school districts. However, the Legislature also provided additional funding sources, such as sales taxes, and reduced certain mandates for local services funded by cities and counties.

The 2004 Budget Act, related legislation and the enactment of Proposition 1A of 2004 and Proposition 22 in 2010 dramatically changed the state-local fiscal relationship. These constitutional and statutory changes implemented an agreement negotiated between the Governor and local government officials (the "state-local agreement") in connection with the 2004 Budget Act. One change relates to the reduction of the vehicle license fee ("VLF") rate from 2 percent to 0.65 percent of the market value of the vehicle. In order to protect local governments, which had previously received all VLF revenues, the 1.35 percent reduction in VLF revenue to cities and counties from this rate change was backfilled (or offset) by an increase in the amount of property tax revenues they receive. This worked to the benefit of local governments because the backfill amount annually increases in proportion to the growth in property tax revenues, which has historically grown at a higher rate than VLF revenues, although property tax revenues declined between fiscal years 2009-10 and 2011-12. This arrangement will continue without change in the 2017-18 Budget.

As part of the state-local agreement, voters at the November 2004 election approved Proposition 1A ("Proposition 1A of 2004"). Proposition 1A of 2004 amended the state Constitution to, among other things, 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, adopted on November 2, 2010, supersedes Proposition 1A of 2004 and prohibits any future borrowing by the state from local government funds, and generally prohibits the Legislature from making changes in local government funding sources. Allocation of local transportation funds cannot be changed without an extensive process.

*2.* *<u>Property Tax Revenues</u>*

Although the property tax is a local revenue source, the amount of property tax generated each year has a substantial impact on the state budget because local property tax revenues allocated to K-14 schools typically offset General Fund expenditures.

Statewide property tax revenues are estimated to increase 5.9 percent in fiscal year 2016-17 and 5.3 percent in fiscal year 2017-18. See Table 10 (Proposition 98 Funding) for information on the impact of these growth rates on the funding of the Proposition 98 guarantee. Property tax estimates used in the calculation of the guarantee 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 (Educational Revenue Augmentation Fund).

### *3. Dissolved Redevelopment Agency Funds*

Redevelopment agencies ("RDAs") were dissolved on February 1, 2012, and their functions have been 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 taxing 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 (also known as enforceable obligations), and (3) limited administrative costs.

Revenues distributed to school and community college districts result in corresponding savings for the state's General Fund. For the 2017-18 Governor's Budget, Proposition 98 General Fund savings are anticipated to be $1.3 billion in fiscal year 2016-17, $1.4 billion in fiscal year 2017-18, and $ 1.6 billion in fiscal year 2018-19. Proposition 98 General Fund savings are anticipated to be at least $1 billion in each fiscal year after fiscal year 2018-19, with annual growth proportionate to the changes in property tax growth, and the rate at which the enforceable obligations of the former RDAs are retired.

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

### *4. Realigning Services to Local Governments*

The 2011 Budget Act included a major realignment of public safety programs from the state to local governments ("AB 109"). The realignment was designed to move program and fiscal responsibility to the level of government that can best provide the service, eliminate duplication of effort, generate savings, and increase flexibility. The implementation of the Community Corrections Grant Program authorized by AB 109 moved lower-level offenders from state prisons to county supervision and reduced the number of parole violators in the state's prisons. Other realigned programs include local public safety programs, mental health, substance abuse, foster care, child welfare services, and adult protective services. The 2011 Realignment is funded through two sources in fiscal year 2017-18: (1) a state special fund sales tax of 1.0625 percent (projected to total $6.9 billion) and (2) $643.7 million in vehicle license fees. As a result of realignment, 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 $2.7 billion in fiscal year 2016-17, and $2.8 billion in fiscal year 2017-18.

## 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 2017-18 Governor's Budget, the General Fund is projected to have up to approximately $32 billion of internal funds (excluding the BSA and the SFEU) available during fiscal year 2017-18. See "—Inter-Fund Borrowings" for a further description of this process. See Table 21 for estimates of internal borrowable resources as of June 30, 2017 and June 30, 2018.

One fund from which moneys may be borrowed to provide additional cash resources to the General Fund is the BSA, which is projected to be funded at $7.9 billion by the end of fiscal year 2017-18. The state also may transfer funds into the General Fund from the SFEU, which is not a special fund. See "—Inter-Fund Borrowings" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES – Budget Reserves" for a further description of this process.

*3.* *External Borrowing*

External borrowing has typically been done with revenue anticipation notes ("RANs") that are payable not later than the last day of the fiscal year in which they are issued. Prior to fiscal year 2015-16, RANs had been issued in all but one fiscal year since the mid-1980s and have always been paid at maturity. No RANs were issued in fiscal year 2015-16 or are planned in fiscal year 2016-17 or 2017-18. See "—Cash Management Borrowings." The state also is authorized under certain circumstances to issue revenue anticipation warrants ("RAWs") that are payable in the succeeding fiscal year. The state issued RAWs to bridge short-term cash management shortages in the early 1990's and early 2000's. See "—State Warrants—Reimbursement Warrants" for more information on RAWs.

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

**Inter-Fund Borrowings**

Inter-fund borrowing is used to meet temporary imbalances of receipts and disbursements in the General Fund. In the event the General Fund is or will be exhausted, the State Controller is required to notify the Governor and the PMIB (comprised of the Director of Finance, the State Treasurer and the State Controller). The Governor may then order the State Controller to direct the transfer of all or any part of the moneys not needed in special funds to the General Fund, as determined by the PMIB. All money so transferred must be returned to the special fund from which it was transferred as soon as there is sufficient money in the General Fund to do so. Transfers cannot be made which will interfere with the objective for which such special fund was created, or from certain specific funds.

The amount of loans from the SFEU, the BSA and other internal sources to the General Fund, as of the end of any month is displayed in the State Controller's Statement of General Fund Cash Receipts and Disbursements, on the first page under "Borrowable Resources – Outstanding Loans." See EXHIBIT 2 to APPENDIX A.

Enactment of Proposition 22 in November 2010 prohibited future inter-fund borrowing from certain transportation funds. However, legislation was enacted on February 3, 2012 to clarify the intent of Proposition 22, making most transportation funds available for short-term cash management borrowing purposes.

In addition to temporary inter-fund cash management borrowings described in this section, budgets enacted in the current and past fiscal years have included other budgetary transfers and long-term loans from special funds to the General Fund. In some cases, such budgetary loans and transfers have the effect of reducing internal borrowable resources.

The following table shows internal borrowable resources available for temporary cash management loans to the General Fund on June 30 of each of the fiscal years 2013-14 through 2015-16 and projects the amount available in fiscal year 2016-17 and 2017-18 based on the 2017

Governor's Budget. See EXHIBIT 2 to APPENDIX A. The amount of internal borrowable resources fluctuates throughout the year.

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

| | Fiscal year ended June 30 | | | | |
|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017[a]** | **2018[a]** |
| **Available Internal Borrowable Resources** | $23,761.5 | $28,291.3 | $35,865.5 | $39,834.2 | $40,993.6 |
| **Outstanding Loans** | | | | | |
| From Special Fund for Economic Uncertainties | 0.0 | 0.0 | 0.0 | 1,750.2 | 1,554.4 |
| Budget Stabilization Account | 0.0 | 0.0 | 646.1 | 5,550.4 | 4,526.3 |
| From Special Funds and Accounts | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| Total Outstanding Internal Loans | $0.0 | $0.0 | $(646.2) | $(7,300.6) | $(6,080.7) |
| **Unused Internal Borrowable Resources** | $23,761.5 | $28,291.3 | $35,219.3 | $32,533.6 | $34,912.9 |

[a] Estimated.

Source: Years ended June 30, 2014 through June 30, 2016: State of California, Office of the State Controller. Years ending June 30, 2017 and June 30, 2018: State of California, Department of Finance.

## Cash Management Borrowings

As part of its cash management program, prior to fiscal year 2015-16 the state regularly issued short-term obligations to meet cash management needs. See "Traditional Case Management Tools—External Borrowing" above.

The following table shows the amount of RANs issued since 2011-12. No RANs were issued in 2015-16 or are planned in the current fiscal year.

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**TABLE 22**
**State of California Revenue Anticipation Notes Issued**
**(Dollars in Billions)**

| Fiscal Year | Type | Principal Amount | Date of Issue | Maturity or Redemption Date |
|---|---|---|---|---|
| 2011-12 | Interim Notes Series A | $5.4 | July 28, 2011 | September 22, 2011* |
| | Notes Series A-1 | 0.5 | September 22, 2011 | May 24, 2012 |
| | Notes Series A-2 | 4.9 | September 22, 2011 | June 26, 2012 |
| | Notes Series B (B-1 & B-2) | 1.0 | February 22, 2012 | June 28, 2012 |
| 2012-13 | Notes Series A-1 | 2.5 | August 23, 2012 | May 30, 2013 |
| | Notes Series A-2 | 7.5 | August 23, 2012 | June 20, 2013 |
| 2013-14 | Notes Series A-1 | 1.5 | August 22, 2013 | May 28, 2014 |
| | Notes Series A-2 | 4.0 | August 22, 2013 | June 23, 2014 |
| 2014-15 | Notes | 2.8 | September 23, 2014 | June 22, 2015 |

* Redemption date.

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

### Cash Management in Fiscal Years 2015-16 and 2016-17

The state's cash position was strong entering fiscal year 2015-16, as the General Fund ended the previous year with a positive cash balance of $2.529 billion. The state's cash flow projections for fiscal year 2015-16 indicated that internal borrowings would be sufficient and available to meet the normal peaks and valleys of the state's cash needs, while maintaining a cushion at all times of at least $2.5 billion. Accordingly, the state did not issue any RANs in fiscal year 2015-16, only the second time this has occurred since the commencement of annual RANs borrowings in the early 1980s.

The state entered fiscal year 2016-17 in a strong cash position, with General Fund internal loans at June 30, 2016 of only $646 million. 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 $20 billion at the end of each month. Taking into account intra-month cash flows, the State Controller's Office projects that the state will have a cash cushion of at least $15 billion at any time during the year (including the availability of $3.4 billion to $6.7 billion in the BSA).

State fiscal officers constantly monitor the state's cash position and if it appears that cash resources may become inadequate (including the maintenance of a projected cash reserve of at least $2.5 billion at any time), they will consider the use of other cash management techniques as described in this section, including seeking additional legislation.

### Other Cash Management Tools

The state has employed additional cash management measures during some fiscal years; all of the following techniques were used at one time or another during the last several fiscal years, but none of them is planned to be used in fiscal year 2016-17.

- The State Controller has delayed certain types of disbursements from the General Fund.

- Legislation was enacted increasing the state's internal borrowing capability, and the state has increased the General Fund's internal borrowings. See "—Inter-Fund Borrowings."

- Legislation has been enacted deferring some of the state's disbursements until later in the then-current fiscal year, when more cash receipts are expected.

- The issuance of registered warrants (commonly referred to as "IOUs") because of insufficient cash resources (last occurred in 2009). See "—State Warrants" for an explanation of registered warrants.

From time to time, the Legislature changes by statute the due date for various payments, including those owed to public schools, universities and local governments, until a later date in the fiscal year in order to more closely align the state's revenues with its expenditures. This technique has been used several times in the last few fiscal years. Some of these statutory deferrals were made permanent, and others were implemented only for one fiscal year.

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

**State Warrants**

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

*1. Registered Warrants*

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

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

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

*2. Reimbursement Warrants*

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

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

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

*3.* *Refunding Reimbursement Warrants*

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

## STATE INDEBTEDNESS AND OTHER OBLIGATIONS

### General

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

### Capital Facilities Financing

*1.* *General Obligation Bonds*

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

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

A summary of the general obligation bonds outstanding as well as authorized by the voters but unissued, as of February 1, 2017, is set forth in the following table. For greater detail, see the table "Authorized and Outstanding General Obligation Bonds" following the caption "STATE DEBT TABLES." Monthly updates of the State Debt Tables are available on the website of the State Treasurer.

**General Obligation Bonds**
**(as of February 1, 2017)**

| **Authorized and Outstanding** | | **Authorized but Unissued*** | |
|---|---|---|---|
| Primarily Payable from General Fund | Self-Liquidating | Primarily Payable from General Fund | Self-Liquidating |
| $73.5 billion | $751.5 million | $35.6 billion | $367.9 million |

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

In November, 2016 voters approved an initiative measure to authorize $9 billion of general obligation bonds for K-14 school construction (which is included in the figure above for unissued general obligation bonds).

*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. These bonds are described generally in the following table and represent about 5.00 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 mandatory tender dates, if these bonds cannot be remarketed on their respective scheduled mandatory tender dates, there is no default but the interest rate on the series of such bonds not remarketed on such date would be increased in installments thereafter until such bonds can be remarketed or refunded or are paid at maturity.

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| Type of Bonds | Outstanding Principal Amount ($000) as of February 1, 2017 | Current Variable Rate Interest Mode | Liquidity Support[(a)] | Other Information |
|---|---|---|---|---|
| General Obligation | $2,452,690 | Daily/Weekly VRDO | Letters of Credit | |
| General Obligation | 500,000 | Indexed Floating Rate to Respective Mandatory Tender Dates | None | Mandatory Tenders on December 1, 2017, May 1, 2018, December 3, 2018, December 1, 2020, and December 1, 2021 |
| General Obligation | 675,000 | Fixed Term Rate to Respective Mandatory Tender Dates | None | Mandatory Tenders on December 1, 2017, December 2, 2019 and December 1, 2021 |
| General Obligation | 98,100 | Indexed Floating Rate to Respective Maturity Dates | None | Fixed Maturities on each May 1 in the years 2017 through 2020 |
| TOTAL | $3,725,790 | | | |

(a) See "Bank Arrangements Table."
Source: State of California, Office of the State Treasurer.

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

3. *General Obligation Commercial Paper Program*

Pursuant to legislation enacted in 1995, voter-approved general obligation indebtedness may be issued either as long-term bonds or, for some but not all bond acts, as commercial paper notes. Commercial paper notes may be renewed or may be refunded by the issuance of bonds. The state uses commercial paper notes to provide flexibility for bond programs, such as to provide interim funding for voter-approved projects or to facilitate refunding of variable rate bonds into fixed rate bonds. Commercial paper notes are not included in the calculation of permitted variable rate indebtedness described under "Variable Rate General Obligation Bonds." As of February 1, 2017, a total of $2.225 billion in principal amount of commercial paper notes is authorized under agreements with various banks, including an agreement for the direct purchase of up to $500 million of commercial paper notes by a bank. See "BANK ARRANGEMENTS TABLE" for a list of the credit agreements supporting the commercial paper program.

4. *Bank Arrangements*

In connection with VRDOs and the commercial paper program ("CP"), the state has entered into a number of reimbursement agreements or other credit agreements with a variety of financial institutions as set forth in "BANK ARRANGEMENTS TABLE." These agreements include various representations and covenants of the state, and the terms (including interest rates and repayment schedules) by which the state would be required to pay or repay any obligations thereunder (including reimbursement of drawings resulting from any failed remarketings). To the extent that VRDOs or CP offered to the public cannot be remarketed over an extended period (whether due to downgrades of the credit ratings of the institution providing credit enhancement or other factors) and the applicable financial institution is obligated to purchase VRDOs or CP, interest payable by the state pursuant to the reimbursement agreement or credit agreement would generally increase over current market levels relating to the VRDOs or CP, and, with respect to VRDOs the principal repayment period would generally be shorter (typically less than five years) than the repayment period otherwise applicable to the VRDOs. In addition, after the occurrence of certain events of default as specified in a credit agreement, payment of the related VRDOs may be further accelerated and payment of related CP, as applicable, may also be accelerated and interest payable by the State on such VRDOs or CP could increase significantly.

### 5. *Lease-Revenue Obligations*

In addition to general obligation bonds, the state acquires and constructs capital facilities through the issuance of lease-revenue obligations (also referred to as lease-purchase obligations). Such borrowing must be authorized by the Legislature in a separate act or appropriation. Under these arrangements, the State Public Works Board ("SPWB"), another state or local agency or a joint powers authority issued bonds to pay for the acquisition or construction of facilities such as office buildings, university buildings, courthouses or correctional institutions. These facilities are leased to a state agency, the CSU or the Judicial Council under a long-term lease which provides the source of revenues which are pledged to the payment of the debt service on the lease-revenue bonds. Under applicable court decisions, such lease arrangements do not constitute the creation of "indebtedness" within the meaning of the state constitutional provisions that require voter approval. For purposes of APPENDIX A and the tables under "STATE DEBT TABLES," the terms "lease-revenue obligation," "lease-revenue financing," "lease-purchase obligation" or "lease-purchase" mean principally bonds or certificates of participation for capital facilities where the lease payments providing the security are payable from the operating budget of the respective lessees, which are primarily, but not exclusively, derived from the General Fund. A summary of the lease-revenue bonds outstanding as well as those authorized by the Legislature but unissued, as of February 1, 2017, is set forth in the following table.

**Lease-Revenue Obligations**
**(as of February 1, 2017)**

| Outstanding General Fund Supported Issues | Authorized but Unissued |
|---|---|
| $9.6 billion | $3.4 billion |

The tables under "STATE DEBT TABLES" do not include equipment leases or leases which were not sold, directly or indirectly, to the public capital markets.

### 6. *Non-Recourse Debt*

Certain state agencies and authorities issue revenue obligations for which the General Fund has no liability. These revenue bonds represent obligations payable from state revenue-producing enterprises and projects (e.g., among other revenue sources, taxes, fees and/or tolls) and conduit obligations payable from revenues paid by private users or local governments of facilities financed by the revenue bonds. In each case, such revenue bonds are not payable from the General Fund. The enterprises and projects include transportation projects, various public works projects, public and private educational facilities (including the CSU and UC systems), housing, health facilities and pollution control facilities. See the table "State Agency Revenue Bonds and Conduit Financing" under "STATE DEBT TABLES" for a summary of outstanding revenue bonds and notes which are non-recourse to the General Fund as of December 31, 2016.

*7. Build America Bonds*

In February 2009, Congress enacted certain new municipal bond provisions as part of the federal economic stimulus act ("ARRA"), which allowed municipal issuers such as the state to issue "Build America Bonds" ("BABs") for new infrastructure investments. BABs are bonds whose interest is subject to federal income tax, but pursuant to ARRA the U.S. Treasury was to repay the issuer an amount equal to 35 percent of the interest cost on any BABs issued during 2009 and 2010. The BAB subsidy payments related to general obligation bonds are General Fund revenues to the state, while subsidy payments related to lease-revenue bonds are deposited into a fund which is made available to the SPWB for any lawful purpose. In neither instance are the subsidy payments specifically pledged to repayment of the BABs to which they relate. The cash subsidy payment with respect to the BABs, to which the state is entitled, is treated by the Internal Revenue Service as a refund of a tax credit and such refund may be offset by the Department of the Treasury by any liability of the state payable to the federal government. None of the state's BAB subsidy payments to date have been reduced because of such an offset.

Between April 2009 and December 2010, the state issued $13.5 billion of BAB general obligation bonds and the SPWB issued $551 million of BAB lease-revenue bonds (of which $150 million have been redeemed). The remaining aggregate amount of the subsidy payments expected to be received from fiscal year 2016-17 through the maturity of the outstanding BABs (mostly 20 to 30 years from issuance) based on the 35 percent subsidy rate is approximately $7.06 billion for the general obligation BABs and $180.3 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 impact on the state due to the reduction of the BAB subsidy payment has been less than $30 million annually and is presently scheduled to continue until 2025, although Congress can terminate or modify it sooner, or extend it. None of the BAB subsidy payments are pledged to pay debt service for the general obligation and SPWB BABs, so this reduction will not affect the state's ability to pay its debt service on time, nor have any material impact on the state's General Fund.

**Future Issuance Plans; General Fund Debt Ratio**

Based on estimates from the Department of Finance, and sales completed in the first half of fiscal year 2016-17, approximately $3.6 billion of new money general obligation bonds (some of which may initially be in the form of commercial paper notes) and approximately $202 million of lease-revenue bonds are expected to be issued in fiscal year 2016-17. Based on estimates from the 2017-18 Governor's Budget, approximately $5.4 billion of new money general obligation bonds are expected to be issued in fiscal year 2017-18. In addition, based on estimates from the Department of Finance, approximately $876 million of new money lease revenue bonds are expected to be issued in fiscal year 2017-18. These estimates will be updated by the State Treasurer's Office based on information provided by the Department of Finance with respect to the updated funding needs of, and actual spending by, departments. In addition, the actual amount of bonds sold will depend on other factors such as overall budget constraints, market conditions and other considerations. The state also expects to issue refunding bonds as market conditions warrant.

The ratio of debt service on general obligation and lease-revenue bonds supported by the General Fund, to annual General Fund revenues and transfers (the "General Fund Debt Ratio"), can fluctuate as assumptions for future debt issuance and revenue projections are updated from time to time. Any changes to these assumptions will impact the projected General Fund Debt Ratio. Based on the revenue estimates contained in the 2017-18 Governor's Budget and bond issuance estimates referred to in the preceding paragraph, the General Fund Debt Ratio is estimated to equal approximately 6.56 percent in fiscal year 2016-17 and 6.51 percent in fiscal year 2017-18.

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 to equal approximately \$1.6 billion for fiscal year 2016-17 and \$1.9 billion for fiscal year 2017-18. Including the estimated offsets reduces the General Fund Debt Ratio to 5.24 percent in fiscal year 2016-17 and 5.01 percent in fiscal year 2017-18. 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 2011-12 THROUGH 2015-16" under "STATE DEBT TABLES" for certain historical ratios of debt service to General Fund receipts.

**Tobacco Settlement Revenue Bonds**

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

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

The credit enhancement mechanism only applies to certain tobacco settlement bonds that were issued in 2005, 2013, and 2015 with an outstanding principal amount of approximately $2.28 billion (the "enhanced bonds"). The enhanced bonds are neither general nor legal obligations of the state and neither the faith and credit, nor the taxing power, nor any other assets or revenues of the state shall be pledged to the payment of the enhanced bonds. However, as described above, the state committed to request the Legislature for a General Fund appropriation in the event there are insufficient tobacco settlement revenues to pay debt service with respect to the enhanced bonds, and certain other available amounts, including the reserve fund for the enhanced bonds, are depleted. This appropriation has been requested and approved by the Legislature but use of the appropriated moneys has never been required.

Draws on the reserve fund for the enhanced bonds in the amount of approximately $7.94 million were used to make required debt service payments on the 2005 bonds in 2011 and 2012. In April 2013, the reserve fund was replenished in full from tobacco revenues. As of February 1, 2017, the balance of the reserve fund for the enhanced bonds is approximately $154.4 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, 2016, OSHPD insured 89 loans to nonprofit or publicly owned health facilities through-out California with a current outstanding aggregate par amount of approximately $1.684 billion, and a cash balance of approximately $167.6 million as of November 30, 2016. The biennial actuarial study of the Fund as of June 30, 2014, was completed in July 2016 (the "2014 actuarial study"). Based upon a number of assumptions, the 2014 actuarial study concluded, among other things, that the Fund appeared to be sufficient, under the "expected scenario" to maintain a positive balance until at least fiscal year 2043-44. Even under the "most pessimistic scenario," the 2014 actuarial study found that there was a 70 percent likelihood that the Fund's reserves as of June 30, 2014 would protect against any General Fund losses until at least fiscal year 2022-23, and a 90 percent likelihood that the Fund's reserves as of June 30, 2014 would protect against any General Fund losses until at least fiscal year 2019-20. There can be no assurances that the financial condition of the Fund has not materially declined since the 2014 actuarial study. More information on the program can be obtained from OSHPD's website.

In December 2016, OSHPD, the Department of Finance, and the State Treasurer entered into a memorandum of understanding that outlined the processes for the (i) issuance of debentures; (ii) payment of debentures from the General Fund should the Fund fail to pay the debentures; and (iii) repayment to the General Fund for any money paid for debentures.

## INVESTMENT OF STATE FUNDS

Moneys on deposit in the State Centralized Treasury System are invested by the State Treasurer in the PMIA. As of December 31, 2016, the PMIA held approximately $52.1 billion of state moneys, and $21.6 billion invested for about 2,461 local governmental entities through the Local Agency Investment Fund ("LAIF"). The assets of the PMIA as of December 31, 2016 are shown in the following chart.

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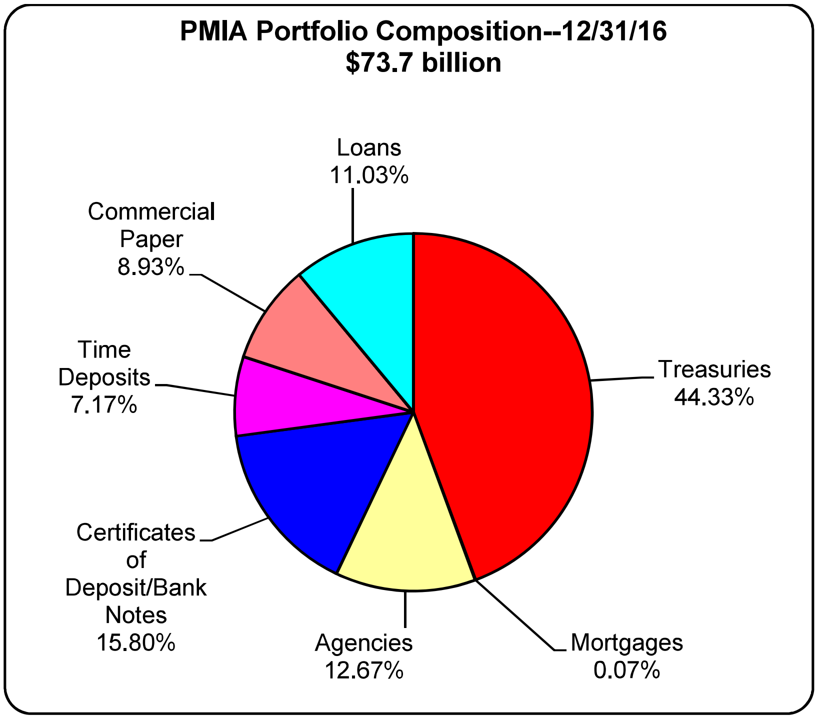


Source: State of California, Office of the State Treasurer.

The State's Treasury operations are managed in compliance with the Government Code and according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The PMIA operates with the oversight of the PMIB. The LAIF portion of the PMIA operates with the oversight of the Local Agency Investment Advisory Board (consisting of the State Treasurer and four other appointed members).

The PMIA is not invested, nor has it ever been invested, in structured investment vehicles or collateralized debt obligations. The PMIA portfolio performance, and the PMIA's holdings are displayed quarterly on the State Treasurer's website and may be accessed under PMIB Quarterly Reports. The PMIA is not currently invested in auction rate securities.

The State Treasurer does not invest in leveraged products or inverse floating rate securities. The investment policy permits the use of reverse repurchase agreements subject to limits of no more than 10 percent of the PMIA. All reverse repurchase agreements are cash matched either to the maturity of the reinvestment or an adequately positive cash management date which is approximate to the maturity of the reinvestment.

The average life of the investment portfolio of the PMIA as of December 31, 2016 was 171 days. Over the prior 12 months, the average life has ranged from 146 days to 171 days.

# OVERVIEW OF STATE GOVERNMENT

## Organization of State Government

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

California's Legislature consists of a 40-member Senate and an 80-member Assembly. Assembly members are elected for two-year terms, and Senators are elected for four-year terms. Before passage of Proposition 28 on June 5, 2012, Assembly members were limited to three terms in office and Senators to two terms. Proposition 28 reduced the total amount of time a person may serve in the Legislature from 14 to 12 years, but allows a person to serve a total of 12 years in either the Assembly, the Senate, or a combination of both. The new term limits law applies only to members of the Legislature elected after the measure was passed.

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

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

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

* Previously served as Governor 1975-83, prior to term limit law.
** Replaced Kamala D. Harris who left office when she was elected to the U.S. Senate in 2016.

The executive branch is principally organized through eleven agency areas.

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

**Employee Relations**

The 2017-18 Governor's Budget estimates the state work force for fiscal year 2017-18 at approximately 363,000 positions. Approximately 154,000 of those positions represent state employees of the legislative and judicial branches of government, and institutions of higher education. Of the remaining 209,000 positions, over 80 percent are subject to collective bargaining on wages, hours and other terms and conditions of employment with the Administration, which are contained in a Memorandum of Understanding ("MOU") subject to ratification by the Legislature; less than 20 percent are excluded from collective bargaining. State law provides that state employees, defined as any civil service employee of the state and teachers under the jurisdiction of the Department of Education or the Superintendent of Public Instruction, and excluding certain other categories, have a right to form, join, and participate in the activities of employee organizations for the purpose of representation on all matters of employer-employee relations. Once a bargaining unit ("BU") selects an employee organization, only that organization can represent those employees.

There are 21 collective BUs that are represented by employee organizations. The Service Employees International Union ("SEIU") is the exclusive representative for 9 of 21 BUs, or approximately 50 percent of those represented employees subject to collective bargaining. Since the 2016 Budget Act, the Administration has negotiated successor contract agreements with *all* bargaining units that represent *state employees*. A key priority for the Administration during bargaining *was* addressing the state's unfunded retiree health care obligation ($74 billion as of the 2017-18 Governor's Budget, $76.5 billion as of the latest actuarial valuation) through shared prefunding of program costs along with other cost containment strategies. See "STATE FINANCES – OTHER ELEMENTS – Retiree Health Care Costs."

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## 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 Budget—Development of Revenue Estimates."

In July 2016, California's total population reached 39.4 million residents, an increase of 0.75 percent since July 2015. Since the national census on April 1, 2010, the state has grown by 2.1 million persons. California's population growth rate is expected to increase to 0.86 percent in 2017 and .88 percent in 2018, resulting in a population of 39.7 million in July 2017 and 40.0 million in July 2018.

Natural increase (births minus deaths) will account for most of the growth during this time; however, net migration into the state is expected to continue to contribute to population growth. California's population is projected to reach 40.4 million people by July 2019.

Currently, over 9.1 million Californians are 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 vary by age group. The state's overall projected five-year growth rate of 4.5 percent (from 2016-2021) is higher than the anticipated 3.8 percent growth in the working-age population (25-64 years old). Among younger ages, the school-age group (5-17 years old) is expected to grow by 0.7 percent and the college-age group (18-24 years old) decreases by 3.4 percent while the preschool-age group (0-4 years old) is expected to decline by 3.5 percent. The population of the retirement-age group (age 65 and older), is expected to expand rapidly (22 percent).

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The following table shows population totals for California and the United States.

**TABLE 23**
**Population**

| Year | California Population[a] | Annual Percent Change | United States Population[a] | Annual Percent Change | California as % of United States |
|---|---|---|---|---|---|
| 2006 | 36,246,822 | 0.7 | 298,593,212 | 1.0 | 12.1 |
| 2007 | 36,552,529 | 0.8 | 301,579,895 | 1.0 | 12.1 |
| 2008 | 36,856,222 | 0.8 | 304,374,846 | 0.9 | 12.1 |
| 2009 | 37,077,204 | 0.6 | 307,006,550 | 0.9 | 12.1 |
| 2010 | 37,333,583 | 0.7 | 309,348,193 | 0.8 | 12.1 |
| 2011 | 37,674,954 | 0.9 | 311,663,358 | 0.8 | 12.1 |
| 2012 | 38,041,489 | 1.0 | 313,998,379 | 0.8 | 12.1 |
| 2013 | 38,373,434 | 0.9 | 316,204,908 | 0.7 | 12.1 |
| 2014 | 38,739,410 | 1.0 | 318,563,456 | 0.8 | 12.2 |
| 2015 | 39,059,809 | 0.8 | 320,896,618 | 0.7 | 12.2 |
| 2016 | 39,354,432 | 0.8 | 323,127,513 | 0.7 | 12.2 |

[a] Population as of July 1.

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

## 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 United States.

**TABLE 24**
**Labor Force**
**(Thousands)**

| | | | Unemployment Rate | |
|---|---|---|---|---|
| Year | Labor Force | Employment | California | United States |
| 2006 | 17,654 | 16,789 | 4.9% | 4.6% |
| 2007 | 17,893 | 16,932 | 5.4 | 4.6 |
| 2008 | 18,178 | 16,854 | 7.3 | 5.8 |
| 2009 | 18,215 | 16,183 | 11.1 | 9.3 |
| 2010 | 18,336 | 16,092 | 12.2 | 9.6 |
| 2011 | 18,415 | 16,258 | 11.7 | 8.9 |
| 2012 | 18,551 | 16,628 | 10.4 | 8.1 |
| 2013 | 18,670 | 17,001 | 8.9 | 7.4 |
| 2014 | 18,828 | 17,418 | 7.5 | 6.2 |
| 2015 | 18,982 | 17,799 | 6.2 | 5.3 |
| 2016[a] | 19,198 | 18,162 | 5.4 | 4.9 |

[a] Preliminary

Note: The annual benchmark revision will be released on March 3, 2017.

Source: State of California, Employment Development Department.

The following table shows California's nonfarm payroll employment distribution and growth for 2006 and 2016.

**TABLE 25**
**Nonfarm Payroll Employment by Major Sector**
**2006 and 2016**
**(Thousands)**

| | Employment | | Distribution of Employment | |
|---|---|---|---|---|
| **Industry Sector** | **2006** | **2016[a]** | **2006** | **2016[a]** |
| Mining and Logging | 25.1 | 25.4 | 0.2% | 0.2% |
| Construction | 933.7 | 764.0 | 6.1 | 4.6 |
| Manufacturing | | | | |
| Nondurable Goods | 542.6 | 477.9 | 3.5 | 2.9 |
| Durable Goods | 948.3 | 806.1 | 6.2 | 4.9 |
| High Technology | 381.2 | 340.2 | 2.5 | 2.1 |
| Other Durable Goods | 567.1 | 465.9 | 3.7 | 2.8 |
| Trade, Transportation & Utilities | 2,876.4 | 2,997.7 | 18.8 | 18.2 |
| Information | 466.1 | 496.2 | 3.0 | 3.0 |
| Financial Activities | 927.4 | 810.4 | 6.1 | 4.9 |
| Professional & Business Services | 2,244.6 | 2,573.2 | 14.6 | 15.6 |
| Educational & Health Services | 1,883.1 | 2,549.3 | 12.3 | 15.5 |
| Leisure & Hospitality | 1,519.0 | 1,897.4 | 9.9 | 11.5 |
| Other Services | 507.1 | 552.4 | 3.3 | 3.4 |
| Government | | | | |
| Federal Government | 248.6 | 246.7 | 1.6 | 1.5 |
| State & Local Government | 2,203.6 | 2,265.9 | 14.4 | 13.8 |
| **TOTAL** | **15,325.6** | **16,462.6** | **100.0%** | **100.0%** |

[a] Preliminary

Note: The annual benchmark revision will be released on March 3, 2017.

Note: Figures may not add due to rounding.

Source: State of California, Employment Development Department.

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The following tables show California's total and per capita income patterns.

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

| Year | Total Personal Income | Annual % Change | California % of U.S. |
|---|---|---|---|
| 2005 | $1,415,941 | 6.0% | 13.3% |
| 2006 | 1,524,920 | 7.7 | 13.4 |
| 2007 | 1,583,852 | 3.9 | 13.2 |
| 2008 | 1,616,530 | 2.1 | 12.9 |
| 2009 | 1,560,649 | -3.5 | 12.9 |
| 2010 | 1,617,134 | 3.6 | 13.0 |
| 2011 | 1,727,434 | 6.8 | 13.1 |
| 2012 | 1,838,567 | 6.4 | 13.2 |
| 2013 | 1,861,957 | 1.3 | 13.2 |
| 2014 | 1,977,924 | 6.2 | 13.4 |
| 2015 | 2,103,669 | 6.4 | 13.6 |

2016 available March 28, 2017.

Note: Omits income for government employees overseas.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

**TABLE 27**
**Personal Income Per Capita**
**(Dollars)**

| Year | California | Annual % Change | United States | Annual % Change | California % of U.S. |
|---|---|---|---|---|---|
| 2005 | $39,521 | 5.2% | $35,904 | 4.6% | 110.1% |
| 2006 | 42,334 | 7.1 | 38,144 | 6.2 | 111.0 |
| 2007 | 43,692 | 3.2 | 39,821 | 4.4 | 109.7 |
| 2008 | 44,162 | 1.1 | 41,082 | 3.2 | 107.5 |
| 2009 | 42,224 | -4.4 | 39,376 | -4.2 | 107.2 |
| 2010 | 43,315 | 2.6 | 40,277 | 2.3 | 107.5 |
| 2011 | 45,820 | 5.8 | 42,453 | 5.4 | 107.9 |
| 2012 | 48,312 | 5.4 | 44,267 | 4.3 | 109.1 |
| 2013 | 48,471 | 0.3 | 44,462 | 0.4 | 109.0 |
| 2014 | 50,988 | 5.2 | 46,414 | 4.4 | 109.9 |
| 2015 | 53,741 | 5.4 | 48,112 | 3.7 | 111.7 |

2016 available March 28, 2017.

Note: 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
## Residential Construction Permits Authorized

| Year | Units | | | Valuation[a] (Dollars in Millions) |
|---|---|---|---|---|
| | Total | Single | Multiple | |
| 2007 | 113,034 | 68,409 | 44,625 | $28,621 |
| 2008 | 64,962 | 33,050 | 31,912 | 18,072 |
| 2009 | 36,421 | 25,454 | 10,967 | 12,037 |
| 2010 | 44,762 | 25,526 | 19,236 | 13,731 |
| 2011 | 47,336 | 21,631 | 25,705 | 14,415 |
| 2012 | 59,225 | 27,560 | 31,665 | 17,731 |
| 2013 | 85,472 | 36,991 | 48,481 | 23,027 |
| 2014 | 85,348 | 36,787 | 48,561 | 24,178 |
| 2015 | 98,073 | 44,896 | 53,177 | 29,116 |
| 2016[b] | 99,975 | 48,216 | 51,759 | 30,676 |

(a) Valuation includes additions and alterations.

(b) Preliminary

Source: Construction Industry Research Board; California Homebuilding Foundation.

## TABLE 29
## Non-residential Construction Authorized
## (Dollars in Thousands)

| Year | Commercial | Industrial | Other | Additions and Alterations | Total |
|---|---|---|---|---|---|
| 2007 | $8,812,083 | $1,450,875 | $3,496,471 | $8,782,424 | $22,541,853 |
| 2008 | 6,513,610 | 938,081 | 2,983,640 | 8,776,285 | 19,211,616 |
| 2009 | 1,919,763 | 359,868 | 1,984,534 | 6,602,103 | 10,866,268 |
| 2010 | 1,990,358 | 358,338 | 1,937,166 | 6,913,901 | 11,199,763 |
| 2011 | 2,213,034 | 478,896 | 2,152,688 | 8,146,064 | 12,990,682 |
| 2012 | 3,215,897 | 1,409,808 | 2,382,780 | 7,626,971 | 14,635,456 |
| 2013 | 5,294,105 | 1,072,101 | 6,340,166 | 8,974,512 | 21,680,884 |
| 2014 | 7,112,268 | 1,103,016 | 4,231,883 | 10,855,176 | 23,302,343 |
| 2015 | 8,291,744 | 1,252,790 | 4,590,360 | 12,128,093 | 26,262,987 |
| 2016[a] | 8,959,250 | 1,044,206 | 4,412,491 | 12,260,562 | 26,676,509 |

(a) Preliminary

Source: Construction Industry Research Board; California Homebuilding Foundation.

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

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

| Year | Exports[(a)] | Annual % Change |
|---|---|---|
| 2006 | 127,770.8 | 9.5 |
| 2007 | 134,318.9 | 5.1 |
| 2008 | 144,805.7 | 7.8 |
| 2009 | 120,080.0 | -17.1 |
| 2010 | 143,208.2 | 19.3 |
| 2011 | 159,421.4 | 11.3 |
| 2012 | 161,757.3 | 1.5 |
| 2013 | 168,191.6 | 4.0 |
| 2014 | 173,923.9 | 3.4 |
| 2015 | 165,390.5 | -4.9 |
| 2016 | 163,616.5 | -1.1 |

(a) Origin of Movement (OM) series

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

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## BANK ARRANGEMENTS TABLE

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

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## BANK ARRANGEMENTS TABLE

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

## As of February 1, 2017

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

| Program | Series | Outstanding Par Amount | Credit Provider | Expiration | Type of Credit | Reset Mode |
|---|---|---|---|---|---|---|
| GO VRDOs | 2003A 1 | $48,200,000 | JP Morgan Chase | 9/13/2018 | LOC | Daily |
| GO VRDOs | 2003A 2-3 | $193,200,000 | Bank of Montreal | 9/7/2018 | LOC | Daily |
| GO VRDOs | 2003B 1-4 | $250,000,000 | Bank of America, N.A. | 4/26/2019 | LOC | Weekly |
| GO VRDOs | 2003C 1 | $96,600,000 | Bank of America, N.A. | 11/2/2018 | LOC | Weekly |
| GO VRDOs | 2003C 3-4 | $96,500,000 | US Bank National Association | 11/16/2018 | LOC | Weekly |
| GO VRDOs | 2004A 1, 4 & 5 | $200,000,000 | Citibank, N.A. | 9/7/2018 | LOC | Daily |
| GO VRDOs | 2004A 2 &3 | $147,100,000 | State Street Bank & Trust Company | 8/11/2020 | LOC | Daily |
| GO VRDOs | 2004A 6, 7, 8 & 10 | $200,000,000 | Citibank, N.A. | 9/7/2018 | LOC | Weekly |
| GO VRDOs | 2004 A 9 | $49,000,000 | State Street Bank & Trust Company | 8/11/2020 | LOC | Weekly |
| GO VRDOs | 2004B 1-3 | $165,000,000 | Citibank, N.A. | 9/7/2018 | LOC | Daily |
| GO VRDOs | 2004B 4 | $34,300,000 | Citibank, N.A. | 9/7/2018 | LOC | Weekly |
| GO VRDOs | 2004B 5-6 | $99,100,000 | US Bank National Association | 4/5/2018 | LOC | Weekly |
| GO VRDOs | 2005A-1-1 | $85,850,000 | Royal Bank of Canada | 11/4/2019 | LOC | Weekly |
| GO VRDOs | 2005A-1-2 | $85,750,000 | Royal Bank of Canada | 11/4/2019 | LOC | Weekly |
| GO VRDOs | 2005A-2-1 | $143,200,000 | Sumitomo Mitsui Banking Corporation | 11/16/2018 | LOC | Weekly |
| GO VRDOs | 2005A-2-2 | $28,400,000 | Royal Bank of Canada | 11/4/2019 | LOC | Weekly |
| GO VRDOs | 2005A-3 | $49,100,000 | Mizuho Bank, Ltd. | 11/15/2019 | LOC | Weekly |
| GO VRDOs | 2005B-1 | $147,100,000 | Mizuho Bank, Ltd. | 11/15/2019 | LOC | Weekly |
| GO VRDOs | 2005B-2 | $98,100,000 | Bank of Tokyo-Mitsubishi UFJ, Ltd. | 11/4/2019 | LOC | Weekly |
| GO VRDOs | 2005B-3 | $49,100,000 | Sumitomo Mitsui Banking Corporation | 11/16/2018 | LOC | Weekly |
| GO VRDOs | 2005B-4 | $49,100,000 | JP Morgan Chase | 9/13/2018 | LOC | Weekly |
| GO VRDOs | 2005B-5 | $88,890,000 | Barclays Bank PLC | 4/11/2017 | LOC | Weekly |
| GO VRDOs | 2005B-7 | $49,100,000 | JP Morgan Chase | 9/13/2018 | LOC | Daily |
| **Total GO VRDOs** | | **$2,452,690,000** | | | | |

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

| | | | | | | |
|---|---|---|---|---|---|---|
| GO CP [a] | A1/B1 | $500,000,000 | Wells Fargo Bank, N.A. | 11/2/2018 | LOC | Up to 90 days |
| | A2/B2 | $500,000,000 | Royal Bank of Canada | 11/4/2019 | LOC | Up to 90 days |
| | A3/B3 | $200,000,000 | MUFG Union Bank, N.A. | 11/30/2020 | LOC | Up to 90 days |
| | A5/B5 | $225,000,000 | US Bank National Association | 8/9/2019 | LOC | Up to 90 days |
| | A6/B6 | $50,000,000 | Bank of America, N.A. | 11/2/2018 | LOC | Up to 90 days |
| | A7/B7 | $125,000,000 | Mizuho Bank, Ltd. | 11/4/2019 | LOC | Up to 90 days |
| | A8/B8 | $125,000,000 | Bank of the West | 2/11/2020 | LOC | Up to 90 days |
| | C1/D1 | $500,000,000 | Bank of America, N.A. | 11/25/2017 | Bank Note | Up to 90 days |
| | **Total GO CP** | **$2,225,000,000** | | | | |
| **Grand Total** | | **$4,677,690,000** | | | | |

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

## 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. Also, see "STATE INDEBTEDNESS AND OTHER OBLIGATIONS." For purposes of these tables, "General Fund bonds," also known as "non-self liquidating bonds," are general obligation bonds expected to be paid from the General Fund without reimbursement from any other fund. Although the principal of general obligation commercial paper notes in the "non-self liquidating" category is legally payable from the General Fund, the state expects that principal of such commercial paper notes will be paid only from the issuance of new commercial paper notes or the issuance of long-term general obligation bonds to retire the commercial paper notes. Interest on "non-self liquidating" general obligation commercial paper notes is payable from the General Fund.

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

*The following tables do not include the following bond sales since January 1, 2017:*

*$2,792,640,000 of Various Purpose General Obligation Bonds closed on March 14, 2017. This sale included $2,279,405,000 of refunding bonds which will (together with premium paid by the purchasers of the bonds) refund $2,463,375,000 of currently outstanding General Obligation Bonds.*

*$43,200,000 aggregate principal amount of the State Public Works Board's (Department of Corrections and Rehabilitation) 2017 Series A (Various Correctional Facilities) closed on March 28, 2017.*

# OUTSTANDING STATE DEBT
## FISCAL YEARS 2011-12 THROUGH 2015-16
### (Dollars in Thousands Except for Per Capita Information)

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| **Outstanding Debt (a)** | | | | | |
| General Obligation Bonds | | | | | |
| General Fund (Non-Self Liquidating)................. | $ 73,060,865 | $ 74,456,230 | $ 75,714,125 | $ 76,005,055 | $ 74,941,755 |
| Enterprise Fund (Self Liquidating)....................... | $ 1,115,935 | $ 884,180 | $ 671,180 | $ 646,750 | $ 787,760 |
| Special Revenue Fund (Self Liquidating)............ | $ 5,910,480 | $ 4,731,745 | $ 3,417,115 | $ 929,735 | $ 0 |
| Total General Obligation Bonds............................. | **$ 80,087,280** | **$ 80,072,155** | **$ 79,802,420** | **$ 77,581,540** | **$ 75,729,515** |
| Revenue Bonds | | | | | |
| Lease-Purchase Debt........................................... | $ 11,330,355 | $ 11,822,140 | $ 11,266,240 | $ 10,989,480 | $ 9,808,190 |
| Proposition 1A Receivables Program…………. | $ 1,895,000 | $ 0 | $ 0 | $ 0 | $ 0 |
| Total Revenue Bonds………….............................. | **$ 13,225,355** | **$ 11,822,140** | **$ 11,266,240** | **$ 10,989,480** | **$ 9,808,190** |
| Total Outstanding General Obligation and Revenue Bonds...................................................... | **$ 93,312,635** | **$ 91,894,295** | **$ 91,068,660** | **$ 88,571,020** | **$ 85,537,705** |
| **Bond Sales During Fiscal Year** | | | | | |
| Non-Self Liquidating General Obligation Bonds.... | $ 7,817,390 | $ 7,417,170 | $ 5,905,370 | $ 6,613,070 | $ 7,316,280 |
| Self Liquidating General Obligation Bonds........... | $ 0 | $ 0 | $ 0 | $ 110,000 | $ 545,440 |
| Proposition 1A Receivables Revenue Bonds……. | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Self Liquidating Special Fund Revenue Bonds...... | $ 438,635 | $ 0 | $ 0 | $ 0 | $ 0 |
| Lease-Purchase Debt............................................. | $ 2,627,115 | $ 1,678,130 | $ 4,849,680 | $ 728,085 | $ 1,004,305 |
| **Debt Service (b)** | | | | | |
| Non-Self Liquidating General Obligation Bonds.... | $ 5,768,589 | $ 5,424,867 | $ 6,308,990 | $ 6,580,411 | $ 6,641,942 |
| Lease-Purchase Debt............................................. | $ 980,862 | $ 1,194,881 | $ 978,202 | $ 1,029,883 | $ 1,013,838 |
| **General Fund Receipts (c).....................................** | $ 87,769,787 | $ 103,424,674 | $ 103,966,197 | $ 116,385,580 | $ 120,417,389 |
| Non-Self Liquidating General Obligation Bonds Debt Service as a Percentage of General Fund Receipts................................................... | **6.57%** | **5.25%** | **6.07%** | **5.65%** | **5.52%** |
| Lease-Purchase Debt Service as a Percentage of General Fund Receipts................ | **1.12%** | **1.16%** | **0.94%** | **0.88%** | **0.84%** |
| **Population (d).........................................................** | 37,676,006 | 38,037,860 | 38,370,164 | 38,728,714 | 39,093,016 |
| Non-Self Liquidating General Obligation Bonds Outstanding per Capita....................................... | **$ 1,939.19** | **$ 1,957.42** | **$ 1,973.26** | **$ 1,962.50** | **$ 1,917.01** |
| Lease-Purchase Debt Outstanding per Capita......... | **$ 300.73** | **$ 310.80** | **$ 293.62** | **$ 283.76** | **$ 250.89** |
| **Personal Income (e)................................................** | $ 1,664,635,750 | $ 1,720,052,000 | $ 1,827,919,750 | $ 1,943,915,250 | $ 2,061,149,250 |
| Non-Self Liquidating General Obligation Bonds Outstanding as Percentage of Personal Income.... | **4.39%** | **4.33%** | **4.14%** | **3.91%** | **3.64%** |
| Lease-Purchase Debt Outstanding as Percentage of Personal Income............................ | **0.68%** | **0.69%** | **0.62%** | **0.57%** | **0.48%** |

(a) Principal outstanding as of July 1 of the next fiscal year. Includes the initial value of capital appreciation bonds rather than the accreted value.

(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 and economic recovery bonds).

(d) As of July 1, the beginning of the fiscal year.

(e) Revised estimates as of June 22, 2016.

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

**AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS**
**As of 02/01/2017**
**(Thousands)**

| | Proposition Number | Voter Authorization Date | Authorization Amount $ | Long Term Bonds Outstanding $ | Commercial Paper Outstanding (a) $ | Unissued $ |
|---|---|---|---|---|---|---|
| **GENERAL FUND BONDS (Non-Self Liquidating)** | | | | | | |
| + 1988 School Facilities Bond Act | 79 | 11/08/88 | 797,745 | 35,195 | 0 | 0 |
| + 1990 School Facilities Bond Act | 123 | 06/05/90 | 797,875 | 72,695 | 0 | 0 |
| + 1992 School Facilities Bond Act | 155 | 11/03/92 | 898,211 | 199,180 | 0 | 0 |
| California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 | 40 | 03/05/02 | 2,600,000 | 1,981,160 | 27,010 | 205,400 |
| + California Library Construction and Renovation Bond Act of 1988 | 85 | 11/08/88 | 72,405 | 10,555 | 0 | 0 |
| *+ California Park and Recreational Facilities Act of 1984 | 18 | 06/05/84 | 368,900 | 10,225 | 0 | 0 |
| * California Parklands Act of 1980 | 1 | 11/04/80 | 285,000 | 2,030 | 0 | 0 |
| California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000 | 14 | 03/07/00 | 350,000 | 228,855 | 0 | 5,040 |
| *+ California Safe Drinking Water Bond Law of 1976 | 3 | 06/08/76 | 172,500 | 2,580 | 0 | 0 |
| * California Safe Drinking Water Bond Law of 1984 | 28 | 11/06/84 | 75,000 | 1,555 | 0 | 0 |
| * California Safe Drinking Water Bond Law of 1986 | 55 | 11/04/86 | 100,000 | 19,075 | 0 | 0 |
| California Safe Drinking Water Bond Law of 1988 | 81 | 11/08/88 | 75,000 | 24,545 | 0 | 0 |
| *+ California Wildlife, Coastal, and Park Land Conservation Act | 70 | 06/07/88 | 768,670 | 97,535 | 0 | 0 |
| Children's Hospital Bond Act of 2004 | 61 | 11/02/04 | 750,000 | 614,550 | 250 | 46,795 |
| Children's Hospital Bond Act of 2008 | 3 | 11/04/08 | 980,000 | 657,800 | 385 | 304,455 |
| Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (Hi-Ed) | 1A | 11/03/98 | 2,500,000 | 1,569,135 | 0 | 0 |
| Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (K-12) | 1A | 11/03/98 | 6,700,000 | 3,362,025 | 0 | 11,400 |
| * Clean Air and Transportation Improvement Bond Act of 1990 | 116 | 06/05/90 | 1,990,000 | 673,675 | 0 | 4,985 |
| * Clean Water Bond Law of 1984 | 25 | 11/06/84 | 325,000 | 8,660 | 0 | 0 |
| * Clean Water and Water Conservation Bond Law of 1978 | 2 | 06/06/78 | 375,000 | 3,740 | 0 | 0 |
| Clean Water and Water Reclamation Bond Law of 1988 | 83 | 11/08/88 | 65,000 | 16,630 | 0 | 0 |
| * Community Parklands Act of 1986 | 43 | 06/03/86 | 100,000 | 2,115 | 0 | 0 |
| * County Correctional Facility Capital Expenditure Bond Act of 1986 | 52 | 06/03/86 | 495,000 | 11,625 | 0 | 0 |
| County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988 | 86 | 11/08/88 | 500,000 | 55,320 | 0 | 0 |
| ++++ Disaster Preparedness and Flood Prevention Bond Act of 2006 | 1E | 11/07/06 | 3,990,000 | 2,215,880 | 35,100 | 1,683,552 |

**AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS**
**As of 02/01/2017**
**(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 | 55,650 | 635 | 7,490 |
| * Fish and Wildlife Habitat Enhancement Act of 1984 | 19 | 06/05/84 | 85,000 | 4,540 | 0 | 0 |
| Higher Education Facilities Bond Act of 1988 | 78 | 11/08/88 | 600,000 | 20,260 | 0 | 0 |
| Higher Education Facilities Bond Act of June 1990 | 121 | 06/05/90 | 450,000 | 40,355 | 0 | 540 |
| Higher Education Facilities Bond Act of June 1992 | 153 | 06/02/92 | 900,000 | 255,675 | 0 | 0 |
| Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 | 1B | 11/07/06 | 19,925,000 | 16,514,595 | 157,010 | 1,808,655 |
| Housing and Emergency Shelter Trust Fund Act of 2002 | 46 | 11/05/02 | 2,100,000 | 402,165 | 8,820 | 76,995 |
| Housing and Emergency Shelter Trust Fund Act of 2006 | 1C | 11/07/06 | 2,850,000 | 1,403,275 | 123,430 | 713,135 |
| Housing and Homeless Bond Act of 1990 | 107 | 06/05/90 | 150,000 | 1,170 | 0 | 0 |
| Kindergarten-Community College Public Education Facilities Bond Act of 2016 (K-12) | 51 | 11/08/16 | 7,000,000 | 0 | 0 | 7,000,000 |
| Kindergarten-Community College Public Education Facilities Bond Act of 2016 (CCC) | 51 | 11/08/16 | 2,000,000 | 0 | 0 | 2,000,000 |
| Kindergarten-University Public Education Facilities Bond Act of 2002 (Hi-Ed) | 47 | 11/05/02 | 1,650,000 | 1,250,040 | 0 | 0 |
| Kindergarten-University Public Education Facilities Bond Act of 2002 (K-12) | 47 | 11/05/02 | 11,400,000 | 8,740,770 | 24,420 | 33,040 |
| Kindergarten-University Public Education Facilities Bond Act of 2004 (Hi-Ed) | 55 | 03/02/04 | 2,300,000 | 1,925,800 | 100 | 58,019 |
| Kindergarten-University Public Education Facilities Bond Act of 2004 (K-12) | 55 | 03/02/04 | 10,000,000 | 8,110,410 | 39,610 | 51,690 |
| Kindergarten-University Public Education Facilities Bond Act of 2006 (Hi-Ed) | 1D | 11/07/06 | 3,087,000 | 2,947,480 | 1,810 | 38,775 |
| Kindergarten-University Public Education Facilities Bond Act of 2006 (K-12) | 1D | 11/07/06 | 7,329,000 | 6,584,605 | 34,145 | 317,485 |
| * Lake Tahoe Acquisitions Bond Act | 4 | 08/02/82 | 85,000 | 50 | 0 | 0 |
| * New Prison Construction Bond Act of 1986 | 54 | 11/04/86 | 500,000 | 1,030 | 0 | 0 |
| New Prison Construction Bond Act of 1988 | 80 | 11/08/88 | 817,000 | 9,330 | 200 | 1,965 |
| New Prison Construction Bond Act of 1990 | 120 | 06/05/90 | 450,000 | 11,670 | 0 | 605 |
| Passenger Rail and Clean Air Bond Act of 1990 | 108 | 06/05/90 | 1,000,000 | 26,235 | 0 | 0 |
| Public Education Facilities Bond Act of 1996 (Higher Education) | 203 | 03/26/96 | 975,000 | 436,555 | 1,725 | 4,650 |
| ++ Public Education Facilities Bond Act of 1996 (K-12) | 203 | 03/26/96 | 2,012,035 | 734,250 | 0 | 0 |
| ++++ Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act | 13 | 03/07/00 | 1,884,000 | 1,302,935 | 0 | 43,346 |
| ++++ Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 | 84 | 11/07/06 | 5,283,000 | 2,763,615 | 299,485 | 1,945,875 |
| Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 | 12 | 03/07/00 | 2,100,000 | 1,341,445 | 0 | 73,820 |
| ++++ Safe, Clean, Reliable Water Supply Act | 204 | 11/05/96 | 969,500 | 487,210 | 0 | 62,915 |
| Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century | 1A | 11/04/08 | 9,950,000 | 788,430 | 0 | 8,791,730 |
| * School Building and Earthquake Bond Act of 1974 | 1 | 11/05/74 | 150,000 | 13,300 | 0 | 0 |

**AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS**
**As of 02/01/2017**
**(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 | 114,800 | 0 | 0 |
| School Facilities Bond Act of 1992 | 152 | 06/02/92 | 1,900,000 | 411,705 | 0 | 10,280 |
| Seismic Retrofit Bond Act of 1996 | 192 | 03/26/96 | 2,000,000 | 1,032,745 | 0 | 0 |
| * State, Urban, and Coastal Park Bond Act of 1976 | 2 | 11/02/76 | 280,000 | 3,230 | 0 | 0 |
| Stem Cell Research and Cures Bond Act of 2004 | 71 | 11/02/04 | 3,000,000 | 1,165,565 | 89,445 | 942,150 |
| Veterans Homes Bond Act of 2000 | 16 | 03/07/00 | 50,000 | 33,685 | 0 | 975 |
| Veterans Housing and Homeless Prevention Bond Act of 2014 | 41 | 06/03/14 | 600,000 | 2,240 | 1,695 | 595,560 |
| Voting Modernization Bond Act of 2002 | 41 | 03/05/02 | 200,000 | 11,665 | 0 | 64,495 |
| Water Conservation Bond Law of 1988 | 82 | 11/08/88 | 60,000 | 19,485 | 0 | 5,235 |
| *++++ Water Conservation and Water Quality Bond Law of 1986 | 44 | 06/03/86 | 136,500 | 22,985 | 0 | 230 |
| Water Quality, Supply, and Infrastructure Improvement Act of 2014 | 1 | 11/04/14 | 7,545,000 | 40,320 | 113,385 | 7,382,675 |
| ++++ Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 | 50 | 11/05/02 | 3,345,000 | 2,565,810 | 1,425 | 309,574 |
| **Total General Fund Bonds** | | | **144,349,341** | **73,473,420** | **960,085** | **34,603,531** |

**AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS**
**As of 02/01/2017**
**(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 | 108,560 | 0 | 167,600 |
| Veterans Bond Act of 1986 | 42 | 06/03/86 | 850,000 | 8,160 | 0 | 0 |
| Veterans Bond Act of 1988 | 76 | 06/07/88 | 510,000 | 29,595 | 0 | 0 |
| Veterans Bond Act of 1990 | 142 | 11/06/90 | 400,000 | 45,480 | 0 | 0 |
| Veterans Bond Act of 1996 | 206 | 11/05/96 | 400,000 | 102,150 | 0 | 0 |
| Veterans Bond Act of 2000 | 32 | 11/07/00 | 500,000 | 357,895 | 0 | 0 |
| +++ Veterans Bond Act of 2008 | 12 | 11/04/08 | 300,000 | 99,695 | 0 | 200,260 |
| **Total Enterprise Fund Bonds** | | | **4,710,000** | **751,535** | **0** | **367,860** |
| **TOTAL GENERAL OBLIGATION BONDS** | | | **149,059,341** | **74,224,955** | **960,085** | **34,971,391** |

(a) A total of not more than $2.225 billion of commercial paper principal plus accrued interest may be owing at one time. Bond acts marked with an asterisk (*) are not legally permitted to utilize commercial paper.

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

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

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

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

SOURCE: State of California, Office of the Treasurer.

# GENERAL OBLIGATION AND REVENUE BONDS
# SUMMARY OF DEBT SERVICE REQUIREMENTS
## As of February 1, 2017

| | Total Debt | | |
|---|---|---|---|
| | **Interest** | **Principal** | **Total (a)** |
| **GENERAL OBLIGATION BONDS** | | | |
| **GENERAL FUND NON-SELF LIQUIDATING (b)** | | | |
| Fixed Rate | $ 54,063,395,716.75 | $ 69,747,630,000.00 | $ 123,811,025,716.75 |
| Variable Rate (c) | 511,749,317.75 | 3,725,790,000.00 | 4,237,539,317.75 |
| **ENTERPRISE FUND SELF LIQUIDATING** | | | |
| Fixed Rate | 331,802,385.00 | 751,535,000.00 | 1,083,337,385.00 |
| **REVENUE BONDS** | | | |
| **GENERAL FUND LEASE-REVENUE** | | | |
| Lease-Revenue | 5,008,891,959.75 | 9,614,320,000.00 | 14,623,211,959.75 |
| **General Fund and Lease-Revenue Total (d)** | **$ 59,915,839,379.25** | **$ 83,839,275,000.00** | **$ 143,755,114,379.25** |

(a) Includes scheduled mandatory sinking fund payments.
(b) Does not include outstanding commercial paper.
(c) The estimate of future interest payments is based on rates in effect as of February 1, 2017. The interest rates for the daily, weekly and monthly rate bonds range from 0.43 - 1.81%.
The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, Series 2013B & 2016A currently bear interest at a fixed rate of 4.00%, and Series 2014A bears interest at a fixed rate of 3.00%, until reset dates, and are assumed to bear that rate from reset until maturity.
(d) Estimated interest included.

SOURCE: State of California, Office of the Treasurer.

## SCHEDULE OF DEBT SERVICE REQUIREMENTS
## FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
### Fixed Rate
### As of February 1, 2017

| Fiscal Year Ending June 30 | Current Debt | | |
|---|---|---|---|
| | Interest (a) | Principal | Total (b) |
| 2017 (c) | $ 1,611,349,862.23 | $ 930,770,000.00 | 2,542,119,862.23 |
| 2018 | $ 3,708,186,849.95 | $ 2,810,090,000.00 | 6,518,276,849.95 |
| 2019 | $ 3,583,531,824.37 | $ 2,943,395,000.00 | 6,526,926,824.37 |
| 2020 | $ 3,431,779,367.64 | $ 2,867,865,000.00 | 6,299,644,367.64 |
| 2021 | $ 3,301,931,527.73 | $ 2,572,840,000.00 | 5,874,771,527.73 |
| 2022 | $ 3,168,936,817.81 | $ 2,767,055,000.00 | 5,935,991,817.81 |
| 2023 | $ 3,034,875,896.78 | $ 2,420,505,000.00 | 5,455,380,896.78 |
| 2024 | $ 2,921,456,715.43 | $ 2,097,105,000.00 | 5,018,561,715.43 |
| 2025 | $ 2,814,154,601.90 | $ 2,342,505,000.00 | 5,156,659,601.90 |
| 2026 | $ 2,695,217,886.60 | $ 2,456,055,000.00 | 5,151,272,886.60 |
| 2027 | $ 2,564,809,298.31 | $ 2,514,150,000.00 | 5,078,959,298.31 |
| 2028 | $ 2,445,266,589.61 | $ 2,280,020,000.00 | 4,725,286,589.61 |
| 2029 | $ 2,331,179,720.10 | $ 2,507,430,000.00 | 4,838,609,720.10 |
| 2030 | $ 2,208,261,647.60 | $ 2,612,690,000.00 | 4,820,951,647.60 |
| 2031 | $ 2,064,404,664.05 | $ 2,700,810,000.00 | 4,765,214,664.05 |
| 2032 | $ 1,934,954,876.90 | $ 2,568,615,000.00 | 4,503,569,876.90 |
| 2033 | $ 1,797,010,312.51 | $ 2,650,640,000.00 | 4,447,650,312.51 |
| 2034 | $ 1,671,469,540.26 | $ 3,314,520,000.00 | 4,985,989,540.26 |
| 2035 | $ 1,443,834,111.59 | $ 3,091,335,000.00 | 4,535,169,111.59 |
| 2036 | $ 1,259,611,543.26 | $ 2,798,335,000.00 | 4,057,946,543.26 |
| 2037 | $ 1,089,699,391.87 | $ 3,088,405,000.00 | 4,178,104,391.87 |
| 2038 | $ 907,853,748.80 | $ 3,244,015,000.00 | 4,151,868,748.80 |
| 2039 | $ 756,443,428.95 | $ 3,415,270,000.00 | 4,171,713,428.95 |
| 2040 | $ 475,719,662.50 | $ 1,767,885,000.00 | 2,243,604,662.50 |
| 2041 | $ 313,907,793.75 | $ 2,190,000,000.00 | 2,503,907,793.75 |
| 2042 | $ 211,627,793.75 | $ 1,319,000,000.00 | 1,530,627,793.75 |
| 2043 | $ 156,170,418.75 | $ 1,326,325,000.00 | 1,482,495,418.75 |
| 2044 | $ 82,601,398.75 | $ 875,000,000.00 | 957,601,398.75 |
| 2045 | $ 51,723,425.00 | $ 550,000,000.00 | 601,723,425.00 |
| 2046 | $ 20,950,000.00 | $ 500,000,000.00 | 520,950,000.00 |
| 2047 | $ 4,475,000.00 | $ 225,000,000.00 | 229,475,000.00 |
| **Total** | **$ 54,063,395,716.75** | **$ 69,747,630,000.00** | **$ 123,811,025,716.75** |

(a) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(b) Includes scheduled mandatory sinking fund payments. Does not include outstanding commercial paper.
(c) Represents the remaining debt service requirements from March 1, 2017 through June 30, 2017.

SOURCE: State of California, Office of the Treasurer.

## SCHEDULE OF DEBT SERVICE REQUIREMENTS
## FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
### Variable Rate
### As of February 1, 2017

| Fiscal Year Ending June 30 | Current Debt | | |
|---|---|---|---|
| | Interest (a) | Principal | Total (b) |
| 2017 (c) | 19,538,321.90 | 184,675,000.00 | 204,213,321.90 |
| 2018 | 45,262,749.89 | 243,305,000.00 | 288,567,749.89 |
| 2019 | 43,606,060.13 | 113,420,000.00 | 157,026,060.13 |
| 2020 | 42,602,064.80 | 105,500,000.00 | 148,102,064.80 |
| 2021 | 41,800,286.52 | 154,400,000.00 | 196,200,286.52 |
| 2022 | 40,529,533.03 | 39,200,000.00 | 79,729,533.03 |
| 2023 | 40,306,490.01 | 61,100,000.00 | 101,406,490.01 |
| 2024 | 40,025,630.73 | 173,600,000.00 | 213,625,630.73 |
| 2025 | 38,976,285.27 | 116,400,000.00 | 155,376,285.27 |
| 2026 | 38,346,501.00 | 203,300,000.00 | 241,646,501.00 |
| 2027 | 36,324,640.53 | 215,600,000.00 | 251,924,640.53 |
| 2028 | 28,540,583.90 | 499,000,000.00 | 527,540,583.90 |
| 2029 | 19,847,736.98 | 407,700,000.00 | 427,547,736.98 |
| 2030 | 15,224,025.28 | 304,390,000.00 | 319,614,025.28 |
| 2031 | 11,241,215.34 | 263,600,000.00 | 274,841,215.34 |
| 2032 | 7,073,136.91 | 366,600,000.00 | 373,673,136.91 |
| 2033 | 2,453,895.14 | 271,400,000.00 | 273,853,895.14 |
| 2034 | 13,889.78 | 1,600,000.00 | 1,613,889.78 |
| 2035 | 6,130.00 | - | 6,130.00 |
| 2036 | 6,156.57 | - | 6,156.57 |
| 2037 | 6,103.43 | - | 6,103.43 |
| 2038 | 6,130.00 | - | 6,130.00 |
| 2039 | 6,130.00 | - | 6,130.00 |
| 2040 | 5,620.61 | 1,000,000.00 | 1,005,620.61 |
| **Total** | **$ 511,749,317.75** | **$ 3,725,790,000.00** | **$ 4,237,539,317.75** |

(a) The estimate of future interest payments is based on rates in effect as of February 1, 2017. The interest rates for the daily, weekly and monthly rate bonds range from 0.43 - 1.81%.
The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, Series 2013B & 2016A currently bear interest at a fixed rate of 4.00%, and Series 2014A bears interest at a fixed rate of 3.00%, until reset dates, and are assumed to bear that rate from reset until maturity.

(b) Includes scheduled mandatory sinking fund payments. Does not include outstanding commercial paper.

(c) Represents the remaining estimated debt service requirements from March 1, 2017 through June 30, 2017.

SOURCE: State of California, Office of the Treasurer.

## SCHEDULE OF DEBT SERVICE REQUIREMENTS
## FOR ENTERPRISE FUND SELF LIQUIDATING BONDS
## Fixed Rate
## As of February 1, 2017

| Fiscal Year Ending June 30 | Current Debt | | |
|---|---|---|---|
| | Interest | Principal | Total (a) |
| 2017 (b) | 12,250,677.38 | 20,260,000.00 | 32,510,677.38 |
| 2018 | 23,566,917.15 | 62,325,000.00 | 85,891,917.15 |
| 2019 | 21,923,951.25 | 49,000,000.00 | 70,923,951.25 |
| 2020 | 20,626,766.35 | 41,365,000.00 | 61,991,766.35 |
| 2021 | 19,422,272.50 | 31,445,000.00 | 50,867,272.50 |
| 2022 | 18,669,240.00 | 15,785,000.00 | 34,454,240.00 |
| 2023 | 18,291,190.00 | 12,015,000.00 | 30,306,190.00 |
| 2024 | 18,092,725.00 | 4,365,000.00 | 22,457,725.00 |
| 2025 | 17,943,932.50 | 7,070,000.00 | 25,013,932.50 |
| 2026 | 17,856,195.00 | - | 17,856,195.00 |
| 2027 | 17,569,377.50 | 19,300,000.00 | 36,869,377.50 |
| 2028 | 17,041,146.01 | 16,275,000.00 | 33,316,146.01 |
| 2029 | 16,339,241.90 | 32,315,000.00 | 48,654,241.90 |
| 2030 | 15,035,163.89 | 51,425,000.00 | 66,460,163.89 |
| 2031 | 13,365,250.26 | 51,170,000.00 | 64,535,250.26 |
| 2032 | 11,631,245.85 | 50,580,000.00 | 62,211,245.85 |
| 2033 | 9,884,426.25 | 44,685,000.00 | 54,569,426.25 |
| 2034 | 8,297,135.18 | 39,750,000.00 | 48,047,135.18 |
| 2035 | 6,976,645.00 | 30,985,000.00 | 37,961,645.00 |
| 2036 | 5,939,917.50 | 25,220,000.00 | 31,159,917.50 |
| 2037 | 4,970,976.54 | 25,525,000.00 | 30,495,976.54 |
| 2038 | 4,119,601.99 | 17,915,000.00 | 22,034,601.99 |
| 2039 | 3,409,557.50 | 18,735,000.00 | 22,144,557.50 |
| 2040 | 2,666,238.75 | 19,605,000.00 | 22,271,238.75 |
| 2041 | 1,887,422.50 | 20,520,000.00 | 22,407,422.50 |
| 2042 | 1,357,240.00 | 7,775,000.00 | 9,132,240.00 |
| 2043 | 1,088,381.25 | 8,075,000.00 | 9,163,381.25 |
| 2044 | 808,756.25 | 8,365,000.00 | 9,173,756.25 |
| 2045 | 519,031.25 | 8,670,000.00 | 9,189,031.25 |
| 2046 | 218,775.00 | 8,985,000.00 | 9,203,775.00 |
| 2047 | 32,987.50 | 2,030,000.00 | 2,062,987.50 |
| **Total** | **$ 331,802,385.00** | **$ 751,535,000.00** | **$ 1,083,337,385.00** |

(a) Includes scheduled mandatory sinking fund payments.
(b) Represents the remaining debt service requirements from March 1, 2017 through June 30, 2017.

SOURCE: State of California, Office of the Treasurer.

## STATE PUBLIC WORKS BOARD AND OTHER LEASE-REVENUE FINANCING OUTSTANDING ISSUES As of February 1, 2017

| Name of Issue | | Outstanding |
|---|---|---|
| **GENERAL FUND SUPPORTED ISSUES:** | | |
| **State Public Works Board** | | |
| California Community Colleges | $ | 199,180,000 |
| California Department of Corrections and Rehabilitation | | 4,182,550,000 |
| Trustees of the California State University | | 185,850,000 |
| Various State Facilities (a) | | 4,805,295,000 |
| **Total State Public Works Board Issues** | **$** | **9,372,875,000** |
| **Total Other State Facilities Lease-Revenue Issues (b)** | $ | 241,445,000 |
| **Total General Fund Supported Issues** | **$** | **9,614,320,000** |
| **SPECIAL FUND SUPPORTED ISSUES:** | | |
| San Bernardino Joint Powers Financing Authority | | 13,095,000 |
| **Total Special Fund Supported Issues** | **$** | **13,095,000** |
| **TOTAL** | **$** | **9,627,415,000** |

(a) Includes projects that are supported by multiple funding sources in addition to the General Fund.
(b) Includes $71,295,000 Sacramento City Financing Authority Lease-Revenue Refunding Bonds State of California - Cal/EPA Building, 2013 Series A, which are supported by lease rentals from the California Environmental Protection Agency; these rental payments are subject to annual appropriation by the State Legislature.

SOURCE: State of California, Office of the Treasurer.

## SCHEDULE OF DEBT SERVICE REQUIREMENTS
## FOR LEASE-REVENUE DEBT
## Fixed Rate
## As of February 1, 2017

| Fiscal Year Ending June 30 | Current Debt | | |
|---|---|---|---|
| | **Interest (a)** | **Principal** | **Total (b)** |
| 2017 (c) | 239,524,418.68 | 206,200,000.00 | 445,724,418.68 |
| 2018 | 468,177,117.29 | 567,285,000.00 | 1,035,462,117.29 |
| 2019 | 441,371,402.96 | 543,335,000.00 | 984,706,402.96 |
| 2020 | 414,768,589.12 | 531,405,000.00 | 946,173,589.12 |
| 2021 | 389,453,969.63 | 503,435,000.00 | 892,888,969.63 |
| 2022 | 364,717,980.23 | 489,290,000.00 | 854,007,980.23 |
| 2023 | 342,079,123.61 | 445,695,000.00 | 787,774,123.61 |
| 2024 | 320,187,420.97 | 441,980,000.00 | 762,167,420.97 |
| 2025 | 297,943,133.65 | 459,725,000.00 | 757,668,133.65 |
| 2026 | 274,480,523.69 | 473,045,000.00 | 747,525,523.69 |
| 2027 | 250,031,791.07 | 497,460,000.00 | 747,491,791.07 |
| 2028 | 224,731,858.13 | 509,510,000.00 | 734,241,858.13 |
| 2029 | 198,812,210.57 | 475,000,000.00 | 673,812,210.57 |
| 2030 | 174,355,473.38 | 466,340,000.00 | 640,695,473.38 |
| 2031 | 150,383,397.50 | 459,015,000.00 | 609,398,397.50 |
| 2032 | 125,701,929.99 | 466,080,000.00 | 591,781,929.99 |
| 2033 | 102,140,106.99 | 399,610,000.00 | 501,750,106.99 |
| 2034 | 80,024,336.24 | 408,940,000.00 | 488,964,336.24 |
| 2035 | 57,614,051.05 | 380,750,000.00 | 438,364,051.05 |
| 2036 | 39,795,362.50 | 254,245,000.00 | 294,040,362.50 |
| 2037 | 27,779,150.00 | 249,975,000.00 | 277,754,150.00 |
| 2038 | 15,522,100.00 | 179,825,000.00 | 195,347,100.00 |
| 2039 | 7,217,712.50 | 124,310,000.00 | 131,527,712.50 |
| 2040 | 2,078,800.00 | 81,865,000.00 | 83,943,800.00 |
| **Total** | **$ 5,008,891,959.75** | **$ 9,614,320,000.00** | **$ 14,623,211,959.75** |

(a) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(b) Includes scheduled mandatory sinking fund payments.
(c) Represents the remaining debt service requirements from March 1, 2017 through June 30, 2017.

SOURCE: State of California, Office of the Treasurer.

**STATE AGENCY REVENUE BONDS**
**AND CONDUIT FINANCING**
**As of December 31, 2016**

| Issuing Agency | Outstanding[(a)(b)(c)] |
|---|---|
| **State Revenue Bond Financing Programs:** | |
| California Alternative Energy and Advanced Transportation Financing Authority | 2,982,933 |
| California Department of Transportation - GARVEE | 40,345,000 |
| California Earthquake Authority | $310,000,000 |
| California Health Facilities Financing Authority | 58,050,000 |
| California Housing Finance Agency | 2,127,798,002 |
| California Infrastructure and Economic Development Bank | 1,061,740,000 |
| California State University | 4,764,403,000 |
| Department of Water Resources - Central Valley Project | 2,686,190,000 |
| Department of Water Resources - Power Supply Program | 4,621,260,000 |
| The Regents of the University of California | 17,127,070,000 |
| Veterans Revenue Debenture | 386,560,000 |
| **TOTAL** | **33,186,398,935** |
| **Conduit Financing:** | |
| California Alternative Energy and Advanced Transportation Financing Authority | 54,855,869 |
| California Educational Facilities Authority | $4,001,868,942 |
| California Health Facilities Financing Authority | 14,304,990,505 |
| California Housing Finance Agency | 685,348,014 |
| California Infrastructure and Economic Development Bank | 3,936,432,969 |
| California Pollution Control Financing Authority | 3,640,588,322 |
| California School Financing Authority | 824,006,119 |
| **TOTAL** | **27,448,090,740** |

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

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

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

# EXHIBIT 1 TO APPENDIX A

# PENSION SYSTEMS

TABLE OF CONTENTS

## TABLES

## PENSION SYSTEMS

### General

The principal retirement systems in which the state participates or to which it contributes funds are the California Public Employees' Retirement System ("CalPERS") and the California State Teachers' Retirement System ("CalSTRS"). The assets and liabilities of the funds administered by CalPERS and CalSTRS are included in the financial statements of the state as fiduciary funds. A summary description of CalPERS and CalSTRS is set forth in Note 24 (and the Schedule of Funding Progress included in the Required Supplementary Information) to the Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2015. See "FINANCIAL STATEMENTS."

The University of California ("UC") maintains a separate retirement system. The 2017-18 Governor's Budget does not allocate any of UC's appropriation specifically to fund its employer retirement costs, but directs $169 million in one-time Proposition 2 funds to help pay down the unfunded liability of the UC's retirement system. See Table 6.

As described below, the obligation of the state to make payments to CalPERS and CalSTRS to fund retirement benefits constitutes a significant financial obligation. CalPERS and CalSTRS each currently have unfunded liabilities in the tens of billions of dollars. The 2017-18 Governor's Budget reflects both completed and anticipated revisions of economic and/or demographic assumptions by CalPERS and CalSTRS that will increase state pension contributions from the General Fund. The CalPERS Board of Administration made a change to its actuarial assumptions at its December 21, 2016 meeting, consisting of a reduction in the assumed rate of return to 7 percent, phased in over the next three years. On February 1, 2017, the CalSTRS Board also approved revisions to its actuarial assumptions to reduce the assumed rate of return to 7 percent over the next two years. The actions made by both boards will increase state contributions. Retirement-related costs payable from the General Fund are expected to increase in the foreseeable future. The actual amount of such increases will depend on a variety of factors, including but not limited to investment returns, actuarial assumptions, experience, retirement benefit adjustments and, in the case of CalSTRS, statutory changes to contribution levels.

The information in this section relating to CalPERS and CalSTRS is primarily derived from information produced by CalPERS and CalSTRS, their independent accountants and their actuaries. The state has not independently verified the information produced by CalPERS and CalSTRS and makes no representations nor expresses any opinion as to the accuracy of the information produced by CalPERS and CalSTRS.

The comprehensive annual financial reports of CalPERS and CalSTRS are available on their websites at www.calpers.ca.gov and www.calstrs.ca.gov, respectively. The CalPERS and CalSTRS websites also contain the most recent actuarial valuation reports, as well as other information concerning benefits and other matters. Such information is not incorporated by reference herein. The state cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

On June 25, 2012, the Governmental Accounting Standards Board ("GASB") approved two new standards with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new standards are set forth in GASB Statements 67 and 68 which replace GASB Statement 27 and most of GASB Statements 25 and 50. The changes impacted the accounting treatment of pension plans in which state and local governments participate.

While these new accounting standards change financial statement reporting requirements, including a requirement that "net pension liability" be included on state and local government balance sheets, they did not impact funding policies of the pension systems. The impact of new GASB reporting requirements are reflected in the CalPERS and CalSTRS Comprehensive Annual Financial Reports for year ended June 30, 2016.

**Pension Reform**

1. <u>PEPRA</u>

In 2012, the state enacted The Public Employees' Pension Reform Act ("PEPRA"), a comprehensive pension reform package affecting state and local government, which increased the retirement age and lowered retirement benefits for most new state and local government employees hired on or after January 1, 2013. PEPRA also includes provisions to increase current employee contributions. Though PEPRA covers most public employees in state government, cities, counties, special districts, school districts, and community colleges, the following discussion relates only to PEPRA's impact on state employee retirement. PEPRA excludes judges, the University of California, and charter cities with independent pension systems from the new retirement plans; however, newly elected or appointed judges are subject to the new cost-sharing provisions described below.

In a preliminary actuarial analysis in 2012, CalPERS estimated savings to the state of \$10.3 billion to \$12.6 billion over the next 30 years due primarily to increased employee contributions and, as the workforce turns over, lower benefit formulas that will gradually reduce normal costs. Other provisions reduce the risk of the state incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting purchases of additional non-qualified service credit ("air time"). Key changes to retirement plans affecting the state include (1) lower defined-benefit formulas that increase retirement ages; (2) caps imposed on pensionable income for new public employees hired on or after January 1, 2013; and (3) a new standard that new employees must pay for at least 50 percent of the normal costs of their pensions.

Costs for retiree health and dental benefits ("OPEB") are not addressed in PEPRA; however, later retirement ages will reduce OPEB liabilities in the long term. See "STATE FINANCES—Retiree Health Care Costs." Provisions in PEPRA affecting CalSTRS did not change the state's statutory contribution rate. However, potential additional employee contributions, limits on pensionable compensation, and higher retirement ages for new members will reduce pressure on the system's unfunded liabilities and potentially on state contribution levels in the long term.

2. <u>CalSTRS Funding Solution</u>

The funding of the CalSTRS Defined Benefit Plan (the "DB Program") is based on contribution rates set by statute instead of actuarially determined amounts as is done for the CalPERS system. Over time, this has contributed to an underfunding of the DB Program which has been a concern in recent years. As one example, the funding status of the DB Program was identified as a high risk issue in the California State Auditor report 2013-601 dated September 2013 because, as stated in the report, the DB Program assets were projected to be depleted in 31 years (33 years based on the June 30, 2013 CalSTRS Valuation) assuming existing contribution rates continue, and other significant actuarial assumptions are realized.

In 2014, the Legislature enacted AB 1469 (Chapter 47, Statutes of 2014), a comprehensive funding solution intended to eliminate the current CalSTRS unfunded liability on the DB Program by 2046. The plan started modestly in fiscal year 2014-15 and will phase in, providing the state, schools, and teachers sufficient time to prepare for future increases in contributions.

Teacher (member) contributions increased from 8 percent to a total of 10.25 percent of creditable compensation for members not subject to PEPRA and 9.205 percent for members subject to PEPRA, school (employer) contributions have already increased from 8.25 percent on July 1, 2013 to 12.58 percent on July 1, 2016 and are set to increase further each year until reaching a total of 19.1 percent of creditable compensation on July 1, 2020, and the state's total contribution to the DB Program increased from approximately 3.5 percent on July 1, 2014 to 6.3 percent of payroll on July 1, 2016 and thereafter. The CalSTRS Board approved new economic and demographic assumptions at its February 2017 meeting. In anticipation that changes to these assumptions will increase contribution rates, the state contribution for the DB Program for fiscal year 2017-18 has increased by the maximum amount permitted in statute of 0.5 percent, to 6.8 percent, in the 2017-18 Governor's Budget. In addition, the state will continue to pay 2.5 percent of payroll annually for a supplemental inflation protection program—for a total of 9.3 percent. See "CalSTRS—Funding for the DB Program" for more information on the plan.

**CalPERS**

1. <u>General</u>

CalPERS administers a total of 12 funds, including four defined benefit retirement plans: the Public Employees' Retirement Fund ("PERF"), the Legislators' Retirement Fund ("LRF"), the Judges' Retirement Fund ("JRF"), and the Judges' Retirement Fund II ("JRF II"). (These plans, as well as the other plans administered by CalPERS, are described in the comprehensive financial reports of CalPERS, which can be found on CalPERS' website at www.calpers.ca.gov. Such information is not incorporated by reference herein.) The PERF, LRF, JRF, and JRF II are defined benefit pension plans which generally provide benefits based on members' years of service, age, final compensation, and benefit formula. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Certain summary information concerning PERF is set forth below. Certain summary information concerning LRF, JRF, JRF II, and the 1959 Survivor Benefit program (which provides payments to the survivors of eligible members who die before retirement) is set forth at the end of this section.

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

2. Members and Employers

The PERF is a multiple-employer defined benefit retirement fund. In addition to the state, employer participants include more than 3,000 public agencies and school districts. CalPERS acts as the common investment and administrative agent for the member agencies. The state and schools (for "classified employees," which generally consist of school employees other than teachers) are required by law to participate in CalPERS. Other public agencies can elect whether or not to participate in CalPERS or administer their own plans. Members of CalPERS generally become fully vested in their retirement benefits earned to date after five years of credited service. Separate accounts are maintained for each employer participating in CalPERS, and separate actuarial valuations are performed for each individual employer's plan to determine the employer's periodic contribution rate and other information for the individual plan, based on the benefit selected by the employer and the individual plan's proportionate share of CalPERS assets.

Unless otherwise specified, the information relating to CalPERS provided in this section relates only to state employees. State employees include Executive Branch, California State University, Judicial, and Legislature employees.

The following table reflects the number of state employee members of CalPERS as of June 30, 2015 and June 30, 2016.

**TABLE 31**
**CalPERS Membership (State Employees) as of June 30**

| Category | 2015 | 2016 |
|---|---|---|
| Retirees | 186,144 | 196,789 |
| Survivors and Beneficiaries | 32,692 | 35,966 |
| Active Members | 250,959 | 257,960 |
| Inactive Members | 86,845 | 87,755 |
| Total | 556,640 | 578,470 |

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2015 and June 30, 2016.

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

> Miscellaneous Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.
>
> Safety Members – employees whose principal duties are in active law enforcement or fire prevention and suppression work but are not defined as a State Peace Officer/Firefighter Member, or who occupy positions designated by law as Safety Member positions.
>
> State Industrial Members – employees of the California Department of Corrections and Rehabilitation who have the same service retirement and other benefits as Miscellaneous Members, but who also have industrial death and disability benefits under certain limited circumstances.
>
> State Peace Officer/Firefighter Members – employees who are involved in law enforcement, firefighting and fire suppression, public safety, protective services, or the management and supervision thereof, whose positions are defined as State Peace Officer/Firefighter Members in the Government Code or by the Department of Human Resources.
>
> Patrol Members – California Highway Patrol officers and their related supervisors and managers.

3. <u>Retirement Benefits</u>

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

Pension reform legislation signed in 2012 (referred to herein as PEPRA) increased the retirement age for new CalPERS members hired on or after January 1, 2013 (referred to herein as 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). At the June 14, 2016 meeting of the CalPERS Pension and Health Benefits Committee's, an estimate was provided that approximately 29 percent of the active member population would consist of PEPRA members as of June 30, 2016.

The following table shows the amount of pension benefits paid from CalPERS for fiscal years 2010-11 through 2014-15.

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

| Fiscal Year | Benefits Paid |
|---|---|
| 2010-11 | $6,017 |
| 2011-12 | 6,711 |
| 2012-13 | 6,935 |
| 2013-14 | 7,410 |
| 2014-15 | 7,859 |

Source: CalPERS State and Schools Actuarial Valuation for fiscal years ended June 30, 2011 through June 30, 2012; State Actuarial Valuation for Fiscal Years Ended June 30, 2013 through June 30, 2015.

4. Member and State Contributions

The pension benefits for state employees in CalPERS are funded by contributions from members, the state, and 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 2017-18 Governor's Budget includes the following employer contribution rates:

| | Contribution Rates |
|---|---|
| State Miscellaneous Tier 1 | 28.9% |
| California State University, Miscellaneous Tier 1 | 28.9 |
| State Miscellaneous Tier 2 | 28.9 |
| State Industrial | 21.9 |
| State Safety | 21.4 |
| State Peace Officers & Firefighters | 45.1 |
| California State University, Peace Officers and Firefighters | 45.1 |
| California Highway Patrol | 53.5 |

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

**TABLE 33**
**State Contributions to PERF, including CSU**
**(Dollars in Millions)**

| Fiscal Year | State Employees All Funds | State Employees General Fund | CSU Employees All Funds | CSU General Fund | Total Contributions | Total General Fund |
|---|---|---|---|---|---|---|
| 2013-14 | $3,219 | $1,645 | $474 | $474 | $3,693 | $2,118 |
| 2014-15 | 4,042 | 2,120 | 543 | 543 | 4,584 | 2,662 |
| 2015-16 | 4,338 | 2,281 | 585 | 584 | 4,922 | 2,866 |
| 2016-17[a] | 4,754 | 2,506 | 621 | 621 | 5,375 | 3,128 |
| 2017-18[a] | 5,278 | 2,783 | 672 | 672 | 5,950 | 3,455 |

[a] Estimated contributions.

Note: Totals may not add due to rounding effects.

Source: State of California, Department of Finance.

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. The CalPERS Board has voted to lower its assumed rate of return from 7.5 to 7.0 percent over three years, which will result in contribution increases for employers and some employees. The reduction of the discount rate results in additional state contributions of approximately $172 million ($105 million General Fund) in 2017-18, increasing to $2 billion ($1.1 billion General Fund) when the discount rate changes are fully implemented. Total state pension contributions are expected to reach $9.7 billion ($5.6 billion General Fund) by 2023-24 due to changes in the discount rate, scheduled contribution increases under existing funding policies, and payroll growth.

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, taking into consideration, among other things, the latest actuarial valuation. Additional information concerning CalPERS investments can be found on the CalPERS website.

The following tables set forth the total return on all assets for PERF for the fiscal years ending June 30, 2007 through June 30, 2016, as well as time-weighted average returns.

**TABLE 34**
**CalPERS Investment Results Based On Market Value**

| Fiscal Year | Annualized Rate of Return |
|---|---|
| 2006-07 | 19.1% |
| 2007-08 | (5.1) |
| 2008-09 | (24.0) |
| 2009-10 | 13.3 |
| 2010-11 | 21.7 |
| 2011-12 | 0.1 |
| 2012-13 | 13.2 |
| 2013-14 | 18.4 |
| 2014-15 | 2.4 |
| 2015-16 | 0.6 |

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2007 through June 30, 2016.

**TABLE 35**
**PERF Time-Weighted Average Returns as of June 30, 2016**

| Period | Time Weighted Average Rate of Return |
|---|---|
| 3 years | 6.9% |
| 5 years | 6.8 |
| 10 years | 5.1 |
| 20 years | 7.03 |

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2016; Legislative Report: CalPERS CIO Performance Report for Fiscal Year ended June 30, 2016.

All four rates are below 7.5 percent, CalPERS' former actuarially assumed rate of return. In order to more accurately reflect investment expectations given the current environment, the CalPERS Board of Administration voted at its December 21, 2016 meeting to phase to a 7 percent assumed rate of return over the next three years.

CalPERS has publicly indicated that it expects actual investment returns in the next ten year period will be less than the 7.0 percent rate of return. Actual investment returns lower than the actuarially assumed level will result in decreased funding status, and increased actuarially required contributions.

7. Actuarial Methods and Assumptions

The total cost CalPERS incurs to provide benefits includes administrative expenses. All of these costs are funded through contributions to the PERF and investment earnings on PERF's assets. CalPERS' 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 2014 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 the fiscal years ended June 30, 2012 through June 30, 2015.

In December 2016, the CalPERS Board lowered the discount rate to be phased in over three years: for fiscal year 2017-18 to a rate of 7.375 percent, for fiscal year 2018-19 to a rate of 7.25 percent, and for fiscal year 2019-20 to a rate of 7 percent. The impact on the contribution rates will be phased-in for the state beginning in 2017-18.

**TABLE 36**
**Actuarial Assumptions—PERF**

| | Fiscal Year | | | |
|---|---|---|---|---|
| **Assumption** | **2011-12** | **2012-13** | **2013-14** | **2014-15** |
| Investment Returns | 7.50% | 7.50% | 7.50% | 7.50% |
| Inflation | 2.75 | 2.75 | 2.75 | 2.75 |
| Salary Increase (Total Payroll) | 3.00 | 3.00 | 3.00 | 3.00 |

Source: CalPERS State and Schools Actuarial Valuation for fiscal years ended June 30, 2012; State Actuarial Valuation for Fiscal Years Ended June 30, 2013 through June 30, 2015.

On February 20, 2014, the CalPERS Board of Administration adopted new mortality and retirement assumptions as part of a regular review of demographic experience. Key assumption changes included longer post-retirement life expectancy, earlier retirement ages, and higher-than-expected wage growth for State Peace Officers/Firefighters and California Highway Patrol. The impact of the assumption changes is being phased in over three years, with a 20-year amortization, beginning in fiscal year 2014-15.

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.

8. Actuarial Valuation; Determination of Required Contributions

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

A portion of the actuarial valuations performed by CalPERS actuaries are audited each year by an independent actuarial firm. The actuarial valuations specific to state employees are audited every three years. The most recent audit was for the June 30, 2015 actuarial valuation and was completed in December 2016.

The market value of assets measures the value of the assets available in the pension plan to pay benefits and is used to determine the required employer contributions. At the April 16 and 17, 2013 meetings, the CalPERS Board approved a plan to replace the then current 15-year asset-smoothing policy with a 5-year direct-rate smoothing process and replace the then current 30-year rolling amortization of unfunded liabilities with a 30-year fixed amortization period.

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.

In September 2016, CalPERS released the June 30, 2015 State Actuarial Valuation, which shows an increase in state employer contribution rates for fiscal year 2016-17 and a decline in funded status due to less than assumed investment performance, and other demographic factors. The unfunded liability allocable to state employees (excluding judges and elected officials) was $49.6 billion as of June 30, 2015 an increase of $6.3 billion from the June 30, 2014 valuation. The funded ratio decreased to 69.4 percent as of June 30, 2015, as compared to 72.1 percent in the June 30, 2014 valuation.

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

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | **2010-11** | **2011-12** | **2012-13** | **2013-14** | **2014-15** |
| Market Value of Assets (MVA)[(a)] | $91,159 | $88,810 | $97,453 | $111,982 | $112,532 |
| Actuarial Accrued Liabilities | 129,648 | 134,314 | 147,393 | 155,247 | 162,091 |
| Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis | (38,489) | (45,504) | (49,940) | (43,265) | (49,559) |
| Covered Payroll | 16,212 | 15,680 | 15,347 | 16,476 | 17,453 |
| Funded Ratio (MVA) | 70.3% | 66.1% | 66.1% | 72.10% | 69.40% |

(a) Table does not include actuarial value of assets (AVA) because CalPERS no longer measures AVA.

Source: CalPERS State and Schools Actuarial Valuation, Fiscal Year Ended June 30, 2012 and prior years; State Actuarial Valuation, Fiscal Years Ended June 30, 2013 through June 30, 2015.

At the CalPERS Finance and Administration Committee's December 20, 2016 Board meeting, estimates were provided to demonstrate the impact of a reduction in the assumed rate of return to 7.0 percent, effective immediately. It was estimated that a 7.0 percent assumed rate of return would result in a 63.5 percent funded status for the total PERF, which includes state, school, and public agency employees. This estimate does not reflect the CalPERS Board's decision to phase in the 7.0 percent rate over three years, which delays the impact to the funded status.

10. Other Retirement Plans

In addition to PERF, CalPERS also administers JRF, JRF II, LRF, and the 1959 Survivor Benefit program.

In the JRF actuarial reports for the year ended June 30, 2015, CalPERS reported that JRF had an unfunded actuarial liability of approximately $3.3 billion. For the same year, the JRF II and the LRF reported funding surpluses of $2.3 million and $15.7 million, respectively. In the 1959 Survivor Benefit program actuarial report for the year ended June 30, 2015, CalPERS reported that the program had an unfunded actuarial liability of approximately $33.2 million. The state's fiscal year 2017-18 retirement contributions from the General Fund are estimated to be $197 million for JRF and $67 million for JRF II, $4.9 million for the 1959 Survivor Benefit Program, and $1.0 million for LRF.

Further information concerning JRF, JRF II, and LRF can be found in CalPERS' financial reports and actuarial reports and is set forth in Note 24 (and the Schedule of Funding Status included in the Required Supplementary Information) to the Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2016 attached as APPENDIX E to this Official Statement.

**CalSTRS**

1. General

CalSTRS was established under the California Education Code in 1913 to provide benefits to California public school and community college teachers and to certain other employees of the state's public school system (kindergarten through community college). CalSTRS is the administrator of multiple-employer, cost-sharing defined benefit plans, a tax-deferred defined contribution plan, 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 2015 Financial Statements and in this Official Statement as the "DB Program"), the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. Within the DB Program there is also a Supplemental Benefits Maintenance Account (the "SBMA") which provides purchasing power protection for retired members.

The state is not an employer (with certain very limited exceptions) in any of CalSTRS programs but does contribute to the DB Program and the SBMA from its General Fund pursuant to statutes in the Education Code. The DB Program is funded through a combination of investment earnings and statutorily set contributions from three sources: the members of CalSTRS, the employers, and the state. Contribution rates for the members and employers to fund the DB Program are not adjusted to reflect or offset actual investment returns or other factors which affect the funded status of the DB Program. The same is true for the contribution rates for the state. For contributions from employers and the state, the CalSTRS Board was provided limited rate setting authority in 2014 under the provisions of AB 1469.

The SBMA is a separate account within the DB Program that is funded with a combination of investment earnings and statutorily set contributions from the state. The Purchasing Power Protection Program payments for retired members are made only to the extent funds are available in the SBMA and are not a vested benefit. See "Funding for the SBMA."

CalSTRS is administered by a 12-member Teachers' Retirement Board (the "CalSTRS Board") that includes the California Director of Finance, State Controller, State Superintendent of Public Instruction, and the State Treasurer, who serve ex officio. The other CalSTRS Board members serve four-year terms and include three CalSTRS member-elected representatives representing current educators, one retired CalSTRS member, three public representatives, and one school board representative, each appointed by the Governor and confirmed by the Senate.

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

2. Members and Employers

As of June 30, 2016, the DB Program included 1,740 employers. The following table reflects the total number of members in the DB Program as of June 30, 2015 and 2016.

**TABLE 38**
**DB Program Membership**

| Membership | June 30, 2016 | June 30, 2015 |
|---|---|---|
| Active Members | 438,537 | 429,460 |
| Inactive Members | 187,722 | 184,396 |
| Retirees and Beneficiaries | 288,195 | 282,100 |
| **Total** | 914,454 | 895,956 |

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2015 and June 30, 2016.

3. Retirement Benefits

Member benefits are determined by statute in the Education Code and are generally based on a member's age, final compensation, and years of credited service. Members are 100 percent vested in retirement benefits after five years of credited service and are eligible for normal retirement at age 60 and for early retirement at age 55 or at age 50 with 30 years of credited service. The normal retirement benefit is 2 percent of final compensation (as defined in the Education Code) for each year of credited service (up to 2.4 percent of final compensation for members retiring after age 60), and members who retired on or after January 1, 2001 with 30 or more years of service by December 31, 2010 receive monthly bonus payments of up to $400 per month. Pension reform legislation signed in 2012 (referred to herein as PEPRA) increased the retirement age for new CalSTRS members hired on or after January 1, 2013. PEPRA members who retire at age 62 will be eligible for a benefit equal to 2 percent of final compensation for each year of credited service (up to 2.4 percent of final compensation for members retiring after age 62). The PEPRA member population in CalSTRS has been increasing steadily over the last few years. As of June 30, 2016, there were 60,492 active PEPRA members. CalSTRS expects that the number of PEPRA members will total about 80,000 on July 1, 2017, representing about

20 percent of the total active population. CalSTRS expects the percentage to increase to about 30 percent of the total active population by 2020.

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

The following table shows the amount of benefits and administrative expenses paid under the DB Program for the last five fiscal years:

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

| Fiscal Year | Amount of Benefits Paid | Administrative Expenses |
|---|---|---|
| 2010-11 | $9,596 | $104 |
| 2011-12 | 10,208 | 131 |
| 2012-13 | 10,844 | 133 |
| 2013-14[(1)] | 11,414 | 154 |
| 2014-15[(1)] | 11,972 | 146 |

Source: CalSTRS Actuarial Valuations for Fiscal Years ended June 30, 2011 through 2015.

4. Funding for the DB Program

The DB Program is funded with a combination of investment income and contributions from members, employers, and the state. The DB Program is one of the four programs under the State Teachers' Retirement Program (STRP). Although specific amounts vary from year to year, approximately 61 percent of total inflows to the STRP were derived from investment returns, according to CalSTRS. As described below, the contribution rates of the members, employers, and the state are determined by statute in the Education Code instead of actuarially determined amounts as is done for the CalPERS system. Over time, this has contributed to an underfunding of the DB Program which has been a concern in recent years.

On June 24, 2014, the Governor signed AB 1469, a comprehensive long-term funding solution intended to eliminate the current CalSTRS unfunded liability on the DB Program by 2046. The changes in contribution rates for members, employers and the state required by AB 1469 are described below. While the plan is intended to eliminate the unfunded liability of the DB Program by 2046, there is no assurance that it will be eliminated by that date. See "—Prospective Funding Status; Future Contributions" below. Accordingly, there can be no assurances that the required amounts annually payable among the members, employers, and state will not significantly increase in the future.

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

Under AB 1469, member contributions increased over time on July 1, 2014, 2015 and 2016 to the current rate of 10.25 percent for members not subject to PEPRA and to 9.205 percent for members subject to PEPRA. In addition, PEPRA members are required to pay at least one-half the normal cost of their DB Program benefits, and under AB 1469, the contribution rate for PEPRA members should be adjusted if the normal cost increases by more than 1 percent since the last time the member contribution rate was set. The CalSTRS Board adopted changes to its actuarial assumptions at its February 2017 meeting that will likely lead to an increase in the contribution rate for PEPRA members.

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

Under AB 1469, employer contributions have increased, and will continue to increase over time on each July 1 of 2014 through 2020 to 19.1 percent of creditable compensation in fiscal year 2020-21 through fiscal year 2045-46. Beginning in fiscal year 2021-22 through fiscal year 2045-46, AB 1469 authorizes the CalSTRS Board to adjust the employer contribution up or down 1 percentage point each year, but no higher than 20.25 percent total and no lower than 8.25 percent, to eliminate the remaining unfunded obligation that existed on July 1, 2014. Therefore, employers will not be subject to any additional rate increases as a result of the newly adopted actuarial assumptions until fiscal year 2021-22.

*State Contributions*. The state's General Fund contribution to the DB Program is 2.017 percent of creditable compensation from two fiscal years prior. For example, for fiscal year 2011-12, the state's contribution was based on creditable compensation from fiscal year 2009-10. Before fiscal year 2014-15, the state also contributed an additional 0.524 percent of creditable compensation from two fiscal years prior when there is an unfunded obligation or a normal cost deficit exists for benefits in place as of July 1, 1990. Under the prior structure, the percentage was adjusted up to 0.25 percent per year to reflect the contributions required to fund the unfunded obligation or the normal cost deficit. However, the supplemental contribution could not exceed 1.505 percent of creditable compensation from two fiscal years prior.

Under AB 1469, the state increased its supplemental contribution to the July 1, 1990 benefit obligation on a phased basis over a three year period. Starting in fiscal year 2014-15, the supplemental contribution increased to 1.437 percent, in fiscal year 2015-16 it increased to 2.874 percent, and in fiscal year 2016-17 it increased to 4.311 percent. Beginning fiscal year 2017-18 through fiscal year 2045-46, the CalSTRS Board is authorized to adjust the supplemental state contribution up 0.50 percent each year to eliminate the unfunded obligation for benefits in place as of July 1, 1990. If there is no unfunded obligation, the supplemental contribution shall be reduced to zero.

In anticipation of the new actuarial assumptions the CalSTRS Board approved at its February 2017 meeting, the 2017-18 Governor's Budget increased the fiscal year 2017-18 state contribution to the DB Program by the statutory maximum amount of 0.5 percent, to 6.8 percent.

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

5. Change in Accounting Standards

The 2016 CalSTRS Financial Statements were prepared in accordance with GASB Statement 67. GASB Statement 67 impacts the financial reporting requirements for CalSTRS but does not change the funding requirements for members, employers, or the state. The 2016 CalSTRS Financial Statements are available on the CalSTRS website at www.calstrs.ca.gov.

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 2016 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, 2016 (which is available on the CalSTRS website at www.calstrs.ca.gov), 36.28 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 37.65% or $22 billion as of the June 30, 2014 measurement date pursuant to the state's 2015 financial statements.

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 also determined by statute in the Education Code. The

Purchasing Power Protection Program funded from the SBMA provides quarterly payments to retired and disabled members and beneficiaries to restore purchasing power to beneficiaries if the purchasing power of their initial retirement or disability allowances have fallen below a specified percentage. The Purchasing Power Protection Program payments are made only to the extent funds are available in the SBMA and are not a vested benefit.

The state's General Fund contribution to the SBMA is 2.5 percent of creditable compensation of the fiscal year ending in the prior calendar year, less $70 million for the fiscal year ended June 30, 2010, $71 million for the fiscal year ended June 30, 2011 and $72 million thereafter.

The following table displays the total state contributions to CalSTRS for the DB Program, SBMA, and the additional Pre-1990 Defined Benefit supplemental payments made pursuant to AB 1469.

**TABLE 40**
**Schedule of General Fund Contributions from the State**

**(Dollars in Millions)**

| Fiscal Year | DB PROGRAM | SBMA | Pre-1990 DB | Total |
|---|---|---|---|---|
| 2013-14 | $527 | $581 | $252 | $1,360 |
| 2014-15[a] | 528 | 582 | 376 | 1,486 |
| 2015-16 | 548 | 607 | 781 | 1,936 |
| 2016-17 | 581 | 649 | 1,243 | 2,473 |
| 2017-18 | 618 | 694 | 1,474 | 2,787 |

[a] Beginning in 2014-15, the state increased payments to the Pre-1990 Defined Benefit pursuant to AB 1469.
Source: State of California, Department of Finance

7. Actuarial Methods and Assumptions

Although contributions are set by statute, CalSTRS retains an independent actuary (the "CalSTRS Consulting Actuary") that prepares annual actuarial valuation reports of the DB Program. The CalSTRS Consulting Actuary also prepares reports reviewing the DB Program's actual experience every four years. The CalSTRS Board uses experience reports to evaluate how realistic the long-term assumptions have been and may be in the future. The most recent valuation report for the DB Program, dated March 22, 2016 (the "2015 CalSTRS Valuation"), was prepared as of June 30, 2015, and is available on the CalSTRS website. The actuarial assumptions and methods used in the 2015 CalSTRS Valuation were based on the experience report prepared by the CalSTRS Consulting Actuary in February 2012. In December 2016, the CalSTRS Consulting Actuary prepared the most recent experience report and recommended the changes in actuarial assumptions described below. The CalSTRS Board adopted these recommended changes at its February 2017 meeting. The newly adopted assumptions will be used in the valuation report for the DB Program to be prepared as of June 30, 2016, and are expected to be adopted by the CalSTRS Board at its April 2017 meeting.

In preparing the 2015 CalSTRS Valuation, the CalSTRS Consulting Actuary used the Entry Age Actuarial Cost Method to measure the accruing costs of benefits under the DB Program. GASB Statements 67 and 68 require all state and local governments with pension liabilities to use the Entry Age Actuarial Cost Method beginning in fiscal year 2014-15 if they are not already doing so. Under the Entry Age Actuarial Cost Method, the actuarial present value of projected benefits of each individual is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. The portion of the actuarial present value allocated to the valuation year is called the normal cost and represents the cost assigned to a member for a given year, such that it would meet the continuing costs of a particular benefit if contributed each year starting with the date of membership. The CalSTRS Consulting Actuary notes that the Entry Age Actuarial Cost Method is designed to produce a normal cost rate that remains a level percentage of earned salaries and that the normal cost rate is expected to remain fairly stable so long as the benefit provisions are not amended, the assumptions are not changed, membership experience emerges as assumed, and the demographic characteristics of the membership remain reasonably consistent. Some of the key demographic information taken into account includes assumptions about membership, service retirements, disability retirements, deaths, and merit salary increases, and some of the economic items include assumptions about inflation and wage growth.

The portion of the actuarial value of benefits not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial obligation, and the excess, if any, of the actuarial obligation over the actuarial value of assets is the unfunded actuarial obligation. Assumptions about how long benefits will be paid for active and inactive members and when such members will retire and how long they will live are required in calculating the actuarial obligation, and economic assumptions and valuation methods are required in valuing assets. The following table sets forth certain actuarial methods and assumptions for the four fiscal years ended June 30, 2016.

**TABLE 41**
**Actuarial Methods and Assumptions - DB Program**

| | Fiscal Year | | | |
|---|---|---|---|---|
| **Methods** | **2012-13** | **2013-14** | **2014-15** | **2015-16** |
| Actuarial Cost Method | Entry age normal | Entry age normal | Entry age normal | Entry age normal |
| Amortization Method | Level Percent of payroll | Level Percent of payroll | Level Percent of payroll | Level Percent of payroll |
| Amortization Period | Open | Open | Closed | Closed |
| Remaining Amortization Period | 30 years | 30 years | 32 years | 31 years |
| Asset Valuation Method | Expected value with 33% adjustment to market value | Expected value with 33% adjustment to market value | Adjustment to market value | Adjustment to market value |
| **Actuarial Assumptions** | | | | |
| Investment Rate of Return | 7.50% | 7.50% | 7.50% | 7.50% |
| Interest on Accounts | 4.50 | 4.50 | 4.50 | 4.50 |
| Wage Growth | 3.75 | 3.75 | 3.75 | 3.75 |
| Consumer Price Inflation | 3.00 | 3.00 | 3.00 | 3.00 |
| Post-retirement Benefit Increases | 2.00 (simple) | 2.00 (simple) | 2.00 (simple) | 2.00 (simple) |

Source: CalSTRS Comprehensive Annual Financial Reports for Fiscal Years ended June 30, 2013, 2014, 2015 and 2016.

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 with the June 30, 2016 valuation and to 7.00 percent effective with the June 30, 2017 valuation. For financial reporting purposes, CalSTRS is expected to implement the 7.00 percent assumed return for their financial statements for the period ending June 30, 2017. In addition, the CalSTRS Board approved several changes to demographic assumptions, which the most significant change being the mortality assumption. These changes generally create additional funding pressures on the DB Plan.

8. Actuarial Valuation

According to CalSTRS and as reflected in the 2015 CalSTRS Valuation, the biggest source of funding of the DB Program is investment returns, and 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 3.0 percent.

Actual market returns are taken into account but to reduce rate volatility, actual market gains and losses are spread or "smoothed" over a three-year period. That is, one third of the difference between the expected actuarial value of assets and the fair market value of assets is taken into account to determine the actuarial value of assets. According to the 2015 CalSTRS Valuation, due to the asset smoothing method, approximately one-third of the approximately $3.6 billion investment gain has not been recognized (the difference between the AVA and MVA in Table 36 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 | | | | |
|---|---|---|---|---|---|
| | **2010-11** | **2011-12** | **2012-13** | **2013-14**[a] | **2014-15**[a] |
| Market Value of Assets (MVA)) | $140,040 | $134,835 | $147,907 | $169,406 | $169,127 |
| Actuarial Value of Assets (AVA) | 143,930 | 144,232 | 148,614 | 158,495 | 165,553 |
| Actuarial Accrued Liabilities (AAL)-entry age | 208,405 | 215,189 | 222,281 | 231,213 | 241,753 |
| Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis[a] | -68,365 | -80,354 | -74,374 | -61,807 | -72,626 |
| Excess of Actuarial Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) AVA Basis | -64,475 | -70,957 | -73,667 | -72,718 | -76,200 |
| Covered Payroll | 25,576 | 25,388 | 25,479 | 26,470 | 28,013 |
| Funded Ratio (MVA) | 67% | 63% | 67% | 73% | 70% |
| Funded Ratio (AVA) | 69% | 67% | 67% | 69% | 69% |

(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 and 2015 CalSTRS Valuation.

Source: CalSTRS Actuarial Valuations for Fiscal Years ended June 30, 2011 through 2015.

The new actuarial assumptions adopted at the CalSTRS Board February 2017 meeting, combined with recent investment performance, is estimated to reduce the funded ratio to 64 percent as of June 30, 2016 under a 7.25 percent return assumption. Under a 7.00 percent return assumption, the funded ratio would be about 62 percent as of June 30, 2016.

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The market value of the entire DB Program investment portfolio (including the SBMA assets) was $180.6 billion as of June 30, 2015, an increase from $179.7 billion (or 0.5 percent) on June 30, 2014.

10. Prospective Funding Status; Future Contributions

The CalSTRS Consulting Actuary concluded in the 2013 CalSTRS Valuation (prior to the enactment of AB 1469) that the unfunded actuarial obligation of the DB Program will not be amortized over any future period and that the DB Program is projected to have its assets depleted in about 33 years. As mentioned above, in 2014, the Governor signed AB 1469, a comprehensive funding solution intended to eliminate the 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 above.

Due to the changes made to actuarial assumptions by the CalSTRS Board in February 2017, the state contribution rate will increase by 0.5 percent of payroll effective July 1, 2017 (as already assumed by the 2017-18 Governor's Budget) and could continue to increase annually by up to 0.5 percent in each of the next five years, or longer. The 2017-18 Governor's Budget includes $2.8 billion General Fund for 2017-18 state contributions to CalSTRS. CalSTRS' reduced assumed rate of return results in an approximately $153 million increase in General Fund contributions for 2017-18.

According to the 2015 CalSTRS Valuation, future revenues from contributions and appropriations for the DB Program are projected to be sufficient to finance its obligation by 2046. The 2016 CalSTRS Valuation, which includes the recently adopted actuarial assumptions, will revisit this information to determine projections on the DB Program's obligation.

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, taking into consideration the latest actuarial study. CalSTRS follows strategic allocation guidelines that identify targets for the percentage of funds to be invested in each asset class. These targets are typically implemented over a period of several years. Additional information concerning CalSTRS investments can be found on the CalSTRS website.

The following table sets forth the total return on all CalSTRS' assets (including the DB Program assets) for the fiscal years ended June 30, 2005 through June 30, 2016, as well as time-weighted average returns.

**TABLE 43**
**CalSTRS Investment Results Based On Market Value**

| Fiscal Year | Annualized Rate of Gross Return |
|---|---|
| 2006-07 | 21.03% |
| 2007-08 | (3.69) |
| 2008-09 | (25.03) |
| 2009-10 | 12.20 |
| 2010-11 | 23.10 |
| 2011-12 | 1.84 |
| 2012-13 | 13.80 |
| 2013-14 | 18.66 |
| 2014-15 | 4.77 |
| 2015-16 | 1.35 |

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2016.

**TABLE 44**
**CalSTRS Time-Weighted Gross Returns as of June 30, 2016**

| Period | Time-Weighted Rate of Return |
|---|---|
| 3 years | 7.81% |
| 5 years | 7.65 |
| 10 years | 5.59 |
| 20 years | 7.06 |

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2016.

The 10-year and 20-year rates of return fall below the CalSTRS' former actuarially assumed 7.5 percent rate of return. The CalSTRS Board reduced the assumed rate of return to 7.0 percent at its February 2017 meeting.

**June 2016**

# STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

**BETTY T. YEE**

California State Controller

BETTY T. YEE
California State Controller

July 11, 2016

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2015, through June 30, 2016. This statement reflects the State of California's General Fund cash position, and compares actual receipts and disbursements for the 2015-16 fiscal year to cash flow estimates prepared by the Department of Finance (DOF) for the 2015-16 Budget Act. The statement is prepared in compliance with Provision 5 of Budget Act item 0840-001-0001, using records compiled by the State Controller. Prior-year actual amounts are also displayed for comparative purposes.

Attachment A compares actual receipts and disbursements for the 2015-16 fiscal year to cash flow estimates published in the 2016-17 May Revision Budget. These cash flow estimates are predicated on projections and assumptions made by DOF in preparation of the 2016-17 May Revision Budget.

Attachment B compares actual receipts and disbursements for the 2015-16 fiscal year to cash flow estimates prepared by DOF based upon the 2015-16 Budget Act.

These statements also are available on the State Controller's website at www.sco.ca.gov under the category Monthly Financial Reports.

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

Sincerely,
*Originally signed by:*

BETTY T. YEE


300 Capitol Mall, Suite 1850, Sacramento, CA 95814 P.O. Box 942850, Sacramento, CA 94250 Fax: (916) 322-4404
www.sco.ca.gov

**STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS**
**A Comparison of Actual to 2016-17 May Revision Estimates**
**(Amounts in thousands)**

| | July 1 through June 30 2016 Actual | Estimate (a) | Actual Over or (Under) Estimate Amount | % | 2015 Actual |
|---|---|---|---|---|---|
| **GENERAL FUND BEGINNING CASH BALANCE** | **$ 2,529,412** | **$ 2,529,412** | **$ -** | **-** | **$ 1,921,629** |
| Add Receipts: | | | | | |
| Revenues | 118,759,207 | 119,438,080 | (678,873) | (0.6) | 114,277,777 |
| Nonrevenues | 1,658,182 | 1,612,640 | 45,542 | 2.8 | 2,107,803 |
| Total Receipts | 120,417,389 | 121,050,720 | (633,331) | (0.5) | 116,385,580 |
| Less Disbursements: | | | | | |
| State Operations | 30,468,330 | 31,058,990 | (590,660) | (1.9) | 30,505,865 |
| Local Assistance | 88,920,162 | 89,771,622 | (851,460) | (0.9) | 82,217,873 |
| Capital Outlay | 146,543 | 173,081 | (26,538) | (15.3) | 164,063 |
| Nongovernmental | 4,057,982 | 4,118,856 | (60,874) | (1.5) | 2,889,996 |
| Total Disbursements | 123,593,017 | 125,122,549 | (1,529,532) | (1.2) | 115,777,797 |
| Receipts Over / (Under) Disbursements | (3,175,628) | (4,071,829) | 896,201 | (22.0) | 607,783 |
| Net Increase / (Decrease) in Temporary Loans | 646,216 | 1,542,417 | (896,201) | (58.1) | - |
| **GENERAL FUND ENDING CASH BALANCE** | - | - | - | | 2,529,412 |
| Special Fund for Economic Uncertainties | - | - | - | - | 449,700 |
| **TOTAL CASH** | $ - | $ - | $ - | | $ 2,979,112 |

| **BORROWABLE RESOURCES** | | | | | |
|---|---|---|---|---|---|
| Available Borrowable Resources | $ 35,865,487 | $ 32,387,366 | $ 3,478,121 | 10.7 | $ 28,291,332 |
| Outstanding Loans (b) | 646,216 | 1,542,417 | (896,201) | (58.1) | - |
| Unused Borrowable Resources | $ 35,219,271 | $ 30,844,949 | $ 4,374,322 | 14.2 | $ 28,291,332 |

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 2015-16 fiscal year was prepared by the Department of Finance for the 2016-17 May Revision. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $646.2 million is comprised of $646.2 million of internal borrowing. Current balance is comprised of $0.0 million carried forward from June 30, 2015, plus current year Net Increase/(Decrease) in Temporary Loans of $646.2 million.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.
(e) The 2016-17 Governor's Budget reclassified California State University Retiree Health Benefits expenses as a General Government disbursement to better align retiree health and dental care spending. Prior to February 2016, reported actuals and Budget Act estimates reflect these state operation expenses as a State Universities and Colleges expense.

**SCHEDULE OF CASH RECEIPTS**
(Amounts in thousands)

| | Month of June | | July 1 through June 30 | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2016 | | | | 2015 |
| | 2016 | 2015 | Actual | Estimate (a) | Actual Over or (Under) Estimate Amount | % | Actual |
| **REVENUES** | | | | | | | |
| Alcoholic Beverage Excise Tax | $ 32,994 | $ 57,251 | $ 366,046 | $ 370,306 | $ (4,260) | (1.2) | $ 386,125 |
| Corporation Tax | 2,462,822 | 2,653,896 | 9,690,219 | 9,946,219 | (256,000) | (2.6) | 10,254,954 |
| Cigarette Tax | 6,706 | 7,036 | 84,787 | 86,856 | (2,069) | (2.4) | 92,281 |
| Estate, Inheritance, and Gift Tax | 8 | 356 | 2,369 | 1,580 | 789 | 49.9 | 3,466 |
| Insurance Companies Tax | 329,677 | 328,667 | 2,567,453 | 2,485,932 | 81,521 | 3.3 | 2,450,009 |
| Personal Income Tax | 10,326,820 | 10,916,594 | 79,437,856 | 79,968,477 | (530,621) | (0.7) | 76,268,212 |
| Retail Sales and Use Taxes | 2,354,274 | 2,180,314 | 24,788,981 | 24,868,212 | (79,231) | (0.3) | 23,241,632 |
| Vehicle License Fees | 1 | 5 | 24 | 22 | 2 | 9.1 | 157 |
| Pooled Money Investment Interest | 5,914 | 4,518 | 34,370 | 34,309 | 61 | 0.2 | 18,374 |
| Not Otherwise Classified | 667,088 | 618,575 | 1,787,102 | 1,676,167 | 110,935 | 6.6 | 1,562,567 |
| **Total Revenues** | **16,186,304** | **16,767,212** | **118,759,207** | **119,438,080** | **(678,873)** | **(0.6)** | **114,277,777** |
| **NONREVENUES** | | | | | | | |
| Transfers from Special Fund for Economic Uncertainties | - | - | 138,000 | 138,000 | - | - | 621,400 |
| Transfers from Other Funds | 18,014 | 24,047 | 438,053 | 416,076 | 21,977 | 5.3 | 415,465 |
| Miscellaneous | 56,057 | 8,847 | 1,082,129 | 1,058,564 | 23,565 | 2.2 | 1,070,938 |
| **Total Nonrevenues** | **74,071** | **32,894** | **1,658,182** | **1,612,640** | **45,542** | **2.8** | **2,107,803** |
| **Total Receipts** | **$ 16,260,375** | **$ 16,800,106** | **$ 120,417,389** | **$ 121,050,720** | **$ (633,331)** | **(0.5)** | **$ 116,385,580** |

See notes on page A1.

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

| | Month of June | | July 1 through June 30 | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2016 | | | | 2015 |
| | 2016 | 2015 | Actual | Estimate (a) | Actual Over or (Under) Estimate Amount | % | Actual |
| **STATE OPERATIONS (c)** | | | | | | | |
| Legislative/Judicial/Executive | $ 75,671 | $ 93,912 | $ 1,395,302 | $ 1,463,910 | $ (68,608) | (4.7) | $ 1,422,382 |
| Business, Consumer Services and Housing | 1,811 | 255 | 21,766 | 21,683 | 83 | 0.4 | 18,867 |
| Transportation | - | 5 | 7 | 6 | 1 | 16.7 | 49 |
| Resources | 93,522 | 3,262 | 1,799,620 | 1,670,726 | 128,894 | 7.7 | 1,245,744 |
| Environmental Protection Agency | 4,996 | 9,870 | 49,831 | 246,422 | (196,591) | (79.8) | 47,895 |
| Health and Human Services: | | | | | | | |
| Health Care Services and Public Health | 1,135 | 2,891 | 257,733 | 272,142 | (14,409) | (5.3) | 243,006 |
| Department of State Hospitals | 114,144 | 120,207 | 1,588,381 | 1,581,587 | 6,794 | 0.4 | 1,530,646 |
| Other Health and Human Services | 20,552 | 20,507 | 589,121 | 642,144 | (53,023) | (8.3) | 544,522 |
| Education: | | | | | | | |
| University of California | 24,339 | - | 3,258,870 | 3,258,993 | (123) | (0.0) | 2,990,656 |
| State Universities and Colleges | 27,478 | 74,958 | 3,011,334 (e) | 3,209,610 | (198,276) | (6.2) | 2,998,093 |
| Other Education | 15,359 | 13,497 | 209,832 | 219,397 | (9,565) | (4.4) | 193,214 |
| Dept. of Corrections and Rehabilitation | 802,203 | 776,569 | 9,870,976 | 10,074,852 | (203,876) | (2.0) | 9,654,294 |
| Governmental Operations | 63,078 | 77,252 | 761,128 | 761,207 | (79) | (0.0) | 757,198 |
| General Government | 182,779 | 189,635 | 2,642,317 (e) | 2,673,137 | (30,820) | (1.2) | 3,979,119 |
| Public Employees Retirement System | (215,546) | (199,955) | (35,624) | (21,864) | (13,760) | 62.9 | (102,743) |
| Debt Service (d) | 87,330 | 199,171 | 4,977,333 | 4,909,820 | 67,513 | 1.4 | 4,946,112 |
| Interest on Loans | 43,031 | 47,570 | 70,403 | 75,218 | (4,815) | (6.4) | 36,811 |
| **Total State Operations** | **1,341,882** | **1,429,606** | **30,468,330** | **31,058,990** | **(590,660)** | **(1.9)** | **30,505,865** |
| **LOCAL ASSISTANCE (c)** | | | | | | | |
| Public Schools - K-12 | 4,473,566 | 3,992,548 | 46,919,883 | 47,854,119 | (934,236) | (2.0) | 44,235,987 |
| Community Colleges | 480,139 | 471,904 | 5,798,568 | 5,797,596 | 972 | 0.0 | 4,862,623 |
| Debt Service-School Building Bonds | - | - | - | (83) | 83 | (100.0) | - |
| Contributions to State Teachers' Retirement System | - | - | 1,935,287 | 1,935,287 | - | - | 1,486,004 |
| Other Education | 39,103 | 28,564 | 2,667,261 | 2,685,577 | (18,316) | (0.7) | 2,489,056 |
| School Facilities Aid | - | - | - | 83 | (83) | (100.0) | - |
| Dept. of Corrections and Rehabilitation | 867 | 3,187 | 200,516 | 200,068 | 448 | 0.2 | 215,106 |
| Dept. of Alcohol and Drug Program | - | - | - | - | - | - | 210 |
| Health Care Services and Public Health: | | | | | | | |
| Medical Assistance Program | 705,388 | 1,365,163 | 17,764,600 | 17,456,648 | 307,952 | 1.8 | 17,064,401 |
| Other Health Care Services/Public Health | 31,733 | 80,239 | 230,103 | 327,002 | (96,899) | (29.6) | 213,566 |
| Developmental Services - Regional Centers | 70,384 | 56,860 | 3,163,097 | 3,210,940 | (47,843) | (1.5) | 2,862,614 |
| Department of State Hospitals | - | - | - | - | - | - | - |
| Dept. of Social Services: | | | | | | | |
| SSI/SSP/IHSS | 507,813 | 331,141 | 5,806,217 | 6,006,467 | (200,250) | (3.3) | 4,802,967 |
| CalWORKs | (16,890) | 1,156 | 916,979 | 933,194 | (16,215) | (1.7) | 318,900 |
| Other Social Services | 69,444 | 16,640 | 794,459 | 783,104 | 11,355 | 1.4 | 735,344 |
| Tax Relief | - | 500 | 413,953 | 431,656 | (17,703) | (4.1) | 416,755 |
| Other Local Assistance | 149,335 | 663,522 | 2,309,239 | 2,149,964 | 159,275 | 7.4 | 2,514,340 |
| **Total Local Assistance** | **6,510,882** | **7,011,424** | **88,920,162** | **89,771,622** | **(851,460)** | **(0.9)** | **82,217,873** |

See notes on page A1.

(Continued)

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

| | Month of June | | July 1 through June 30 | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2016 | | | | 2015 |
| | | | | | Actual Over or (Under) Estimate | | |
| | 2016 | 2015 | Actual | Estimate (a) | Amount | % | Actual |
| **CAPITAL OUTLAY** | **2,806** | **4,197** | **146,543** | **173,081** | **(26,538)** | **(15.3)** | **164,063** |
| **NONGOVERNMENTAL (c)** | | | | | | | |
| Transfer to Special Fund for Economic Uncertainties | - | - | 804,000 | 804,000 | - | - | - |
| Transfer to Budget Stabilization Account | - | - | 1,854,000 | 1,854,000 | - | - | 1,606,422 |
| Transfer to Other Funds | 1,355,397 | 414,998 | 1,392,448 | 1,385,017 | 7,431 | 0.5 | 1,353,449 |
| Transfer to Revolving Fund | (5,244) | (12,237) | 11,045 | 6,455 | 4,590 | 71.1 | (5,729) |
| Advance: | | | | | | | |
| MediCal Provider Interim Payment | - | (1,000,000) | - | - | - | - | - |
| State-County Property Tax Administration Program | (19,124) | (19,331) | 796 | 37,443 | (36,647) | (97.9) | 2,981 |
| Social Welfare Federal Fund | 11,123 | 29,000 | (16,331) | 2,545 | (18,876) | (741.7) | (88,170) |
| Local Governmental Entities | - | - | (1,188) | (1,188) | - | - | (1,161) |
| Tax Relief and Refund Account | - | - | - | - | - | - | - |
| Counties for Social Welfare | 318,028 | 304,816 | 13,212 | 30,584 | (17,372) | (56.8) | 22,204 |
| **Total Nongovernmental** | **1,660,180** | **(282,754)** | **4,057,982** | **4,118,856** | **(60,874)** | (1.5) | **2,889,996** |
| **Total Disbursements** | **$ 9,515,750** | **$ 8,162,473** | **$ 123,593,017** | **$ 125,122,549** | **$ (1,529,532)** | **(1.2)** | **$ 115,777,797** |
| **TEMPORARY LOANS** | | | | | | | |
| Special Fund for Economic Uncertainties | $ (1,115,700) | $ (449,700) | $ - | $ 1,115,700 | $ (1,115,700) | (100.0) | $ - |
| Budget Stabilization Account | (2,814,322) | (1,606,422) | 646,100 | 426,717 | 219,383 | 51.4 | - |
| Outstanding Registered Warrants Account | - | - | - | - | - | - | - |
| Other Internal Sources | (2,814,603) | (1,252,099) | 116 | - | 116 | - | - |
| Revenue Anticipation Notes | - | (2,800,000) | - | - | - | - | - |
| Net Increase / (Decrease) Loans | **(6,744,625)** | **$ (6,108,221)** | **$ 646,216** | **$ 1,542,417** | **$ (896,201)** | **(58.1)** | **$ -** |

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** | |
| | 2016 | 2015 | 2016 | 2015 |
| **MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:** | | | | |
| Alcoholic Beverage Excise Taxes | $ 366,046 | $ 386,125 | $ - | $ - |
| Corporation Tax | 9,690,219 | 10,254,954 | - | - |
| Cigarette Tax | 84,787 | 92,281 | 742,614 | 800,670 |
| Estate, Inheritance, and Gift Tax | 2,369 | 3,466 | - | - |
| Insurance Companies Tax | 2,567,453 | 2,450,009 | 1,389,920 | 1,546,994 |
| Motor Vehicle Fuel Tax: | | | | |
| Gasoline Tax | - | - | 4,567,303 | 5,412,357 |
| Diesel & Liquid Petroleum Gas | - | - | 429,076 | 358,310 |
| Jet Fuel Tax | - | - | 2,944 | 2,779 |
| Vehicle License Fees | 24 | 157 | 2,506,862 | 2,300,506 |
| Motor Vehicle Registration and Other Fees | - | - | 4,427,225 | 4,280,707 |
| Personal Income Tax | 79,437,856 | 76,268,212 | 1,426,404 | 1,367,033 |
| Retail Sales and Use Taxes | 24,788,981 | 23,241,632 | 14,383,869 | 14,854,858 |
| Pooled Money Investment Interest | 34,370 | 18,374 | 194 | 180 |
| **Total Major Taxes, Licenses, and Investment Income** | **116,972,105** | **112,715,210** | **29,876,411** | **30,924,394** |
| **NOT OTHERWISE CLASSIFIED:** | | | | |
| Alcoholic Beverage License Fee | 2,416 | 2,924 | (2,416) | 52,813 |
| Electrical Energy Tax | - | - | 725,997 | 624,491 |
| Private Rail Car Tax | 9,868 | 8,924 | - | - |
| Penalties on Traffic Violations | - | - | 60,455 | 68,842 |
| Health Care Receipts | 11,429 | 11,243 | - | - |
| Revenues from State Lands | 76,358 | 271,595 | - | - |
| Abandoned Property | 394,234 | 367,563 | - | - |
| Trial Court Revenues | 41,655 | 46,745 | 1,546,331 | 1,599,661 |
| Horse Racing Fees | 1,090 | 1,155 | 13,116 | 12,764 |
| Cap and Trade | - | - | 1,829,135 | 1,490,776 |
| Miscellaneous | 1,250,052 | 852,418 | 12,388,326 | 12,453,281 |
| Not Otherwise Classified | **1,787,102** | **1,562,567** | **16,560,944** | **16,302,628** |
| **Total Revenues, All Governmental Cost Funds** | **$ 118,759,207** | **$ 114,277,777** | **$ 46,437,355** | **$ 47,227,022** |

See notes on page A1.

**STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS**
**A Comparison of Actual to 2015-16 Budget Act**
**(Amounts in thousands)**

| | July 1 through June 30 | | | | |
|---|---|---|---|---|---|
| | 2016 | | | | 2015 |
| | Actual | Estimate (a) | Actual Over or (Under) Estimate Amount | % | Actual |
| **GENERAL FUND BEGINNING CASH BALANCE** | **$ 2,529,412** | **$ 2,529,412** | **$ -** | **-** | **$ 1,921,629** |
| Add Receipts: | | | | | |
| Revenues | 118,759,207 | 117,780,789 | 978,418 | 0.8 | 114,277,777 |
| Nonrevenues | 1,658,182 | 1,469,451 | 188,731 | 12.8 | 2,107,803 |
| Total Receipts | 120,417,389 | 119,250,240 | 1,167,149 | 1.0 | 116,385,580 |
| Less Disbursements: | | | | | |
| State Operations | 30,468,330 | 30,822,142 | (353,812) | (1.1) | 30,505,865 |
| Local Assistance | 88,920,162 | 91,536,206 | (2,616,044) | (2.9) | 82,217,873 |
| Capital Outlay | 146,543 | 253,403 | (106,860) | (42.2) | 164,063 |
| Nongovernmental | 4,057,982 | 3,999,961 | 58,021 | 1.5 | 2,889,996 |
| Total Disbursements | 123,593,017 | 126,611,712 | (3,018,695) | (2.4) | 115,777,797 |
| Receipts Over / (Under) Disbursements | (3,175,628) | (7,361,472) | 4,185,844 | (56.9) | 607,783 |
| Net Increase / (Decrease) in Temporary Loans | 646,216 | 4,832,060 | (4,185,844) | (86.6) | - |
| **GENERAL FUND ENDING CASH BALANCE** | - | - | - | | 2,529,412 |
| Special Fund for Economic Uncertainties | - | - | - | - | 449,700 |
| **TOTAL CASH** | **$ -** | **$ -** | **$ -** | | $ 2,979,112 |
| **BORROWABLE RESOURCES** | | | | | |
| Available Borrowable Resources | $ 35,865,487 | $ 31,590,622 | $ 4,274,865 | 13.5 | $ 28,291,332 |
| Outstanding Loans (b) | 646,216 | 4,832,060 | (4,185,844) | (86.6) | - |
| Unused Borrowable Resources | $ 35,219,271 | $ 26,758,562 | $ 8,460,709 | 31.6 | $ 28,291,332 |

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 2015-16 fiscal year was prepared by the Department of Finance for the 2015-16 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $646.2 million is comprised of $646.2 million of internal borrowing. Current balance is comprised of $0.0 million carried forward from June 30, 2015, plus current year Net Increase/(Decrease) in Temporary Loans of $646.2 million.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.
(e) The 2016-17 Governor's Budget reclassified California State University Retiree Health Benefits expenses as a General Government disbursement to better align retiree health and dental care spending. Prior to February 2016, reported actuals and Budget Act estimates reflect these state operation expenses as a State Universities and Colleges expense.

**SCHEDULE OF CASH RECEIPTS**
(Amounts in thousands)

| | Month of June | | July 1 through June 30 | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2016 | | | | 2015 |
| | 2016 | 2015 | Actual | Estimate (a) | Actual Over or (Under) Estimate Amount | % | Actual |
| **REVENUES** | | | | | | | |
| Alcoholic Beverage Excise Tax | $ 32,994 | $ 57,251 | $ 366,046 | $ 359,906 | $ 6,140 | 1.7 | $ 386,125 |
| Corporation Tax | 2,462,822 | 2,653,896 | 9,690,219 | 10,388,183 | (697,964) | (6.7) | 10,254,954 |
| Cigarette Tax | 6,706 | 7,036 | 84,787 | 82,063 | 2,724 | 3.3 | 92,281 |
| Estate, Inheritance, and Gift Tax | 8 | 356 | 2,369 | - | 2,369 | - | 3,466 |
| Insurance Companies Tax | 329,677 | 328,667 | 2,567,453 | 2,556,229 | 11,224 | 0.4 | 2,450,009 |
| Personal Income Tax | 10,326,820 | 10,916,594 | 79,437,856 | 77,653,335 | 1,784,521 | 2.3 | 76,268,212 |
| Retail Sales and Use Taxes | 2,354,274 | 2,180,314 | 24,788,981 | 25,096,541 | (307,560) | (1.2) | 23,241,632 |
| Vehicle License Fees | 1 | 5 | 24 | - | 24 | - | 157 |
| Pooled Money Investment Interest | 5,914 | 4,518 | 34,370 | 36,885 | (2,515) | (6.8) | 18,374 |
| Not Otherwise Classified | 667,088 | 618,575 | 1,787,102 | 1,607,647 | 179,455 | 11.2 | 1,562,567 |
| **Total Revenues** | **16,186,304** | **16,767,212** | **118,759,207** | **117,780,789** | **978,418** | **0.8** | **114,277,777** |
| **NONREVENUES** | | | | | | | |
| Transfers from Special Fund for Economic Uncertainties | - | - | 138,000 | - | 138,000 | - | 621,400 |
| Transfers from Other Funds | 18,014 | 24,047 | 438,053 | 452,227 | (14,174) | (3.1) | 415,465 |
| Miscellaneous | 56,057 | 8,847 | 1,082,129 | 1,017,224 | 64,905 | 6.4 | 1,070,938 |
| **Total Nonrevenues** | **74,071** | **32,894** | **1,658,182** | **1,469,451** | **188,731** | **12.8** | **2,107,803** |
| **Total Receipts** | **$ 16,260,375** | **$ 16,800,106** | **$ 120,417,389** | **$ 119,250,240** | **$ 1,167,149** | **1.0** | **$ 116,385,580** |

See notes on page B1.

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

| | Month of June | | July 1 through June 30 | | | | 2015 |
|---|---|---|---|---|---|---|---|
| | | | 2016 | | | | |
| | 2016 | 2015 | Actual | Estimate (a) | Actual Over or (Under) Estimate Amount | % | Actual |
| **STATE OPERATIONS (c)** | | | | | | | |
| Legislative/Judicial/Executive | $ 75,671 | $ 93,912 | $ 1,395,302 | $ 1,454,857 | $ (59,555) | (4.1) | $ 1,422,382 |
| Business, Consumer Services and Housing | 1,811 | 255 | 21,766 | 20,978 | 788 | 3.8 | 18,867 |
| Transportation | - | 5 | 7 | - | 7 | - | 49 |
| Resources | 93,522 | 3,262 | 1,799,620 | 1,633,562 | 166,058 | 10.2 | 1,245,744 |
| Environmental Protection Agency | 4,996 | 9,870 | 49,831 | 66,431 | (16,600) | (25.0) | 47,895 |
| Health and Human Services: | | | | | | | |
| Health Care Services and Public Health | 1,135 | 2,891 | 257,733 | 265,401 | (7,668) | (2.9) | 243,006 |
| Department of State Hospitals | 114,144 | 120,207 | 1,588,381 | 1,565,542 | 22,839 | 1.5 | 1,530,646 |
| Other Health and Human Services | 20,552 | 20,507 | 589,121 | 579,745 | 9,376 | 1.6 | 544,522 |
| Education: | | | | | | | |
| University of California | 24,339 | - | 3,258,870 | 3,207,143 | 51,727 | 1.6 | 2,990,656 |
| State Universities and Colleges | 27,478 | 74,958 | 3,011,334 | 3,256,217 | (244,883) (e) | (7.5) | 2,998,093 |
| Other Education | 15,359 | 13,497 | 209,832 | 224,718 | (14,886) | (6.6) | 193,214 |
| Dept. of Corrections and Rehabilitation | 802,203 | 776,569 | 9,870,976 | 10,012,534 | (141,558) | (1.4) | 9,654,294 |
| Governmental Operations | 63,078 | 77,252 | 761,128 | 738,615 | 22,513 | 3.0 | 757,198 |
| General Government | 182,779 | 189,635 | 2,642,317 | 2,759,653 | (117,336) (e) | (4.3) | 3,979,119 |
| Public Employees Retirement System | (215,546) | (199,955) | (35,624) | (40,419) | 4,795 | (11.9) | (102,743) |
| Debt Service (d) | 87,330 | 199,171 | 4,977,333 | 5,017,207 | (39,874) | (0.8) | 4,946,112 |
| Interest on Loans | 43,031 | 47,570 | 70,403 | 59,958 | 10,445 | 17.4 | 36,811 |
| **Total State Operations** | **1,341,882** | **1,429,606** | **30,468,330** | **30,822,142** | **(353,812)** | **(1.1)** | **30,505,865** |
| **LOCAL ASSISTANCE (c)** | | | | | | | |
| Public Schools - K-12 | 4,473,566 | 3,992,548 | 46,919,883 | 49,189,254 | (2,269,371) | (4.6) | 44,235,987 |
| Community Colleges | 480,139 | 471,904 | 5,798,568 | 5,900,101 | (101,533) | (1.7) | 4,862,623 |
| Debt Service-School Building Bonds | - | - | - | (83) | 83 | (100.0) | - |
| Contributions to State Teachers' Retirement System | - | - | 1,935,287 | 1,935,288 | (1) | (0.0) | 1,486,004 |
| Other Education | 39,103 | 28,564 | 2,667,261 | 2,579,140 | 88,121 | 3.4 | 2,489,056 |
| School Facilities Aid | - | - | - | 83 | (83) | (100.0) | - |
| Dept. of Corrections and Rehabilitation | 867 | 3,187 | 200,516 | 205,995 | (5,479) | (2.7) | 215,106 |
| Dept. of Alcohol and Drug Program | - | - | - | - | - | - | 210 |
| Health Care Services and Public Health: | | | | | | | |
| Medical Assistance Program | 705,388 | 1,365,163 | 17,764,600 | 17,987,235 | (222,635) | (1.2) | 17,064,401 |
| Other Health Care Services/Public Health | 31,733 | 80,239 | 230,103 | 382,524 | (152,421) | (39.8) | 213,566 |
| Developmental Services - Regional Centers | 70,384 | 56,860 | 3,163,097 | 3,404,504 | (241,407) | (7.1) | 2,862,614 |
| Department of State Hospitals | - | - | - | - | - | - | - |
| Dept. of Social Services: | | | | | | | |
| SSI/SSP/IHSS | 507,813 | 331,141 | 5,806,217 | 6,191,160 | (384,943) | (6.2) | 4,802,967 |
| CalWORKs | (16,890) | 1,156 | 916,979 | 774,521 | 142,458 | 18.4 | 318,900 |
| Other Social Services | 69,444 | 16,640 | 794,459 | 769,153 | 25,306 | 3.3 | 735,344 |
| Tax Relief | - | 500 | 413,953 | 431,657 | (17,704) | (4.1) | 416,755 |
| Other Local Assistance | 149,335 | 663,522 | 2,309,239 | 1,785,674 | 523,565 | 29.3 | 2,514,340 |
| **Total Local Assistance** | **6,510,882** | **7,011,424** | **88,920,162** | **91,536,206** | **(2,616,044)** | **(2.9)** | **82,217,873** |

See notes on page B1.

(Continued)

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

| | Month of June | | July 1 through June 30 | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2016 | | | | 2015 |
| | 2016 | 2015 | Actual | Estimate (a) | Actual Over or (Under) Estimate Amount | % | Actual |
| **CAPITAL OUTLAY** | **2,806** | **4,197** | **146,543** | **253,403** | **(106,860)** | **(42.2)** | **164,063** |
| **NONGOVERNMENTAL (c)** | | | | | | | |
| Transfer to Special Fund for Economic Uncertainties | - | - | 804,000 | 666,000 | 138,000 | 20.7 | - |
| Transfer to Budget Stabilization Account | - | - | 1,854,000 | 1,854,000 | - | - | 1,606,422 |
| Transfer to Other Funds | 1,355,397 | 414,998 | 1,392,448 | 1,466,277 | (73,829) | (5.0) | 1,353,449 |
| Transfer to Revolving Fund | (5,244) | (12,237) | 11,045 | - | 11,045 | - | (5,729) |
| Advance: | | | | | | | |
| MediCal Provider Interim Payment | - | (1,000,000) | - | - | - | - | - |
| State-County Property Tax Administration Program | (19,124) | (19,331) | 796 | - | 796 | - | 2,981 |
| Social Welfare Federal Fund | 11,123 | 29,000 | (16,331) | - | (16,331) | - | (88,170) |
| Local Governmental Entities | - | - | (1,188) | - | (1,188) | - | (1,161) |
| Tax Relief and Refund Account | - | - | - | - | - | - | - |
| Counties for Social Welfare | 318,028 | 304,816 | 13,212 | 13,684 | (472) | (3.4) | 22,204 |
| **Total Nongovernmental** | **1,660,180** | **(282,754)** | **4,057,982** | **3,999,961** | **58,021** | **1.5** | **2,889,996** |
| **Total Disbursements** | **$ 9,515,750** | **$ 8,162,473** | **$ 123,593,017** | **$ 126,611,712** | **$ (3,018,695)** | **(2.4)** | **$ 115,777,797** |
| **TEMPORARY LOANS** | | | | | | | |
| Special Fund for Economic Uncertainties | $ (1,115,700) | $ (449,700) | $ - | $ 1,115,700 | $ (1,115,700) | (100.0) | $ - |
| Budget Stabilization Account | (2,814,322) | (1,606,422) | 646,100 | 3,460,422 | (2,814,322) | (81.3) | - |
| Outstanding Registered Warrants Account | - | - | - | - | - | - | - |
| Other Internal Sources | (2,814,603) | (1,252,099) | 116 | 255,938 | (255,822) | (100.0) | - |
| Revenue Anticipation Notes | - | (2,800,000) | - | - | - | - | - |
| Net Increase / (Decrease) Loans | **(6,744,625)** | **$ (6,108,221)** | **$ 646,216** | **$ 4,832,060** | **$ (4,185,844)** | **(86.6)** | **$ -** |

See notes on page B1.

(Concluded)

**February 2017**

# STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

**BETTY T. YEE**

California State Controller

**BETTY T. YEE**
**California State Controller**

March 10, 2017

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2016, through February 28, 2017. This statement reflects the State of California's General Fund cash position, and compares actual receipts and disbursements for the 2016-17 fiscal year to cash flow estimates prepared by the Department of Finance (DOF) for the 2016-17 Budget Act. The statement is prepared in compliance with Provision 5 of Budget Act item 0840-001-0001, using records compiled by the State Controller. Prior-year actual amounts are also displayed for comparative purposes.

Attachment A compares actual receipts and disbursements for the 2016-17 fiscal year to cash flow estimates published in the 2017-18 Governor's Budget. These cash flow estimates are predicated on projections and assumptions made by DOF in preparation of the 2017-18 Governor's Budget.

Attachment B compares actual receipts and disbursements for the 2016-17 fiscal year to cash flow estimates prepared by DOF based upon the 2016-17 Budget Act.

These statements also are available on the State Controller's website at www.sco.ca.gov under the category Monthly Financial Reports.

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

Sincerely,

*Original signed by*

BETTY T. YEE

**STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS**
**A Comparison of Actual to 2017-18 Governor's Budget Estimates**
**(Amounts in thousands)**

| | July 1 through February 28 | | | | |
|---|---|---|---|---|---|
| | 2017 | | | | 2016 |
| | Actual | Estimate (a) | Actual Over or (Under) Estimate Amount | % | Actual |
| **GENERAL FUND BEGINNING CASH BALANCE** | $ - | $ - | $ - | - | $ **2,529,412** |
| Add Receipts: | | | | | |
| Revenues | 73,278,420 | 74,166,560 | (888,140) | (1.2) | 70,957,161 |
| Nonrevenues | 535,581 | 431,447 | 104,134 | 24.1 | 1,262,603 |
| Total Receipts | 73,814,001 | 74,598,007 | (784,006) | (1.1) | 72,219,764 |
| Less Disbursements: | | | | | |
| State Operations | 21,331,121 | 21,223,418 | 107,703 | 0.5 | 20,562,922 |
| Local Assistance | 61,966,963 | 62,103,083 | (136,120) | (0.2) | 62,050,260 |
| Capital Outlay | 1,086,847 | 1,114,122 | (27,275) | (2.4) | 139,093 |
| Nongovernmental | 2,311,959 | 2,412,015 | (100,056) | (4.1) | 2,409,391 |
| Total Disbursements | 86,696,890 | 86,852,638 | (155,748) | (0.2) | 85,161,666 |
| Receipts Over / (Under) Disbursements | (12,882,889) | (12,254,631) | (628,258) | 5.1 | (12,941,902) |
| Net Increase / (Decrease) in Temporary Loans | 12,882,889 | 12,254,631 | 628,258 | 5.1 | 10,412,490 |
| **GENERAL FUND ENDING CASH BALANCE** | - | - | - | | - |
| Special Fund for Economic Uncertainties | - | - | - | - | - |
| **TOTAL CASH** | $ - | $ - | $ - | | $ - |
| **BORROWABLE RESOURCES** | | | | | |
| Available Borrowable Resources | $ 40,973,631 | $ 37,072,450 | $ 3,901,181 | 10.5 | $ 33,066,088 |
| Outstanding Loans (b) | 13,529,105 | 12,900,847 | 628,258 | 4.9 | 10,412,490 |
| Unused Borrowable Resources | $ 27,444,526 | $ 24,171,603 | $ 3,272,923 | 13.5 | $ 22,653,598 |

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

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2016-17 fiscal year was prepared by the Department of Finance for the 2017-18 Governor's Budget. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $13.53 billion is comprised of $13.53 billion of internal borrowing. Current balance is comprised of $646.2 million carried forward from June 30, 2016, plus current year Net Increase/(Decrease) in Temporary Loans of $12.88 billion.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.
(e) The 2016-17 Governor's Budget reclassified California State University Retiree Health Benefits expenses as a General Government disbursement to better align retiree health and dental care spending. From July 2016 to January 2017, these actual disbursements were inaccurately reflected as a State Universities and College expense. Effective February 2017, the reported actuals are correctly reported as General Government disbursements.

**SCHEDULE OF CASH RECEIPTS**
(Amounts in thousands)

| | Month of February | | July 1 through February 28 | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2017 | | | | 2016 |
| | 2017 | 2016 | Actual | Estimate (a) | Actual Over or (Under) Estimate Amount | % | Actual |
| **REVENUES** | | | | | | | |
| Alcoholic Beverage Excise Tax | $ 19,758 | $ 30,848 | $ 254,909 | $ 256,684 | $ (1,775) | (0.7) | $ 246,241 |
| Corporation Tax | 168,188 | 189,481 | 3,819,714 | 3,698,582 | 121,132 | 3.3 | 3,819,934 |
| Cigarette Tax | 565 | 1,949 | 51,792 | 57,391 | (5,599) | (9.8) | 54,306 |
| Estate, Inheritance, and Gift Tax | 403 | 503 | 989 | 424 | 565 | 133.3 | 1,496 |
| Insurance Companies Tax | 26,410 | 24,967 | 1,242,449 | 1,246,091 | (3,642) | (0.3) | 1,255,247 |
| Personal Income Tax | 3,120,220 | 2,877,627 | 50,973,544 | 51,462,166 | (488,622) | (0.9) | 48,336,059 |
| Retail Sales and Use Taxes | 3,062,880 | 3,664,528 | 16,293,906 | 16,907,447 | (613,541) | (3.6) | 16,353,089 |
| Vehicle License Fees | 1 | 1 | 8 | - | 8 | - | 18 |
| Pooled Money Investment Interest | 3,937 | 2,176 | 35,385 | 34,702 | 683 | 2.0 | 17,044 |
| Not Otherwise Classified | 117,410 | 61,578 | 605,724 | 503,073 | 102,651 | 20.4 | 873,727 |
| **Total Revenues** | **6,519,772** | **6,853,658** | **73,278,420** | **74,166,560** | **(888,140)** | **(1.2)** | **70,957,161** |
| **NONREVENUES** | | | | | | | |
| Transfers from Special Fund for Economic Uncertainties | - | - | - | - | - | - | 138,000 |
| Transfers from Other Funds | 68,379 | 35,827 | 330,768 | 244,351 | 86,417 | 35.4 | 390,078 |
| Miscellaneous | 35,095 | 198,955 | 204,813 | 187,096 | 17,717 | 9.5 | 734,525 |
| **Total Nonrevenues** | **103,474** | **234,782** | **535,581** | **431,447** | **104,134** | **24.1** | **1,262,603** |
| **Total Receipts** | **$ 6,623,246** | **$ 7,088,440** | **$ 73,814,001** | **$ 74,598,007** | **$ (784,006)** | **(1.1)** | **$ 72,219,764** |

See notes on page A1.

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

| | Month of February | | July 1 through February 28 | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2017 | | | | 2016 |
| | | | | | Actual Over or (Under) Estimate | | |
| | 2017 | 2016 | Actual | Estimate (a) | Amount | % | Actual |
| **STATE OPERATIONS (c)** | | | | | | | |
| Legislative/Judicial/Executive | $ 159,190 | $ 92,326 | $ 1,176,753 | $ 1,146,167 | $ 30,586 | 2.7 | $ 1,070,669 |
| Business, Consumer Services and Housing | 2,404 | 2,196 | 19,252 | 18,459 | 793 | 4.3 | 18,056 |
| Transportation | - | 2 | 3 | 1,667 | (1,664) | (99.8) | 6 |
| Resources | 103,381 | 183,064 | 1,201,616 | 1,211,522 | (9,906) | (0.8) | 1,381,920 |
| Environmental Protection Agency | 7,169 | 5,449 | 61,194 | 58,276 | 2,918 | 5.0 | 27,353 |
| Health and Human Services: | | | | | | | |
| Health Care Services and Public Health | 13,083 | 15,241 | 217,332 | 223,296 | (5,964) | (2.7) | 221,410 |
| Department of State Hospitals | 141,592 | 132,497 | 1,159,364 | 1,146,204 | 13,160 | 1.1 | 1,054,653 |
| Other Health and Human Services | 62,605 | 46,556 | 431,313 | 471,250 | (39,937) | (8.5) | 434,929 |
| Education: | | | | | | | |
| University of California | 257,612 | 237,548 | 2,484,988 | 2,488,988 | (4,000) | (0.2) | 2,185,330 |
| State Universities and Colleges | 142,823 | 210,224 | 2,382,978 (e) | 2,331,211 | 51,767 | 2.2 | 2,259,549 |
| Other Education | 21,494 | 22,890 | 162,389 | 156,013 | 6,376 | 4.1 | 145,291 |
| Dept. of Corrections and Rehabilitation | 839,860 | 779,004 | 6,865,224 | 6,915,156 | (49,932) | (0.7) | 6,574,811 |
| Governmental Operations | 120,405 | 58,275 | 522,227 | 495,815 | 26,412 | 5.3 | 490,888 |
| General Government | 331,932 | 234,141 | 1,795,114 (e) | 1,591,469 | 203,645 | 12.8 | 1,864,356 |
| Public Employees Retirement System | (227,739) | (205,565) | 174,492 | 58,342 | 116,150 | 199.1 | 182,199 |
| Debt Service (d) | 419,787 | 575,568 | 2,668,493 | 2,901,194 | (232,701) | (8.0) | 2,624,302 |
| Interest on Loans | - | - | 8,389 | 8,389 | - | - | 27,200 |
| **Total State Operations** | **2,395,598** | **2,389,416** | **21,331,121** | **21,223,418** | **107,703** | **0.5** | **20,562,922** |
| **LOCAL ASSISTANCE (c)** | | | | | | | |
| Public Schools - K-12 | 3,629,655 | 2,847,728 | 30,606,643 | 30,616,761 | (10,118) | (0.0) | 30,850,026 |
| Community Colleges | 477,535 | 464,886 | 3,856,988 | 3,876,854 | (19,866) | (0.5) | 3,991,729 |
| Debt Service-School Building Bonds | - | - | - | - | - | - | - |
| Contributions to State Teachers' Retirement System | - | - | 1,692,566 | 1,692,566 | - | - | 1,299,725 |
| Other Education | (89,578) | 299,385 | 1,505,136 | 1,703,249 | (198,113) | (11.6) | 2,091,942 |
| School Facilities Aid | - | - | - | - | - | - | - |
| Dept. of Corrections and Rehabilitation | 2,144 | 4,819 | 255,945 | 272,381 | (16,436) | (6.0) | 194,418 |
| Dept. of Alcohol and Drug Program | - | - | - | - | - | - | - |
| Health Care Services and Public Health: | | | | | | | |
| Medical Assistance Program | 2,011,284 | 2,312,722 | 14,070,782 | 13,636,500 | 434,282 | 3.2 | 13,225,176 |
| Other Health Care Services/Public Health | 3,978 | 21,741 | 320,180 | 403,193 | (83,013) | (20.6) | 125,637 |
| Developmental Services - Regional Centers | 247,269 | 224,093 | 2,679,896 | 2,572,479 | 107,417 | 4.2 | 2,639,000 |
| Department of State Hospitals | - | - | - | - | - | - | - |
| Dept. of Social Services: | | | | | | | |
| SSI/SSP/IHSS | (390,771) | 490,125 | 3,493,526 | 4,007,029 | (513,503) | (12.8) | 4,239,194 |
| CalWORKs | 32,100 | 19,531 | 721,638 | 695,194 | 26,444 | 3.8 | 737,307 |
| Other Social Services | 75,224 | 117,154 | 645,876 | 610,067 | 35,809 | 5.9 | 507,692 |
| Tax Relief | - | - | 205,505 | 211,001 | (5,496) | (2.6) | 206,976 |
| Other Local Assistance | 61,047 | 82,031 | 1,912,282 | 1,805,809 | 106,473 | 5.9 | 1,941,438 |
| **Total Local Assistance** | **6,059,887** | **6,884,215** | **61,966,963** | **62,103,083** | **(136,120)** | **(0.2)** | **62,050,260** |

See notes on page A1.

(Continued)

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

| | Month of February | | July 1 through February 28 | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2017 | | | | 2016 |
| | 2017 | 2016 | Actual | Estimate (a) | Actual Over or (Under) Estimate Amount | % | Actual |
| **CAPITAL OUTLAY** | **2,132** | **4,955** | **1,086,847** | **1,114,122** | **(27,275)** | **(2.4)** | **139,093** |
| **NONGOVERNMENTAL (c)** | | | | | | | |
| Transfer to Special Fund for Economic Uncertainties | - | - | 634,500 | 634,500 | - | - | 804,000 |
| Transfer to Budget Stabilization Account | - | - | 1,294,000 | 1,294,000 | - | - | 1,854,000 |
| Transfer to Other Funds | 3,300 | - | 691,907 | 785,546 | (93,639) | (11.9) | 31,506 |
| Transfer to Revolving Fund | 1 | 197 | 12,621 | 7,921 | 4,700 | 59.3 | 7,456 |
| Advance: | | | | | | | |
| MediCal Provider Interim Payment | - | - | - | - | - | - | - |
| State-County Property Tax Administration Program | (11,780) | (12,218) | 11,347 | 32,547 | (21,200) | (65.1) | 49,155 |
| Social Welfare Federal Fund | 884 | (35,011) | (13,173) | (23,256) | 10,083 | (43.4) | (30,722) |
| Local Governmental Entities | - | - | (1,215) | (1,215) | - | - | (1,188) |
| Tax Relief and Refund Account | - | - | - | - | - | - | - |
| Counties for Social Welfare | - | - | (318,028) | (318,028) | - | - | (304,816) |
| **Total Nongovernmental** | **(7,595)** | **(47,032)** | **2,311,959** | **2,412,015** | **(100,056)** | (4.1) | **2,409,391** |
| **Total Disbursements** | **$ 8,450,022** | **$ 9,231,554** | **$ 86,696,890** | **$ 86,852,638** | **$ (155,748)** | **(0.2)** | **$ 85,161,666** |
| **TEMPORARY LOANS** | | | | | | | |
| Special Fund for Economic Uncertainties | $ - | $ - | $ 1,750,200 | $ 1,750,200 | $ - | - | $ 1,115,700 |
| Budget Stabilization Account | - | - | 4,068,322 | 4,068,322 | - | - | 3,460,422 |
| Outstanding Registered Warrants Account | - | - | - | - | - | - | - |
| Other Internal Sources | 1,826,776 | 2,143,114 | 7,064,367 | 6,436,109 | 628,258 | 9.8 | 5,836,368 |
| Revenue Anticipation Notes | - | - | - | - | - | - | - |
| Net Increase / (Decrease) Loans | **1,826,776** | **$ 2,143,114** | **$ 12,882,889** | **$ 12,254,631** | **$ 628,258** | **5.1** | **$ 10,412,490** |

See notes on page A1.

(Concluded)

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

| | July 1 through February 28 | | | |
|---|---|---|---|---|
| | General Fund | | Special Funds | |
| | 2017 | 2016 | 2017 | 2016 |
| **MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:** | | | | |
| Alcoholic Beverage Excise Taxes | $ 254,909 | $ 246,241 | $ - | $ - |
| Corporation Tax | 3,819,714 | 3,819,934 | - | - |
| Cigarette Tax | 51,792 | 54,306 | 451,689 | 470,937 |
| Estate, Inheritance, and Gift Tax | 989 | 1,496 | - | - |
| Insurance Companies Tax | 1,242,449 | 1,255,247 | 1,589,286 | 975,447 |
| Motor Vehicle Fuel Tax: | | | | |
| Gasoline Tax | - | - | 2,947,360 | 3,133,806 |
| Diesel & Liquid Petroleum Gas | - | - | 340,778 | 280,170 |
| Jet Fuel Tax | - | - | 2,167 | 1,963 |
| Vehicle License Fees | 8 | 18 | 1,780,952 | 1,631,587 |
| Motor Vehicle Registration and Other Fees | - | - | 2,973,223 | 2,911,769 |
| Personal Income Tax | 50,973,544 | 48,336,059 | 899,968 | 864,674 |
| Retail Sales and Use Taxes | 16,293,906 | 16,353,089 | 8,740,004 | 9,738,181 |
| Pooled Money Investment Interest | 35,385 | 17,044 | 189 | 108 |
| **Total Major Taxes, Licenses, and Investment Income** | **72,672,696** | **70,083,434** | **19,725,616** | **20,008,642** |
| **NOT OTHERWISE CLASSIFIED:** | | | | |
| Alcoholic Beverage License Fee | 1,276 | 1,466 | 36,266 | 37,149 |
| Electrical Energy Tax | - | - | 461,155 | 468,619 |
| Private Rail Car Tax | 8,989 | 9,824 | - | - |
| Penalties on Traffic Violations | - | - | 30,742 | 34,888 |
| Health Care Receipts | 6,534 | 8,396 | - | - |
| Revenues from State Lands | 60,770 | 66,012 | - | - |
| Abandoned Property | (79,360) | (95,189) | - | - |
| Trial Court Revenues | 24,502 | 27,489 | 899,560 | 931,024 |
| Horse Racing Fees | 721 | 784 | 8,486 | 8,357 |
| Cap and Trade | - | - | 372,699 | 1,302,110 |
| Miscellaneous | 582,292 | 854,945 | 10,013,571 | 8,636,284 |
| Not Otherwise Classified | **605,724** | **873,727** | **11,822,479** | **11,418,431** |
| **Total Revenues, All Governmental Cost Funds** | **$ 73,278,420** | **$ 70,957,161** | **$ 31,548,095** | **$ 31,427,073** |

See notes on page A1.

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

| | July 1 through February 28 | | | | |
|---|---|---|---|---|---|
| | 2017 | | | | 2016 |
| | Actual | Estimate (a) | Actual Over or (Under) Estimate Amount | % | Actual |
| **GENERAL FUND BEGINNING CASH BALANCE** | $ - | $ - | $ - | - | $ **2,529,412** |
| Add Receipts: | | | | | |
| Revenues | 73,278,420 | 73,942,281 | (663,861) | (0.9) | 70,957,161 |
| Nonrevenues | 535,581 | 791,537 | (255,956) | (32.3) | 1,262,603 |
| Total Receipts | 73,814,001 | 74,733,818 | (919,817) | (1.2) | 72,219,764 |
| Less Disbursements: | | | | | |
| State Operations | 21,331,121 | 22,022,786 | (691,665) | (3.1) | 20,562,922 |
| Local Assistance | 61,966,963 | 61,207,113 | 759,850 | 1.2 | 62,050,260 |
| Capital Outlay | 1,086,847 | 1,229,198 | (142,351) | (11.6) | 139,093 |
| Nongovernmental | 2,311,959 | 2,291,622 | 20,337 | 0.9 | 2,409,391 |
| Total Disbursements | 86,696,890 | 86,750,719 | (53,829) | (0.1) | 85,161,666 |
| Receipts Over / (Under) Disbursements | (12,882,889) | (12,016,901) | (865,988) | 7.2 | (12,941,902) |
| Net Increase / (Decrease) in Temporary Loans | 12,882,889 | 12,016,901 | 865,988 | 7.2 | 10,412,490 |
| **GENERAL FUND ENDING CASH BALANCE** | - | - | - | | - |
| Special Fund for Economic Uncertainties | - | - | - | - | - |
| **TOTAL CASH** | $ - | $ - | $ - | | $ - |

| | | | | | |
|---|---|---|---|---|---|
| **BORROWABLE RESOURCES** | | | | | |
| Available Borrowable Resources | $ 40,973,631 | $ 36,755,639 | $ 4,217,992 | 11.5 | $ 33,066,088 |
| Outstanding Loans (b) | 13,529,105 | 12,663,117 | 865,988 | 6.8 | 10,412,490 |
| Unused Borrowable Resources | $ 27,444,526 | $ 24,092,522 | $ 3,352,004 | 13.9 | $ 22,653,598 |

General Note:

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

Footnotes:

(a) A Statement of Estimated Cash Flow for the 2016-17 fiscal year was prepared by the Department of Finance for the 2016-17 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.

(b) Outstanding loan balance of $13.53 billion is comprised of $13.53 billion of internal borrowing. Current balance is comprised of $646.2 million carried forward from June 30, 2016, plus current year Net Increase/(Decrease) in Temporary Loans of $12.88 billion.

(c) Negative amounts are the result of repayments received that are greater than disbursements made.

(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.

(e) The 2016-17 Governor's Budget reclassified California State University Retiree Health Benefits expenses as a General Government disbursement to better align retiree health and dental care spending. From July 2016 to January 2017, these actual disbursements were inaccurately reflected as a State Universities and College expense. Effective February 2017, the reported actuals are correctly reported as General Government disbursements.

**SCHEDULE OF CASH RECEIPTS**
(Amounts in thousands)

| | Month of February | | July 1 through February 28 | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2017 | | | | 2016 |
| | 2017 | 2016 | Actual | Estimate (a) | Actual Over or (Under) Estimate Amount | % | Actual |
| **REVENUES** | | | | | | | |
| Alcoholic Beverage Excise Tax | $ 19,758 | $ 30,848 | $ 254,909 | $ 250,535 | $ 4,374 | 1.7 | $ 246,241 |
| Corporation Tax | 168,188 | 189,481 | 3,819,714 | 4,034,378 | (214,664) | (5.3) | 3,819,934 |
| Cigarette Tax | 565 | 1,949 | 51,792 | 52,906 | (1,114) | (2.1) | 54,306 |
| Estate, Inheritance, and Gift Tax | 403 | 503 | 989 | - | 989 | - | 1,496 |
| Insurance Companies Tax | 26,410 | 24,967 | 1,242,449 | 1,146,813 | 95,636 | 8.3 | 1,255,247 |
| Personal Income Tax | 3,120,220 | 2,877,627 | 50,973,544 | 50,649,928 | 323,616 | 0.6 | 48,336,059 |
| Retail Sales and Use Taxes | 3,062,880 | 3,664,528 | 16,293,906 | 17,285,815 | (991,909) | (5.7) | 16,353,089 |
| Vehicle License Fees | 1 | 1 | 8 | - | 8 | - | 18 |
| Pooled Money Investment Interest | 3,937 | 2,176 | 35,385 | 33,155 | 2,230 | 6.7 | 17,044 |
| Not Otherwise Classified | 117,410 | 61,578 | 605,724 | 488,751 | 116,973 | 23.9 | 873,727 |
| **Total Revenues** | **6,519,772** | **6,853,658** | **73,278,420** | **73,942,281** | **(663,861)** | **(0.9)** | **70,957,161** |
| **NONREVENUES** | | | | | | | |
| Transfers from Special Fund for Economic Uncertainties | - | - | - | - | - | - | 138,000 |
| Transfers from Other Funds | 68,379 | 35,827 | 330,768 | 163,682 | 167,086 | 102.1 | 390,078 |
| Miscellaneous | 35,095 | 198,955 | 204,813 | 627,855 | (423,042) | (67.4) | 734,525 |
| **Total Nonrevenues** | **103,474** | **234,782** | **535,581** | **791,537** | **(255,956)** | **(32.3)** | **1,262,603** |
| **Total Receipts** | **$ 6,623,246** | **$ 7,088,440** | **$ 73,814,001** | **$ 74,733,818** | **$ (919,817)** | **(1.2)** | **$ 72,219,764** |

See notes on page B1.

## SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

| | Month of February | | July 1 through February 28 | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2017 | | | | 2016 |
| | 2017 | 2016 | Actual | Estimate (a) | Actual Over or (Under) Estimate Amount | % | Actual |
| **STATE OPERATIONS (c)** | | | | | | | |
| Legislative/Judicial/Executive | $ 159,190 | $ 92,326 | $ 1,176,753 | $ 1,209,973 | $ (33,220) | (2.7) | $ 1,070,669 |
| Business, Consumer Services and Housing | 2,404 | 2,196 | 19,252 | 21,337 | (2,085) | (9.8) | 18,056 |
| Transportation | - | 2 | 3 | 2,592 | (2,589) | (99.9) | 6 |
| Resources | 103,381 | 183,064 | 1,201,616 | 1,240,924 | (39,308) | (3.2) | 1,381,920 |
| Environmental Protection Agency | 7,169 | 5,449 | 61,194 | 42,574 | 18,620 | 43.7 | 27,353 |
| Health and Human Services: | | | | | | | |
| Health Care Services and Public Health | 13,083 | 15,241 | 217,332 | 254,771 | (37,439) | (14.7) | 221,410 |
| Department of State Hospitals | 141,592 | 132,497 | 1,159,364 | 1,072,844 | 86,520 | 8.1 | 1,054,653 |
| Other Health and Human Services | 62,605 | 46,556 | 431,313 | 468,292 | (36,979) | (7.9) | 434,929 |
| Education: | | | | | | | |
| University of California | 257,612 | 237,548 | 2,484,988 | 2,456,702 | 28,286 | 1.2 | 2,185,330 |
| State Universities and Colleges | 142,823 | 210,224 | 2,382,978 (e) | 2,245,884 | 137,094 | 6.1 | 2,259,549 |
| Other Education | 21,494 | 22,890 | 162,389 | 159,286 | 3,103 | 1.9 | 145,291 |
| Dept. of Corrections and Rehabilitation | 839,860 | 779,004 | 6,865,224 | 6,762,287 | 102,937 | 1.5 | 6,574,811 |
| Governmental Operations | 120,405 | 58,275 | 522,227 | 491,528 | 30,699 | 6.2 | 490,888 |
| General Government | 331,932 | 234,141 | 1,795,114 (e) | 3,009,894 | (1,214,780) | (40.4) | 1,864,356 |
| Public Employees Retirement System | (227,739) | (205,565) | 174,492 | 49,062 | 125,430 | 255.7 | 182,199 |
| Debt Service (d) | 419,787 | 575,568 | 2,668,493 | 2,520,626 | 147,867 | 5.9 | 2,624,302 |
| Interest on Loans | - | - | 8,389 | 14,210 | (5,821) | (41.0) | 27,200 |
| **Total State Operations** | **2,395,598** | **2,389,416** | **21,331,121** | **22,022,786** | **(691,665)** | **(3.1)** | **20,562,922** |
| **LOCAL ASSISTANCE (c)** | | | | | | | |
| Public Schools - K-12 | 3,629,655 | 2,847,728 | 30,606,643 | 30,672,222 | (65,579) | (0.2) | 30,850,026 |
| Community Colleges | 477,535 | 464,886 | 3,856,988 | 3,823,117 | 33,871 | 0.9 | 3,991,729 |
| Debt Service-School Building Bonds | - | - | - | - | - | - | - |
| Contributions to State Teachers' Retirement System | - | - | 1,692,566 | 1,692,565 | 1 | 0.0 | 1,299,725 |
| Other Education | (89,578) | 299,385 | 1,505,136 | 1,715,887 | (210,751) | (12.3) | 2,091,942 |
| School Facilities Aid | - | - | - | - | - | - | - |
| Dept. of Corrections and Rehabilitation | 2,144 | 4,819 | 255,945 | 259,077 | (3,132) | (1.2) | 194,418 |
| Dept. of Alcohol and Drug Program | - | - | - | - | - | - | - |
| Health Care Services and Public Health: | | | | | | | |
| Medical Assistance Program | 2,011,284 | 2,312,722 | 14,070,782 | 12,296,750 | 1,774,032 | 14.4 | 13,225,176 |
| Other Health Care Services/Public Health | 3,978 | 21,741 | 320,180 | 225,101 | 95,079 | 42.2 | 125,637 |
| Developmental Services - Regional Centers | 247,269 | 224,093 | 2,679,896 | 2,392,246 | 287,650 | 12.0 | 2,639,000 |
| Department of State Hospitals | - | - | - | - | - | - | - |
| Dept. of Social Services: | | | | | | | |
| SSI/SSP/IHSS | (390,771) | 490,125 | 3,493,526 | 4,715,823 | (1,222,297) | (25.9) | 4,239,194 |
| CalWORKs | 32,100 | 19,531 | 721,638 | 686,297 | 35,341 | 5.1 | 737,307 |
| Other Social Services | 75,224 | 117,154 | 645,876 | 615,792 | 30,084 | 4.9 | 507,692 |
| Tax Relief | - | - | 205,505 | 208,801 | (3,296) | (1.6) | 206,976 |
| Other Local Assistance | 61,047 | 82,031 | 1,912,282 | 1,903,435 | 8,847 | 0.5 | 1,941,438 |
| **Total Local Assistance** | **6,059,887** | **6,884,215** | **61,966,963** | **61,207,113** | **759,850** | **1.2** | **62,050,260** |

See notes on page B1.

(Continued)

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

| | Month of February | | July 1 through February 28 | | | | 2016 |
|---|---|---|---|---|---|---|---|
| | | | 2017 | | | | |
| | | | | | Actual Over or (Under) Estimate | | |
| | 2017 | 2016 | Actual | Estimate (a) | Amount | % | Actual |
| **CAPITAL OUTLAY** | **2,132** | **4,955** | **1,086,847** | **1,229,198** | **(142,351)** | **(11.6)** | **139,093** |
| **NONGOVERNMENTAL (c)** | | | | | | | |
| Transfer to Special Fund for Economic Uncertainties | - | - | 634,500 | 634,700 | (200) | (0.0) | 804,000 |
| Transfer to Budget Stabilization Account | - | - | 1,294,000 | 1,254,000 | 40,000 | 3.2 | 1,854,000 |
| Transfer to Other Funds | 3,300 | - | 691,907 | 729,722 | (37,815) | (5.2) | 31,506 |
| Transfer to Revolving Fund | 1 | 197 | 12,621 | - | 12,621 | - | 7,456 |
| Advance: | | | | | | | |
| MediCal Provider Interim Payment | - | - | - | - | - | - | - |
| State-County Property Tax Administration Program | (11,780) | (12,218) | 11,347 | - | 11,347 | - | 49,155 |
| Social Welfare Federal Fund | 884 | (35,011) | (13,173) | - | (13,173) | - | (30,722) |
| Local Governmental Entities | - | - | (1,215) | - | (1,215) | - | (1,188) |
| Tax Relief and Refund Account | - | - | - | - | - | - | - |
| Counties for Social Welfare | - | - | (318,028) | (326,800) | 8,772 | (2.7) | (304,816) |
| **Total Nongovernmental** | **(7,595)** | **(47,032)** | **2,311,959** | **2,291,622** | **20,337** | 0.9 | **2,409,391** |
| **Total Disbursements** | **$ 8,450,022** | **$ 9,231,554** | **$ 86,696,890** | **$ 86,750,719** | **$ (53,829)** | **(0.1)** | **$ 85,161,666** |
| **TEMPORARY LOANS** | | | | | | | |
| Special Fund for Economic Uncertainties | $ - | $ - | $ 1,750,200 | $ 1,750,400 | $ (200) | (0.0) | $ 1,115,700 |
| Budget Stabilization Account | - | - | 4,068,322 | 4,068,322 | - | - | 3,460,422 |
| Outstanding Registered Warrants Account | - | - | - | - | - | - | - |
| Other Internal Sources | 1,826,776 | 2,143,114 | 7,064,367 | 6,198,179 | 866,188 | 14.0 | 5,836,368 |
| Revenue Anticipation Notes | - | - | - | - | - | - | - |
| Net Increase / (Decrease) Loans | **1,826,776** | **$ 2,143,114** | **$ 12,882,889** | **$ 12,016,901** | **$ 865,988** | **7.2** | **$ 10,412,490** |

See notes on page B1.

(Concluded)