APPENDIX A

THE STATE OF CALIFORNIA

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NOTE: Since the date of the Preliminary Official Statement, certain information in Appendix A has been updated, shown in *italics* on pages A-5 through A-8, A-18 through A-20, A-28, A-29, A-51 through A-53, A-55 through A-59, A-80 and A-89.

TABLE OF CONTENTS

INTRODUCTION TO APPENDIX A A-1

PART I A-2

OVERVIEW A-2

Population and Economy of the State A-2
Financial Condition of the State General Fund A-2
General Fund Revenues, Expenditures and Cash Management A-3
State Indebtedness and Other Obligations A-4
State Pension Systems and Retiree Health Care Costs A-4
Financial Statements A-5
Certain Defined Terms A-6

RECENT DEVELOPMENTS A-7

The 2016-17 Governor's Budget A-7
Recent Cash Receipts A-7
Modified Managed Care Organization Tax A-7
Audited Financial Statements A-7
Revisions to Part II of Appendix A A-7

PROPOSED FISCAL YEAR 2016-17 BUDGET A-8

Development of Revenue Estimates A-10
Economic Assumptions Underlying the 2016-17 Governor's Budget A-11

CURRENT STATE BUDGET A-12

General A-12
Budget Risks A-15
Multi-Year Budget Projections A-16
Fiscal Year 2015-16 Revised General Fund Estimates in the 2016-17 Governor's Budget A-17
Summary of State Revenues and Expenditures A-18
Revenue and Expenditure Assumptions A-20

DEBTS AND LIABILITIES UNDER PROPOSITION 2 ..... A-22

LITIGATION A-23

Budget-Related Litigation A-24

1. Actions Challenging Cap and Trade Program Auctions A-24
2. Actions Challenging School Financing A-24
3. Actions Challenging Statutes That Reformed California Redevelopment Law A-25

Tax Cases A-25

Environmental Matters A-26

Action Regarding Special Education A-27

Actions Regarding Medi-Cal Reimbursements and Fees A-27

Prison Healthcare Reform and Reduction of Prison Population A-27

High-Speed Rail Litigation A-28

Action Regarding State Mandates A-28

FINANCIAL STATEMENTS A-29

PART II A-29

STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES A-29

The Budget Process A-29

The General Fund A-30

Restrictions on Raising or Using General Fund Revenues A-31

Sources of Tax Revenue A-32

1. Personal Income Tax A-35
2. Sales and Use Tax A-37
3. Corporation Tax A-38
4. Insurance Tax A-39
5. Other Taxes A-39
6. Special Fund Revenues A-39
7. Taxes on Tobacco Products A-41

State Expenditures A-42

1. K-12 Education under Proposition 98 ..... A-42
2. Higher Education A-45
3. Health and Human Services A-46
4. Public Safety A-50

Five-Year Expenditure Summary A-51
Budget Reserves A-53
1. Special Fund for Economic Uncertainties A-53
2. Budget Stabilization Account A-54
STATE FINANCES – OTHER ELEMENTS A-55
Pension Systems A-55
Retiree Health Care Costs A-55
1. Ongoing Efforts A-58
Unemployment Insurance A-59
State Appropriations Limit A-60
Local Government Impacts on State Finances A-61
1. Constitutional and Statutory Limitations A-61
2. Property Tax Revenues A-63
3. Dissolved Redevelopment Agency Funds A-63
4. Realigning Services to Local Governments A-63
CASH MANAGEMENT A-64
Traditional Cash Management Tools A-64
1. General A-64
2. Internal Borrowing A-64
3. External Borrowing A-64
Inter-Fund Borrowings A-65
Cash Management Borrowings A-66
Cash Management in Fiscal Years 2014-15 through 2016-17 ..... A-67
Other Cash Management Tools A-68
State Warrants A-68
1. Registered Warrants A-69
2. Reimbursement Warrants A-69
3. Refunding Reimbursement Warrants A-70
STATE INDEBTEDNESS AND OTHER OBLIGATIONS A-70
General A-70
Capital Facilities Financing A-70
1. General Obligation Bonds A-70

2. Variable Rate General Obligation Bonds A-71
3. General Obligation Commercial Paper Program A-72
4. Bank Arrangements A-72
5. Lease-Revenue Obligations A-73
6. Non-Recourse Debt A-73
7. Build America Bonds A-74
Future Issuance Plans; General Fund Debt Ratio A-75
Tobacco Settlement Revenue Bonds A-75
Office of Statewide Health Planning and Development Guarantees A-76
INVESTMENT OF STATE FUNDS A-77
OVERVIEW OF STATE GOVERNMENT A-79
Organization of State Government A-79
Employee Relations A-80
ECONOMY AND POPULATION A-81
Employment, Income, Construction and Export Growth A-83
BANK ARRANGEMENTS TABLE A-86
STATE DEBT TABLES A-89

EXHIBIT 1 – PENSION SYSTEMS EX-1
EXHIBIT 2 – STATE CONTROLLER'S STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS, JULY 1, 2015 - FEBRUARY 29, 2016 (UNAUDITED) EX-2

TABLES

TABLE 1 GENERAL FUND BUDGET SUMMARY A-10

TABLE 2 SELECTED NATIONAL AND CALIFORNIA ECONOMIC DATA A-12

TABLE 3 GENERAL FUND MULTI-YEAR BUDGET PROJECTION A-17

TABLE 4 STATEMENT OF ESTIMATED REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GENERAL FUND (BUDGETARY BASIS)..... A-19

TABLE 5 GENERAL FUND REVENUE BY SOURCES AND EXPENDITURES A-21

TABLE 6 DEBTS AND LIABILITIES UNDER PROPOSITION 2 2016-17 GOVERNOR'S BUDGET A-23

TABLE 7 GENERAL FUND REVENUES AND TRANSFERS A-34

TABLE 8 PERSONAL INCOME TAX GENERAL FUND REVENUES (PIT) A-36

TABLE 9 COMPARATIVE YIELD OF STATE TAXES – SPECIAL FUNDS (MODIFIED ACCRUAL BASIS) A-41

TABLE 10 PROPOSITION 98 FUNDING A-44

TABLE 11 ESTIMATED BALANCES OF PROPOSITION 98 FUTURE OBLIGATIONS A-45

TABLE 12 HIGHER EDUCATION GENERAL FUND EXPENDITURES A-46

TABLE 13 MEDI-CAL EXPENDITURES A-47

TABLE 14 IHSS EXPENDITURES A-48

TABLE 15 CALWORKS EXPENDITURES A-49

TABLE 16 DEPARTMENT OF DEVELOPMENTAL SERVICES EXPENDITURES A-50

TABLE 17 GOVERNMENTAL COST FUNDS (BUDGETARY BASIS) SCHEDULE OF EXPENDITURES BY FUNCTION AND CHARACTER A-52

TABLE 18 OPEB PAY-AS-YOU-GO FUNDING A-57

TABLE 19 ACTUAL COSTS/BUDGET FOR OTHER POST-EMPLOYMENT BENEFITS A-58

TABLE 20 STATE APPROPRIATIONS LIMIT A-61

TABLE 21 INTERNAL BORROWABLE RESOURCES (CASH BASIS) A-66

TABLE 22 STATE OF CALIFORNIA REVENUE ANTICIPATION NOTES ISSUED A-67

TABLE 23 POPULATION A-82

TABLE 24 LABOR FORCE A-82

TABLE 25 NONFARM PAYROLL EMPLOYMENT BY MAJOR SECTOR 2005 AND 2015 ..... A-83

TABLE 26 TOTAL PERSONAL INCOME IN CALIFORNIA A-83

TABLE 27 PERSONAL INCOME PER CAPITA A-84

TABLE 28 RESIDENTIAL CONSTRUCTION PERMITS AUTHORIZED A-84

TABLE 29 NON-RESIDENTIAL CONSTRUCTION A-85

TABLE 30 CALIFORNIA'S EXPORTS OF GOODS A-85

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 2016-17 Governor's Budget. As the state (including certain of its agencies) issues bonds from time to time before the end of fiscal year 2015-16, 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 a year, at the time of the release of the proposed Governor's Budget in January and following enactment of the annual budget in July. The latter update will include revenue and economic forecasts presented in the Governor's May Revision of his original January budget proposal. In the event there are material changes to the information contained in PART II after each January/July update, such information will be highlighted in the "Recent Developments" section of PART I in the next 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 2015 was 39.1 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 "PROPOSED FISCAL YEAR 2016-17 BUDGET—Economic Assumptions Underlying the 2016-17 Governor's Budget" and "ECONOMY AND POPULATION."

Financial Condition of the State General Fund

The state's fiscal health continues to improve since the end of the severe recession in 2009 (the "Great Recession"), which caused large budget deficits. The state's General Fund budget has achieved structural balance for the last five fiscal years. Based on the proposals in the 2016-17 Governor's Budget, by the end of fiscal year 2016-17, the Budget Stabilization Account ("BSA"), the state's rainy day fund, is projected to have a balance of $8.0 billion. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves—*Budget Stabilization Account*."

In addition, in recent years, the state has 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 2016-17 Governor's Budget proposes to pay down an additional $1.6 billion in various debts and liabilities in fiscal year 2016-17. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2."

Despite the recent significant budgetary improvements, there remain a number of budget risks that threaten the financial condition of the state's General Fund, including the threat of recession 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 post-employment benefits. 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 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 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 2015-16 and 2016-17, the 2016-17 Governor's Budget projects $121.2 billion and $125.8 billion in resources for the General Fund, respectively, and $116.1 billion and $122.6 billion in expenditures from the General Fund, respectively. The fiscal year 2015-16 resources are comprised of $117.5 billion of revenues and transfers, and a $3.7 billion fund balance carried over from fiscal year 2014-15. The fiscal year 2016-17 resources are comprised of $120.6 billion of revenues and transfers, and a $5.2 billion fund balance carried over from fiscal year 2015-16. The 2016-17 Governor's Budget proposes $2.2 billion in the Special Fund for Economic Uncertainties ("SFEU") and $8.0 billion in the BSA at the end of fiscal year 2016-17. See "PROPOSED FISCAL YEAR 2016-17 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. From fiscal years 2007-08 through 2012-13, the General Fund ended each fiscal year with a net borrowing from special funds, but for fiscal years 2013-14 and 2014-15, the

state ended each fiscal year with a positive General Fund balance and no outstanding internal loans from special funds. The General Fund balance was $2.5 billion at June 30, 2015. The 2016-17 Governor's Budget projects the state will not have any need to use external cash flow borrowing in fiscal years 2015-16 and 2016-17. 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 January 1, 2016, the state had approximately $86.0 billion of outstanding general obligation bonds and lease revenue bonds payable principally from the state's General Fund or from lease payments paid from the operating budget of the respective lessees, which operating budgets are primarily, but not exclusively, derived from the General Fund. As of January 1, 2016, there were approximately $29.3 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 $3.6 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 contributions to CalPERS and CalSTRS are estimated to be approximately $3.2 billion and $2.5 billion, respectively, for fiscal year 2016-17. The combined contributions, which include contributions for California State University ("CSU"), represent about 4.6 percent of all General Fund expenditures in fiscal year 2016-17. See "PROPOSED FISCAL YEAR 2016-17 BUDGET."

Recent legislation with respect to both CalPERS and CalSTRS and changes in actuarial assumptions 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 actual amount of any increases will depend on a variety of factors, including but not limited to, investment returns, actuarial assumptions, experience and retirement benefit adjustments. See 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 Post-Employment 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 $74.2 billion as of June 30, 2015 (virtually all unfunded) as compared to an AAL of $71.8 billion estimated as of June 30, 2014.

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. 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*.

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 February 29, 2016. 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 February 29, 2016 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."

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

"2015-16 Budget" means the 2015 Budget Act plus related legislation to implement the budget.

"2015 Budget Act" means the Budget Act for fiscal year 2015-16, adopted on June 24, 2015.

"2015-16 Governor's Budget" means the proposed Governor's Budget for fiscal year 2015-16 released on January 9, 2015.

"2015-16 May Revision" means the May Revision of the 2015-16 Governor's Budget released on May 14, 2015.

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

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 2016-17 Governor's Budget

On January 7, 2016, the Governor released his proposed budget for fiscal year 2016-17. The proposal continues to pay down debts and liabilities and builds a healthier reserve fund as it implements the second year of Proposition 2. In addition, the proposal continues to invest in education and health care, strengthens the state's infrastructure, and creates a sustainable path for state worker retiree health benefits. See "PROPOSED FISCAL YEAR 2016-17 BUDGET."

Recent Cash Receipts

In *February*, the Department of Finance reported that, based on agency cash receipts, tax receipts for January are $148 million below the 2016-17 Governor's Budget forecast of $13.178 billion. Fiscal year-to-date cash receipts, which include revisions to prior months, are $193 million below the 2016-17 Governor's Budget forecast of $65.48 billion *through January. In March, the Department of Finance reported that, based on agency cash receipts, tax receipts for February are $636 million above the 2016-17 Governor's Budget forecast of $5.001 billion. Fiscal year-to-date cash receipts, which include revisions to prior months, are $442 million above the 2016-17 Governor's Budget forecast of $70.481 billion through February.*

Modified Managed Care Organization Tax

On March 1, 2016, the Governor signed a package of bills to modify and continue the tax on managed care organizations for 3 years, which is expected to provide at least $1.3 billion annually for Medi-Cal. The tax will be implemented beginning fiscal year 2016-17, subject to federal approval. See "STATE FINANCES—STATE REVENUES, EXPENDITURES AND RESERVES—Health and Human Services."

Audited Financial Statements

On March 18, 2016, the State Controller released the Audited Basic Financial Statements of the state for the year Ended June 30, 2015, which are included as APPENDIX G to this Official Statement. As required by GASB 67 and 68, the state's balance sheet now shows for the first time the "net pension liability" attributable to the state government. See EXHIBIT 1 – "PENSION SYSTEMS – General."

Revisions to Part II of Appendix A

The following information has been updated since March 8, 2016 (with new language shown in italics):

(i) STATE FINANCES—STATE REVENUES, EXPENDITURES AND RESERVES—Health and Human Services—Replacement of the Managed Care Organization Tax.

(ii) STATE FINANCES—STATE REVENUES, EXPENDITURES AND RESERVES—Five-Year Expenditure Summary.

(iii) STATE FINANCES – OTHER ELEMENTS – Retiree Health Care Costs.

(iv) OVERVIEW OF STATE GOVERNMENT – Employee Relations.

(v) STATE DEBT TABLES.

PROPOSED FISCAL YEAR 2016-17 BUDGET

The 2016-17 Governor's Budget, released on January 7, 2016, proposes a multi-year plan that is balanced through fiscal year 2018-19, builds up the BSA or rainy day fund (including a $2 billion deposit in addition to what is required by the state constitution), uses additional funds for one-time purposes, and continues to pay down budgetary debt from past years.

General Fund revenues and transfers for fiscal year 2016-17 are projected at $120.6 billion; an increase of $3.1 billion, or 2.6 percent, compared with a revised estimate of $117.5 billion in General Fund revenues and transfers for fiscal year 2015-16. These estimates include transfers to the BSA of $3.6 billion for fiscal year 2016-17 ($2 billion more than would be required by law) and $2.8 billion for fiscal year 2015-16 (an increase of $1.0 billion above initial estimate). 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 2016-17 are projected at $122.6 billion, an increase of $6.5 billion, or 5.6 percent, compared with a revised estimate of $116.1 billion in General Fund expenditures for fiscal year 2015-16. The main components of the increase in expenditures are: $2.1 billion in Health and Human Services costs, $1.5 billion for state office infrastructure needs, $0.5 billion for deferred maintenance and $1.4 billion in K-12 education costs. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures."

The 2016-17 Governor's Budget assumes the continued expansion of the economy, pushing revenues higher than previous projections. However, since economic expansions do not last forever, the state must plan for future recessions. Accordingly, the 2016-17 Governor's Budget proposes to spend most of the increase in estimated revenues on one-time purposes rather than to expand ongoing programs. In connection with preparing the 2016-17 Governor's Budget, the Department of Finance modeled a recession of average magnitude to occur in fiscal year 2017-18. In that scenario, the state would be left with a $29 billion General Fund deficit by the end of fiscal year 2019-20, using the revenue and expenditure assumptions in the 2016-17 Governor's Budget, including the proposals for one-time use of new revenues, even without accounting for higher safety net program spending that would be caused by a recession.

The 2016-17 Governor's Budget has the following major expenditure components:

- Proposition 98 – proposes $71.6 billion total funding for fiscal year 2016-17, of which $51.0 billion is General Fund, and the balance is primarily from local property taxes. Of the $51.0 billion from the General Fund, $45.5 billion is proposed for K-12 education and $5.4 billion is proposed for community colleges.

See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—*K-12 Education under Proposition 98*."

- Higher Education – proposes total state funding of $14.9 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. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—Higher Education."

- Health and Human Services – proposes $52.5 billion, including $33.7 billion General Fund and $18.8 billion from special funds, for these programs. Implementation of federal health care reform has provided coverage to millions of Californians, beginning in January 2014. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—Health and Human Services."

- Public Safety – proposes total state funding of $13.3 billion, including $10.6 billion General Fund and $2.7 billion from special funds, for Corrections and Rehabilitation. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—Public Safety."

In preparing the 2016-17 Governor's Budget, the Administration is aware of certain risks that could impact the results projected for fiscal year 2016-17, which are set forth below under "CURRENT STATE BUDGET – Budget Risks." If any of these risks becomes more apparent, or new risks arise, the Administration will address them in the May Revision of the 2016-17 Governor's Budget.

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The following table summarizes the General Fund budget in the 2016-17 Governor's Budget and compares it to the General Fund budget for the current fiscal year as of the previous budget act:

TABLE 1
General Fund Budget Summary

(Dollars in Millions)

	As of 2015 Budget Act	As of 2016-17 Governor's Budget	
	Fiscal Year 2015-16	Fiscal Year 2015-16	Fiscal Year 2016-17
Prior Year Balance	$ 2,423	$ 3,699	$ 5,172
Revenues and Transfers	115,033	117,537	120,633
Total Resources Available	117,456	121,236	125,805
Non-Proposition 98 Expenditures	65,953	66,072	71,637
Proposition 98 Expenditures	49,416	49,992	50,972
Total Expenditures	115,369	116,064	122,609
Fund Balance	2,087	5,172	3,196
Budget Reserves:			
Reserve for Liquidation of Encumbrances	971	966	966
Special Fund for Economic Uncertainties	1,116	4,206	2,230
Budget Stabilization Account/ Rainy Day Fund	$ 3,460	$ 4,455	$ 8,011

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 2016-17 Governor's Budget projects steady 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 continues to show improvement, with low inflation and the national unemployment rate declining. The U.S. unemployment rate reached 5.0 percent in October 2015, a level last seen in April 2008. 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. There are few immediate signs of a contraction, but it would be an historical anomaly for the U.S. not to see another recession before 2020.

California Economy. California's real GDP increased by 2.8 percent in 2014, and totaled $2.3 trillion at current prices, keeping California as the eighth largest economy in the world. California has added jobs at a faster rate than the nation since 2012. The California economy is expected to continue making solid progress. Most individual sectors of the state economy have experienced solid growth, with the exception of the agricultural sector, which had modest growth. Agricultural production totaled $54 billion out of $2.3 trillion in 2014 California GDP. At 2.3 percent of the total economy, declines in the agricultural sector due to drought are expected to be offset by growth in other sectors.

California Drought. While the current drought is one of the most severe in California's history, it is not expected to significantly impact any sectors of the state economy beyond the agricultural sector. The Administration has taken actions to address drought conditions, including mandating statewide water conservation, facilitating water management where possible, and providing funding for critical water infrastructure projects. The El Niño storms that have drenched California since December 2015 are providing some relief. A full recovery from drought is expected to be slow and will require much more rain and snowfall. The forecast assumes modest improvement in the agriculture sector beginning in 2016. The 2016-17 Governor's Budget includes a total of $719 million new General Fund resources for fiscal years 2015-16 and 2016-17 to pay for costs related to the drought, including $507 million for emergency response activities associated with wildfires.

Economic Assumptions Underlying the 2016-17 Governor's Budget

The revenue and expenditure assumptions utilized in connection with the 2016-17 Governor's Budget (covering the balance of the 2015-16 fiscal year and fiscal year 2016-17) were based upon certain assumptions concerning the performance of the California, national, and global economies in calendar years 2016 and 2017. 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

	2015	2016 (Projected)	2017 (Projected)
United States			
Real gross domestic product (percent change)	2.4	2.9	2.8
Personal income (percent change)	4.2	4.5	5.3
Nonfarm wage and salary employment (millions)	141.9	144.1	146.1
(percent change)	2.1	1.6	1.4
Housing starts (thousands)	1,114	1,277	1,437
(percent change)	11.4	14.6	12.5
California			
Personal income ($ billions)	2,043.0	2,155.3	2,267.9
(percent change)	5.3	5.5	5.2
Nonfarm wage and salary employment (thousands)	16,131.5	16,488.1	16,730.3
(percent change)	3.1	2.2	1.5
Unemployment rate (percent)	6.2	5.7	5.6
Housing units authorized (thousands)	100.6	111.4	128.6
(percent change)	16.6	10.7	15.5
Total taxable sales ($ billions)	646.2	673.6	711.8
(percent change)	5.6	4.2	5.7

Note: Percentage changes calculated from unrounded data.

Source: State of California, Department of Finance, 2016-17 Governor's Budget forecast.

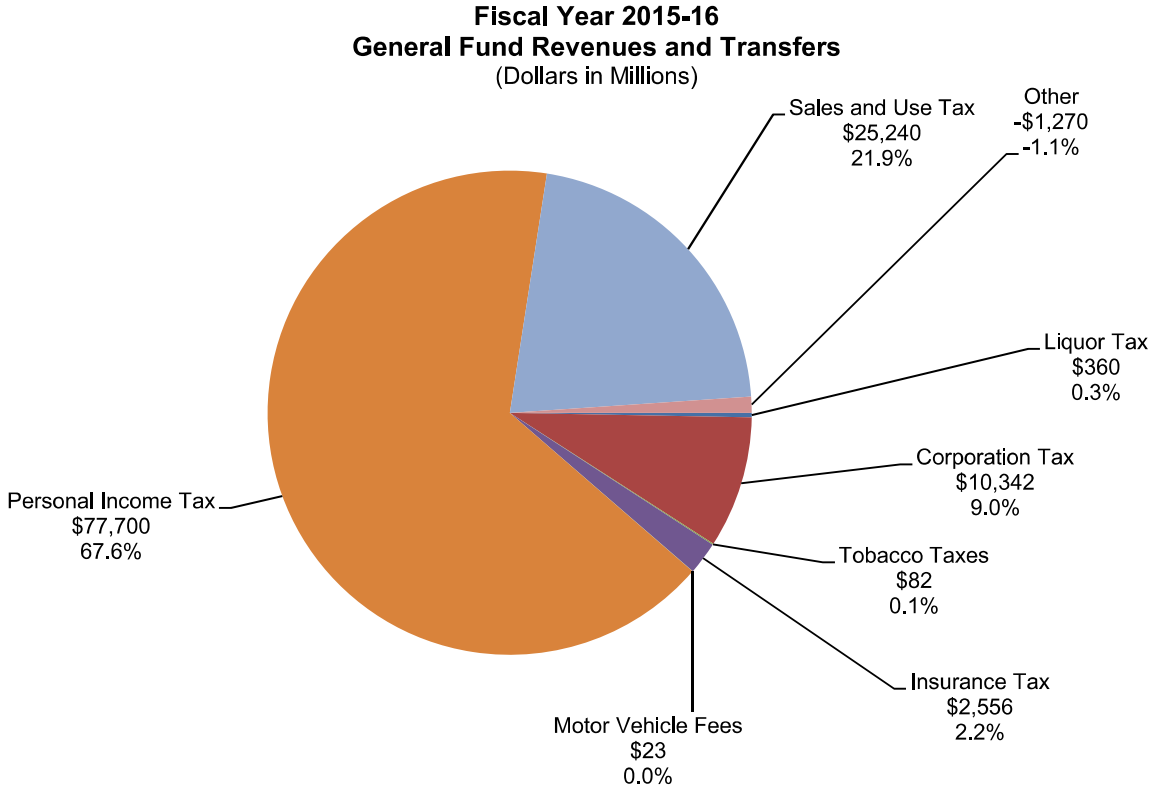
CURRENT STATE BUDGET

General

When the 2015-16 Budget was enacted in June 2015, General Fund revenues and transfers for fiscal year 2015-16 were projected at $115.0 billion. As of the 2016-17 Governor's Budget, they are projected to increase to $117.5 billion (net of a $2.8 billion transfer to the BSA that was originally estimated to be $1.9 billion), a net increase of $2.5 billion or 2.2 percent. General Fund expenditures for fiscal year 2015-16 were projected at $115.4 billion when the current fiscal year budget was enacted. As of the 2016-17 Governor's Budget, they are projected to be $116.1 billion, an increase of $0.7 billion or 0.6 percent. This includes a $0.6 billion increase in expenditures for Proposition 98 purposes.

For more information on revised fiscal year 2015-16 estimates, see "Fiscal Year 2015-16 Revised General Fund Estimates in the 2016-17 Governor's Budget" and "PROPOSED FISCAL YEAR 2016-17 BUDGET—Development of Revenue Estimates" and "—Economic Assumptions Underlying the 2016-17 Governor's Budget."

The following chart summarizes the principal revenue and transfer components of the 2015 Budget Act, as of its adoption.



Note: The "Other" category is negative because it includes a transfer to the BSA of $1,854 million.

The 2015-16 Budget included the following major General Fund expenditure components at the time of enactment:

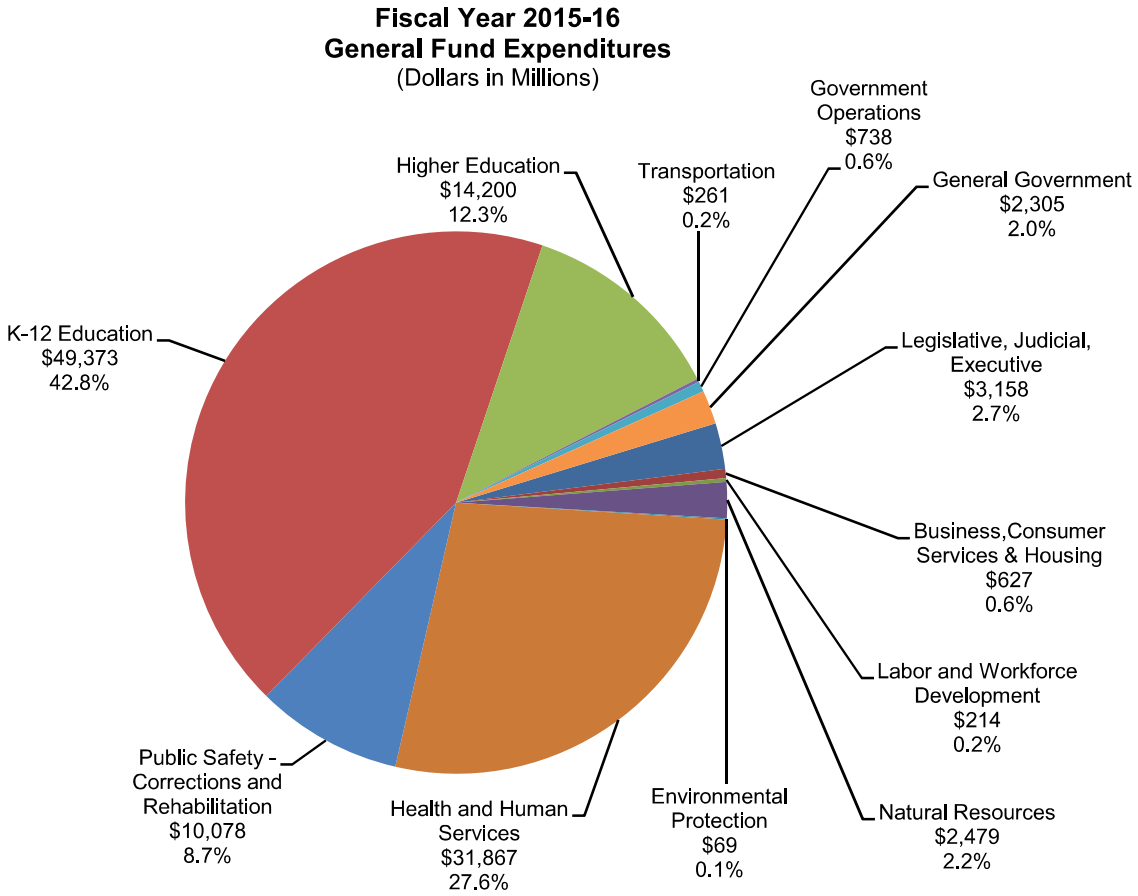
- K-12 Education – funding of $50.5 billion for fiscal year 2015-16, of which $49.4 billion is from the General Fund (both Non-Proposition 98 and Proposition 98), $0.103 billion is from special funds and $1.063 billion is from bond funds. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—*K-12 Education under Proposition 98*."

- Higher Education – funding of $14.6 billion for fiscal year 2015-16, of which $14.2 billion is from the General Fund (both Non-Proposition 98 and Proposition 98 expenditures), $0.043 billion is from special funds and $0.390 billion is from bond funds, for the UC, CSU and the community colleges. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—*Higher Education*."

- Health and Human Services – funding of $52.3 billion for fiscal year 2015-16, of which $31.9 billion is from the General Fund and $20.4 billion is from special funds. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—*Health and Human Services*."

• Public Safety – funding of $12.7 billion for fiscal year 2015-16, of which $10.1 billion is from the General Fund and $2.6 billion is from special funds for the Department of Corrections and Rehabilitation ("CDCR") and other related programs. See "STATE FINANCES —REVENUES, EXPENDITURES AND RESERVES—State Expenditures—*Public Safety*."

The following chart summarizes the principal expenditure components of the 2015 Budget Act, as of its adoption.



Note: The state's expenditures for contributions to the pension funds (4.2 percent of total General Fund expenditures when combined) and for debt service on bonds (net of various reimbursements) payable from the General Fund (4.7 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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Budget Risks

The 2015-16 Budget is based on a variety of estimates and assumptions. If actual results differ from those assumptions, the state's financial condition could be adversely or positively affected. There can be no assurance that the financial condition of the state will not be materially and adversely affected by actual conditions or circumstances in fiscal year 2015-16 and beyond.

While the state is in a better financial position than in recent years, 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 2015 Budget Act assumed continued steady growth of the economy. While there are few signs of an immediate contraction, the Administration understands that another recession is inevitable. See "PROPOSED FISCAL YEAR 2016-17 BUDGET."

- Federal Fiscal Challenges — As it has done in the past, the federal government could continue to shift its costs to the state in order to address its own fiscal challenges. It could also disapprove proposals in the health and human services areas that the state relies on as fiscal control measures. Changes in the federal government's policies may also drive state program costs up significantly.

- Capital Gains Volatility — Capital gains are the state's most volatile revenue source. Under Proposition 2, some of this volatility will be mitigated by requiring that spikes in capital gains be deposited in the BSA in anticipation of the next recession and to pay down 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 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, budgetary spending will become even 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 budget challenges have been 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." In addition, 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 preparation of the 2016-17 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 proposals for changes included in the 2016-17 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 projections do not include additional policy changes or proposals to address the budget deficit projected in fiscal year 2019-20. Under state law and the state Constitution, the annual proposed Governor's Budget, the budget sent by the Legislature to the Governor for consideration, and the budget signed into law by the Governor cannot provide for projected expenditures in excess of projected resources for the ensuing fiscal year. This requirement does not apply to out-year projections.

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 above normal levels for 2016 and 2017. (Normal level is considered to be 4.5 percent of personal income in the state.) Tax revenue is expected to grow by 3.3 percent from fiscal year 2015-16 to fiscal year 2016-17 and 3.1 percent from fiscal year 2016-17 to fiscal year 2017-18, decline by 0.1 percent from fiscal year 2017-18 to fiscal year 2018-19, and grow by 3.0 percent from fiscal year 2018-19 to fiscal year 2019-20.

These changes in growth rates from fiscal year 2015-16 to fiscal year 2019-20 can be attributed in large part to the expiration of Proposition 30 tax rates. The sales tax portion of Proposition 30 expires on December 31, 2016 and the personal income tax portion of Proposition 30 expires on December 31, 2018. The other main factor explaining the year-to-year changes in revenues and transfers is the change in the amounts of loan repayments to special funds made each year consistent with the projections shown in Table 6 below. Actual conditions may differ materially from the assumptions, and there can be no assurances the projections will be achieved.

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

	Fiscal Year				
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Prior Year Balance	$ 3,699	$ 5,172	$ 3,196	$ 3,805	$ 1,914
Revenues and Transfers[a]	120,386	124,189	128,125	128,304	132,129
Transfer to BSA/Rainy Day Fund[b]	-2,849	-3,556	-1,284	-999	-991
Total Resources Available	**$121,236**	**$125,805**	**$130,037**	**$131,110**	**$133,052**
Proposition 98 Expenditures	49,992	50,972	52,336	51,454	52,535
Non-Proposition 98 Expenditures	66,072	71,637	73,896	77,742	81,327
Unallocated Prop 2 Debt Payments					123
Total Expenditures	**$116,064**	**$122,609**	**$126,232**	**$129,196**	**$133,985**
Fund Balance	**$5,172**	**$3,196**	**$3,805**	**$1,914**	**-$933**
Reserve for Encumbrances	966	966	966	966	966
Special Fund for Economic Uncertainties	**$4,206**	**$2,230**	**$2,839**	**$948**	**-$1,899**
Budget Stabilization Account/ Rainy Day Fund	$4,455	$8,011	$9,295	$10,294	$11,285
Operating Surplus/-Deficit with BSA/Rainy Day Fund Transfer	**$1,473**	**-$1,976**	**$609**	**-$1,891**	**-$2,847**

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), accordingly, more than one-half of the revenue impact of Proposition 30 is expected to be lost in fiscal year 2018-19, and beginning with fiscal year 2019-20, there will be no remaining revenue impact from Proposition 30. The sales tax portion of Proposition 30 will expire at the end of the 2016 tax year (December 31, 2016). The Proposition 30 revenue amounts projected in the 2016-17 Governor's Budget are shown below (in millions):

	2015-16	2016-17	2017-18	2018-19
Prop 30 – Income Tax	$7,576	$7,663	$7,736	$3,103
Prop 30 – Sales Tax	1,542	829	0	0

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

Fiscal Year 2015-16 Revised General Fund Estimates in the 2016-17 Governor's Budget

The 2016-17 Governor's Budget makes various revisions to General Fund estimates for fiscal year 2015-16 involving the beginning fund balance, revenues, expenditures, and ending General Fund 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 2016-17 Governor's Budget estimates that the beginning fund balance for the General Fund at July 1, 2015 was $1.3 billion higher than had been assumed when the 2015 Budget Act was adopted, primarily due to lower than projected spending for Non-Proposition 98 expenditures in fiscal year 2014-15. These figures are preliminary estimates subject to further adjustment after receipt of additional information concerning final revenues and expenditures for fiscal year 2015-16.

Besides the gain in the beginning fund balance as described above, the most significant change to the estimated results for fiscal year 2015-16 as shown in Table 5 is an increase of $2.5 billion of revenues and transfers, primarily due to higher than projected tax revenues. This increase

was offset by a much smaller increase of only $0.7 billion in total expenditures ($0.6 billion of that is for Proposition 98 spending due to the increased revenues described above). The 2015 Budget Act projected an ending balance in the SFEU of $1.1 billion for fiscal year 2015-16; the revised estimate is $4.2 billion.

Summary of State Revenues and Expenditures

The table below presents the actual revenues, expenditures and changes in fund balance for the General Fund for fiscal years 2012-13 through *2014-15*, and the estimated and projected results for fiscal years *2015-16* through 2016-17, respectively, based on the 2016-17 Governor's Budget. In addition to the SFEU, which is part of the fund balance of the General Fund, the 2016-17 Governor's Budget projects a cumulative balance of $8.0 billion in the BSA or rainy day fund, at June 30, 2017.

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.

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TABLE 4
Statement of Estimated Revenues, Expenditures and Changes in Fund Balance – General Fund (Budgetary Basis)[a]

(Dollars in Millions)*

	Fiscal Year				
	2012-13	**2013-14**	**2014-15**	**Estimated 2015-16**	**Projected 2016-17**
Fund Balance–Beginning of Period	$(1,609)	$4,285	*$8,410*	*$6,460*	$5,172
Restatements					
Prior Year Adjustment	1,288	(316)	*164*	*(2,761)*	–
Fund Balance–Beginning of Period, as Restated	**$(320)**	**$ 3,969**	***$8,574***	**$3,699**	**$5,172**
Revenues	$98,418	$102,420	*$114,985*	$121,466	$125,078
Other Financing Sources					
Transfers from Other Funds	2,047	1,154	*421*	(3,929)[b]	(4,445)[b]
Other Additions	393	213	*277*	–	–
Total Revenues and Other Sources	**$100,858**	**$103,787**	***$115,683***	**$117,537**	**$120,633**
Expenditures					
State Operations[c]	$25,960	$25,811	*$29,863*	$30,035	$31,493
Local Assistance	69,828	72,040	*85,109*	85,769	89,468
Capital Outlay	120	158	*168*	176	1,648
Unclassified	–	–	–	84	–
Other Uses	–	–	–	–	–
Transfer to Other Funds	345	1,339	*2,657*	–[d]	–[d]
Total Expenditures and Other Uses	**$96,253**	**$99,347**	***$117,797***	**$116,064**	**$122,609**
Revenues and Other Sources Over or (Under) Expenditures and Other Uses	$4,605	4,441	*$(2,114)*	$1,473	$(1,976)
Fund Balance					
Deferred Payroll[e]	732	949	*1,026*	–	–
Reserved for Encumbrances	732	840	*967*	966	966
Reserved for Unencumbered Balances of Continuing Appropriations[f]	1,058	1,192	*1,145*	–	–
Unreserved–Undesignated [g]	1,763	5,429	*3,322*	4,206	2,230
Fund Balance–End of Period	**$4,285**	**$8,410**	***$6,460***	**$5,172**	**$3,196**

* Totals may not add due to rounding.

(a) These statements have been prepared on a budgetary basis in accordance with state law and some modifications would be necessary in order to comply with generally accepted accounting principles ("GAAP"). The Supplementary Information contained in the state's Audited Basic Financial Statements for the year ended June 30, *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."

(b) Includes transfers to the BSA of $1.6 billion in fiscal-year 2014-15, $2.8 billion in fiscal year 2015-16, and $3.6 billion in fiscal year 2016-17.

(Footnotes Continued on Following Page)

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(c) Includes debt service on general obligation bonds. The estimated amount of debt service is $4.8 billion and $4.8 billion for fiscal years 2015-16 and 2016-17, 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 $1.9 billion and $2.0 billion in fiscal years 2015-16 and 2016-17, 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 *2010-11* through *2014-15*" under "STATE DEBT TABLES."

(d) "Transfer to Other Funds" is included in "Transfers from Other Funds."

(e) 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 2014-15, 2015-16, and 2016-17 the General Fund Deferred Payroll amounts are estimated at $1.0 billion, $1.1 billion, and $1.1 billion respectively, 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.

(f) For purposes of determining whether the General Fund budget, in any given fiscal year, is in a surplus or deficit condition, see Government Code Section 13307. Under this law, the unencumbered balances of continuing appropriations, which exist when no commitment for expenditure 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.

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

Source: Actual amounts for fiscal years 2012-13 to *2014-15*: State of California, Office of the State Controller. Estimated amounts for fiscal *year* 2015-16 and projected amounts for fiscal year 2016-17: State of California, Department of Finance as of the 2016-17 Governor's Budget.

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 2014-15 through 2016-17, as set forth in the 2016-17 Governor's Budget.

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TABLE 5
General Fund Revenue by Sources and Expenditures

(Dollars in Millions)

Revenues Source	Fiscal Year 2015-16 Enacted (as of June 2015)	2015-16 Revised (as of January 2016)	2016-17 Proposed (as of January 2016)
Personal Income Tax	$ 77,700	$ 81,354	$ 83,841
Sales and Use Tax	25,240	25,246	25,942
Corporation Tax	10,342	10,304	10,956
Insurance Tax	2,556	2,493	2,549
Alcoholic Beverage Taxes and Fees	360	366	373
Cigarette Tax	82	84	81
Motor Vehicle Fees	23	22	22
Other[a]	584	517	425
Subtotal	$ 116,887	$ 120,386	$ 124,189
Transfer to the Budget Stabilization Account/Rainy Day Fund	-1,854	-2,849	-3,556
Total	$ 115,033	$ 117,537	$ 120,633

Expenditures Function	2015-16 Enacted	2015-16 Revised (as of January 2016)	2016-17 Proposed (as of January 2016)
Legislative, Judicial and Executive	$ 3,158	$ 3,227	$ 3,330
Business, Consumer Services Housing	627	636	434
Transportation	261	267	222
Natural Resources	2,479	2,730	2,909
Environmental Protection	69	325	-31
Health and Human Services	31,867	31,666	33,742[b]
Public Safety (including Corrections and Rehabilitation)	10,078	10,276	10,620
K-12 Education	49,373	49,859	51,230
Higher Education	14,200	14,312	14,567
Labor and Workforce Development	214	212	166
Government Operations	738	761	2,245[c]
General Government			
Non-Agency Departments	684	711	729
Tax Relief/Local Government	469	445	483
Statewide Expenditures	1,152	637	1,963[d]
Supplemental Payment to the Economic Recovery Bonds	-	-	-
Total Expenditures	$ 115,369	$ 116,064	$ 122,609

[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 approximately $1 billion increase due to the expiration of the Managed Care Organization tax.

[c] Includes $1.5 billion for state office infrastructure.

[d] Includes $500 million for deferred maintenance, $300 million set-aside for potential employee compensation increases, subject to good faith bargaining, and $300 million in unallocated retirement contribution.

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, will be 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 post-employment 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 2016-17 Governor's Budget proposes to repay loans from special funds ($955 million), repay prior years of Proposition 98 underfunding (referred to as "settle up," $257 million), repay pre-Proposition 42 (2002) transportation loans ($173 million), and help pay down the unfunded liability associated with the University of California's retirement system ($171 million). The primary strategy within the multi-year forecast period is to continue to pay down budgetary borrowing and use increased revenues for one-time expenditures. The Administration projects that all loans from special funds, underfunding of Proposition 98 (settle up payments), and borrowing from pre-Proposition 42 transportation funds will be entirely repaid by the end of fiscal year 2019-20.

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TABLE 6
Debts and Liabilities Under Proposition 2
2016-17 Governor's Budget

(Dollars in Millions)

	Fiscal Year					
	Outstanding Amount at Start of 2016-17	**Proposed Use of 2016-17 Pay Down**	**Proposed Use of 2017-18 Pay Down**	**Proposed Use of 2018-19 Pay Down**	**Proposed Use of 2019-20 Pay Down**	**Remaining Amount Not Currently Scheduled[(b)]**
Budgetary Borrowing						
Loans from special funds	$1,806	$955	$559	$292	$0	$0
Underfunding of Proposition 98—Settle-Up	1,232	257	286	337	352	0
Repayment of pre-Proposition 42 Transportation Loans	879	173	220	220	266	0
State Retirement Liabilities (Unfunded Actuarial Estimate)						
State Retiree Health	71,773	0	50	150	250	N/A
State Employee Pensions	43,291	0	0	0	0	N/A
Teacher Pensions[(a)]	72,718	0	0	0	0	N/A
Judges' Pensions	3,358	0	0	0	0	N/A
Deferred payments to CalPERS	570	0	0	0	0	N/A
University of California Retirement Liabilities (Unfunded Actuarial Estimate)						
University of California Employee Pensions	10,786	171	169	0	0	N/A
University of California Retiree Health	17,270	0	0	0	0	N/A
Unallocated Debt Payments					123	
Total	**$223,683**	**$1,556**	**$1,284**	**$999**	**$991**	**N/A**

(a) The state portion of the unfunded liability for teacher pensions is $14.9 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 (Court of Appeal, Third Appellate District, Case Nos. C075930, C075954).

2. Actions Challenging School Financing

In *Robles-Wong, et al. v. State of California* (Alameda County Superior Court, Case No. RG-10-515768), plaintiffs challenge the state's "education finance system" as unconstitutional. Plaintiffs, consisting of school children, school districts, the California Association of School Administrators, the California School Boards Association and California Teachers Association allege the state has not adequately fulfilled its constitutional obligation to support its public schools, and seek to enjoin the state from continuing to operate and rely on the current financing system and to develop a new education system that meets constitutional standards as declared by the court. In a related matter, *Campaign for Quality Education, et al. v. State of California* (Alameda County Superior Court, Case No. RG-10-524770), plaintiffs also challenge the constitutionality of the state's education finance system. The trial court ruled that there was no constitutional right to a particular level of school funding. Plaintiffs in each matter appealed (Court of Appeal, First Appellate District, Case Nos. A134423, A134424). Oral argument occurred in January 2016, with no decision yet issued. Plaintiffs in these matters allege they have suffered $17 billion in education funding cuts over two years. It is currently unknown what the fiscal impact of these matters might be upon the General Fund.

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 addresses only certain of plaintiff's claims. The trial court 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.

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

There are over 100 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 in this matter.

Tax Cases

Six actions were filed contending that the Legislature's modification of Revenue and Taxation Code Section 25128, which implemented the double-weighting of the sales factor in California's apportionment of income formula for the taxation of multistate business entities, was invalid and/or unconstitutional. These matters are consolidated in one matter, collectively referred to as *Gillette Company v. Franchise Tax Board*. Plaintiffs contended that the single-weighted sales factor specified in Section 25128 prior to amendment was contained within the Multistate Tax Compact ("Compact") and therefore could not be modified without repealing the legislation that enacted the Compact. An adverse ruling in these cases would affect multiple taxpayers and create potential exposure to refund claims in excess of $750 million. The trial court ruled for the state, but, on appeal, the trial court judgment was reversed (Court of Appeal, First Appellate District, Case No. A130803). On December 31, 2015, the California Supreme Court reversed the Court of Appeal's decision, holding that the Compact did not bar the Legislature from unilaterally amending the corporate tax apportionment formula specified in Section 25128. A petition to the United States Supreme Court for review is possible. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue—*Corporation Tax*."

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 the plaintiffs' joint motion for class certification and the 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. 37-2001-00100846-CU-MC-CTL, Court of Appeal, Fourth Appellate District, Case No. D064241) 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 for the state; the Court of Appeal reversed and remanded the matter to the trial court. The California Supreme Court denied plaintiff's petition for review of a separate issue (California Supreme Court, Case No. S227652). The *Harley-Davidson* matter is currently set for trial in August 2016, and the *Abercrombie* matter is set for trial in September 2016. At this time, it is unknown what future fiscal impact a potential adverse ruling 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. The *Harley Davidson* case also raises the issue raised in the *Gillette* case regarding modification of the apportionment formula for multistate businesses; resolution of this issue in *Harley Davidson* is deferred pending resolution of the issue in *Gillette* (discussed above).

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 have filed a second action, a class action lawsuit to enforce the ruling obtained in the first action, 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.

Environmental Matters

In *Consolidated Suction Dredge Mining Cases (Karuk Tribe v. DFG)* (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.

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.

Actions Regarding Medi-Cal Reimbursements and Fees

In *The Rehabilitation Center of Beverly Hills, et al. v. Department of Health Services, et al.* (Sacramento County Superior Court, Case No. 06CS01592), plaintiffs challenge a quality assurance fee ("QAF") charged to skilled nursing facilities that was enacted in 2004, alleging violations of the federal and state constitutions and state law. Funds assessed under the QAF are made available, in part, to enhance federal financial participation in the Medi-Cal program. Plaintiffs seek a refund of fees paid. The QAF amounts collected from all providers is approximately $2.6 billion, and California has received additional federal financial participation based on its imposition and collection of the QAF. An adverse ruling could negatively affect the state's receipt of federal funds. The trial court ruled for the state, finding that the QAF is constitutionally valid. The judgment was affirmed on appeal (Court of Appeal, Third Appellate District, Case No. C070361).

In *California Pharmacists Association, et al. v. Maxwell-Jolly, et al.* (U.S. District Court, Central District, Case No. CV09-08200), Medi-Cal pharmacy providers filed a suit challenging reimbursement rates, including the use by the California Department of Health Care Services ("DHCS") of reduced published average wholesale price data to establish reimbursement rates. Plaintiffs seek injunctive relief based on alleged violations of federal law. The district court granted a request for preliminary injunction in part and denied it in part, with respect to the use of reduced published average wholesale price data to establish reimbursement rates. Both parties appealed to the Ninth Circuit Court of Appeals and requested mediation. At this time it is unknown what fiscal impact this case would have on the state's General Fund.

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. 34-2011-00113919), petitioners claim that the Authority has not complied with the state high-speed rail bond act in approving plans for the high-speed rail system. The trial court ruled that the Authority's plan for funding the high-speed rail project did not comply with certain requirements in the bond act, and ordered the Authority to rescind the plan. The Court of Appeal reversed the trial court ruling and the California Supreme Court denied petitions for review. On *March 22,* 2016, the trial court *entered judgment denying* petitioners' remaining claims.

In *Transportation Solutions Defense and Education Fund v. California Air Resources Board* (Sacramento County Superior Court, Case No. 34-2014-80001974), a transit-advocacy group seeks to reverse a decision of the California Air Resources Board to include the California high-speed rail project as a greenhouse gas reduction measure in the state's AB 32 Scoping Plan Update. Petitioner seeks a declaration that appropriations by the Legislature to fund the high-speed rail project from the Greenhouse Gas Reduction Fund ("GGRF") are invalid and an injunction or writ restraining the Board, the Authority and State Controller from expending funds from the GGRF for the construction of the high-speed rail project.

In the event of a final decision adverse to the state in *Tos* that prevents use of bond proceeds and a final decision in *Transportation Solutions* that prevents the use of cap and trade funds, 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 fails to provide other matching funds consistent with the federal grant agreement. As of January 2016, the amount of unmatched federal spending on the project that the state may have to reimburse is between $500 and $600 million.

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 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 February 29, 2016 is 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 (each a "Budget Act"). Pursuant to Proposition 25, enacted in 2010, the Budget Act (and other appropriation bills/"trailer bills" which are part of a budget package) 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 moneys of the state are segregated into the General Fund and over 1,000 other funds, including special, bond and trust funds. The General Fund consists of revenues received by the State Treasury that are not required by law to be credited to any other fund, as well as earnings from the investment of state moneys not allocable to another fund.

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), as well as appropriations 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 and trust 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 recent 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. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue."

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. Since fiscal year 2006-07, these after school programs have been funded at $550 million annually. 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 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 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 2016-17, 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, corporation taxes, and sales and use taxes. The bar chart below shows total General Fund revenues and transfers by the three major revenue sources, and all other revenues and transfers, for a ten-year period.

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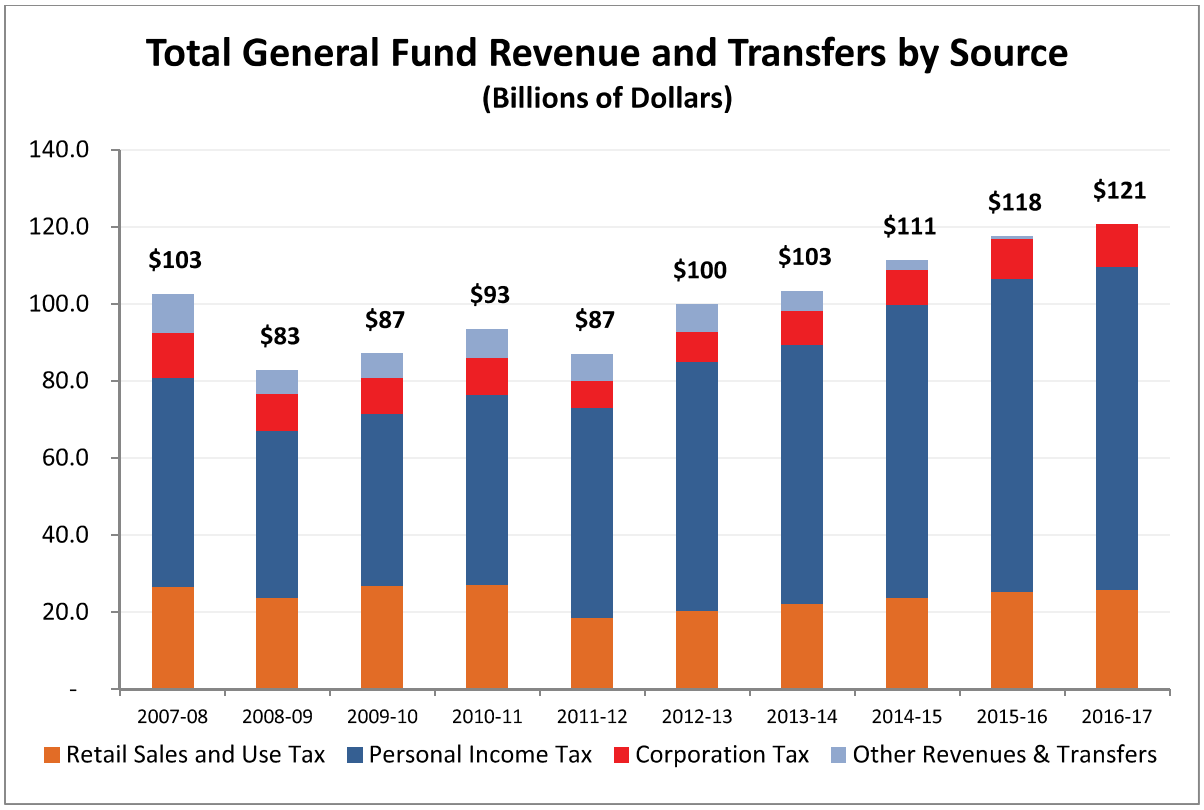

(a) Estimated.

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The following table contains General Fund revenues and transfers for ten fiscal years.

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
2007-08	$54,182	53%	$26,613	26%	$11,849	12%	$9,930	10%	$102,574
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[a]	76,079[c]	68	23,709[c]	21	9,007[e]	8	2,523[g]	2	111,318
2015-16[a]	81,354[c]	69	25,246[c]	21	10,304[e]	9	633[g]	1	117,537
2016-17[a]	83,841[c]	70	25,942[c]	22	10,956[e]	9	-106[g]	0	120,633

[a] Estimated.

[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 $3.537 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 increases the sales and use tax rate by 0.25 percent through December 31, 2016. Since higher personal income tax rate applies 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 $1.33 billion in fiscal year 2011-12.

[g] Reflects transfer of $1.6 billion in fiscal year 2014-15, $2.8 billion in fiscal year 2015-16, and a proposed $3.6 billion in fiscal year 2016-17 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's personal income tax is modeled 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, a 1 percent surcharge is imposed on taxable income above $1 million and the proceeds from this surcharge are dedicated 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 45.5 percent of the state's total personal income tax in tax year 2013.

The 2016-17 Governor's Budget revenue projections include the revenue expected from Proposition 30. This measure provides for a 1 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. These additional rates are in effect for calendar years 2012 through 2018. The Administration estimates the additional revenue from the higher income tax was $5.5 billion in fiscal year 2012-13, $5.8 billion in fiscal year 2013-14, $7.3 billion in fiscal year 2014-15 and $7.6 billion in fiscal year 2015-16, and is projected to be $7.7 billion in fiscal year 2016-17.

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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 Tax		All Other PIT		Total PIT	
2007-08	$ 8,980	8.8%	$45,202	44.1%	$54,182	52.8%
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]	9,260	9.0	57,765	55.9	67,025	64.8
2014-15[b][c]	13,280	11.9	62,799	56.4	76,079	68.3
2015-16[b][c][d]	13,377	11.4	67,977	57.8	81,354	69.2
2016-17[b][c][d]	12,402	10.3	71,439	59.2	83,841	69.5

[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.

[d] Revenue for fiscal years 2015-16 and 2016-17 reflects a reduction of $380 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 and 2013 and the forecasted realizations for 2014 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.

Personal income tax receipts over the past few years have been impacted by changes in federal tax legislation, including increases in the rate of taxation on capital gains and a surtax on certain unearned income which went into effect on January 1, 2013. These changes led to the acceleration of realization of some income into calendar year 2012, for fiscal year 2012-13, which might otherwise have been received in a later fiscal year.

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 almost 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. However, the 2016-17 Governor's Budget projects that capital gains are estimated to be over 11 percent of General Fund revenues and transfers in fiscal year 2015-16, and projected to be over 10 percent in fiscal year 2016-17. 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, 2016, the breakdown for the uniform statewide state and local sales and use tax (referred to herein as the "sales tax") rate of 7.50 percent was as follows (many local jurisdictions have additional sales taxes for local purposes):

- 3.9375 percent imposed as a state General Fund tax;
- 0.25 percent dedicated to the Education Protection Account, per Proposition 30;
- 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);
- 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; and

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 guarantees 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 2015-16 and $6.9 billion in fiscal year 2016-17.

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 will be insufficient to trigger a reduction for calendar year 2016. See "CURRENT STATE BUDGET—Summary of State Revenues and Expenditures" for a projection of the fiscal years 2015-16 and 2016-17 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 9.6 percent of corporation tax revenue in 2013-14, are considered "corporation taxes."

Six actions were filed contending that the Legislature's modification of Revenue and Taxation Code Section 25128, which implemented the double-weighting of the sales factor in

California's apportionment of income formula for the taxation of multistate business entities, is invalid and/or unconstitutional. These six actions are now consolidated in one matter and collectively referred to as *Gillette Company v. Franchise Tax Board ("Gillette").* On December 31, 2015, the California Supreme Court, in a 7-0 opinion, upheld the state's use of the double-weighted sales factor. The taxpayer can, within 90 days of the ruling, petition the U.S. Supreme Court to hear the case. An eventual adverse decision in this case could result in a revenue loss (from this case and for similar taxpayers) of approximately $750 million. It is likely, however, that even if the Franchise Tax Board were to ultimately lose this case, due to the expected time required for litigation, the vast majority of this revenue loss would not occur for several years. See "LITIGATION—Tax Cases."

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 $782 million in fiscal year 2015-16 and by $838 million in fiscal year 2016-17, and will further increase to over $900 million 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 generate a net revenue loss of $423 million in fiscal year 2015-16 and $321 million in fiscal year 2016-17.

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.

5. Other Taxes

Other general fund taxes and licenses include: cigarette taxes; 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 25 percent of all special fund revenues in fiscal year 2016-17. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees and vehicle license fees. In fiscal year 2016-17, $12.6 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."

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

TABLE 9
Comparative Yield of State Taxes – Special Funds
(Modified Accrual Basis)

(Dollars in Thousands)

Fiscal Year	Sales and Use[a]	Personal Income[b]	Tobacco[c]	Insurance[d]	Motor Vehicle Fuel	Motor Vehicle Fees[e]
2011-12	$17,962,461	$1,188,026	$800,677	$251,073	$5,544,530	$5,817,168
2012-13	19,161,183	1,684,000	778,703	21,379	5,492,850	5,838,702
2013-14	20,167,835	1,281,000	746,748	--	6,063,356	6,204,720
2014-15	21,038,347	1,851,000	746,062	--	5,711,160	6,489,447
2015-16[f]	22,061,926	2,028,000	729,393	--	4,955,999	6,619,915
2016-17[f]	23,073,133	2,051,000	708,969	--	4,729,677	7,843,410

(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.
(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 fiscal year 2016-17 from the proposed $65 per vehicle road improvement charge included in the 2016-17 Governor's Budget. See "STATE FINANCES—OTHER ELEMENTS—Local Government Impacts on State Finances."
(f) Estimated for fiscal years 2015-16 and 2016-17.

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

The state imposes an excise tax on cigarettes of 87 cents per pack and the equivalent rates on other tobacco products. Tobacco product excise tax revenues are earmarked as follows:

- Fifty cents of the per-pack tax on cigarettes and the equivalent rate levied on non-cigarette tobacco products are deposited in the California Children and Families First Trust Fund and are allocated primarily for early childhood development programs, pursuant to Proposition 10 (1998).

- Twenty-five cents of the per-pack tax on cigarettes and the equivalent rates levied on non-cigarette tobacco products are allocated to the Cigarette and Tobacco Products Surtax Fund, pursuant to Proposition 99 (1988). These funds are appropriated for anti-tobacco education and research, indigent health services, and environmental and recreation programs.

- Ten cents of the per-pack tax is allocated to the state's General Fund.
- The remaining two cents of the per-pack tax is deposited into the Breast Cancer Fund.

State Expenditures

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

1. K-12 Education under Proposition 98

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. The 2016-17 Governor's Budget proposes funding of $51.2 billion from the General Fund for fiscal year 2016-17, including both Proposition 98 and Non-Proposition 98 funding.

State funding for K-12 schools and community colleges ("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 comprised of three tests and related funding formulas that guarantee schools and community colleges a minimum level of funding (the "minimum guarantee") from a combination of the state's General Fund and local property taxes. 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 state 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 a Test 3 year, 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 created an additional temporary source of funds for K-14 education, see "STATE FINANCES—REVENUES, EXPENDITURES, AND RESERVES—Sources of Tax Revenue." Proposition 30 created the Education Protection Account ("EPA"), which is available to offset Proposition 98 General Fund expenditures for fiscal years 2012-13 through 2018-19, freeing up General Fund resources for other purposes.

Proposition 2 creates the Public School System Stabilization Account ("PSSSA"), a special fund that serves as a Proposition 98 reserve, and requires a deposit in the PSSSA under specified conditions. These conditions are not anticipated to be met in fiscal year 2015-16 or fiscal year 2016-17. Therefore, no deposit into the PSSSA is currently anticipated.

As shown in Table 10, the Proposition 98 minimum guarantee for K-14 education is estimated to grow moderately over the 2015 Budget Act estimates primarily due to increases in local property tax and General Fund revenues. The 2016-17 Governor's Budget estimates the Proposition 98 minimum guarantee to be $69.2 billion in fiscal year 2015-16 and $71.6 billion in fiscal year 2016-17, increases of $766 million and $3.2 billion, respectively, over the levels assumed for fiscal year 2015-16 in the 2015 Budget Act. The General Fund share is $50.0 billion in fiscal year 2015-16 and $51.0 billion in fiscal year 2016-17, which includes over $9 billion each year in EPA General Fund revenues. Property taxes are estimated to increase significantly over the two-year period mostly due to increases in base property tax revenues, as well as other shifts of local property tax revenues back to schools and community colleges.

The 2016-17 Governor's Budget reflects Proposition 98 General Fund expenditures in fiscal years 2014-15 through 2016-17, as outlined in the table below.

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TABLE 10
Proposition 98 Funding
(Dollars in Millions)

	2014-15		Fiscal Year 2015-16		2016-17	Change From Revised 2015-16 to Proposed 2016-17	
	Enacted[a]	**Revised**[c]	**Enacted**[b]	**Revised**[c]	**Proposed**[c]	**Amount**	**Percent**
K-12 Proposition 98							
State General Fund	$ 33,534	$ 36,821	$ 36,884	$ 36,533	$ 37,402	$ 869	2.4
Education Protection Account	6,635	7,754	7,231	8,086	8,123	37	0.5
Local property tax revenue[d]	14,089	14,834	16,380	16,559	17,801	1,242	7.5
Subtotals [e]	$ 54,258	$ 59,409	$ 60,495	$ 61,178	$ 63,326	$ 2,148	3.5
CCC Proposition 98							
State General Fund	$ 3,473	$ 4,021	$ 4,407[e]	$ 4,374	$ 4,443[e]	$ 69	1.6
Education Protection Account	820	958	894	999	1,004	5	0.5
Local property tax revenue[d]	2,308	2,302	2,613	2,624	2,812	188	7.2
Subtotals [e]	$ 6,601	$ 7,281	$ 7,914	$ 7,997	$ 8,259	$ 262	3.3
Total Proposition 98							
State General Fund	$ 37,007	$ 40,842	$ 41,291	$ 40,907	$ 41,845	$ 938	2.3
Education Protection Account	7,455	8,712	8,125	9,085	9,127	42	0.5
Local property tax revenue[d]	16,397	17,136	18,993	19,183	20,613	1,430	7.5
Totals[f]	$ 60,859	$ 66,690	$ 68,409	$ 69,175	$ 71,585	$ 2,410	3.5

[a] As of the 2014 Budget Act, adopted on June 20, 2014.

[b] As of the 2015 Budget Act, adopted on June 24, 2015.

[c] As of the 2016-17 Governor's Budget, January 7, 2016.

[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 2014-15, 2015-16, and 2016-17 include the one-time distribution of cash assets held by redevelopment agencies.

[e] Beginning in fiscal year 2015-16, the community college amount 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 are created under Proposition 98: the maintenance factor and settle-up obligation. The following table shows the estimated Proposition 98 future obligations as of the 2016-17 Governor's Budget.

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

	Fiscal Year Ending June 30				
	2013	**2014**	**2015**	**2016**	**2017**
Maintenance Factor[a]	$5,867	$6,199	$781	$0	$548
QEIA Settle-up[b]	410	410	0	0	0
Other Settle-Up	1,474	1,488	1,488[c]	1,232[c]	975

[a] Proposition 98 factors and appropriations have been fully certified only 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: Please note that 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 payment of the remaining deferral balance of $992 million in fiscal year 2014-15. In total, these payments eliminated the remaining deferral balance at the end of fiscal year 2014-15.

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 2016-17 Governor's Budget. The maintenance factor balance is adjusted by average daily attendance and per capita personal income growth each year. Payments of $5.4 billion and $810 million, respectively, as required by constitutional formula, are built into fiscal years 2014-15 and 2015-16. No maintenance factor payment (as distinct from balances shown in Table 11) is required in fiscal year 2016-17 and none is projected in fiscal years 2017-18 or 2018-19.

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 2016-17 Budget provides an estimated $8.3 billion Proposition 98 funds for community colleges (consisting of $5.4 billion from the General Fund and $2.8 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 200,795 associate degrees, certificates, and other awards in the 2014-15 school year. For the 2014-15 school year, approximately 1.1 million full-time equivalent students were enrolled at CCCs.

The California State University provides undergraduate and graduate programs, awarding 105,693 degrees in the 2014-15 school year. The California State University enrolled 382,230 full-time students at 23 campuses in the 2014-15 school year.

The UC provides a range of undergraduate, graduate and professional programs, awarding 66,102 degrees in the 2014-15 school year. The ten University of California campuses and the Hastings College of Law enrolled 250,774 full time students in the 2014-15 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)]	CCC
2012-13	$2.3	$2.4	$3.9
2013-14	2.6	2.8	4.2
2014-15	3.0	3.0	5.0
2015-16	3.3	3.3	5.4
2016-17	3.4	3.4	5.4

(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 34 percent of all Californians.

Average monthly caseload in Medi-Cal is estimated to be 13.3 million in fiscal year 2015-16. Caseload is expected to increase in fiscal year 2016-17 by approximately 202,100, or 1.5 percent, to 13.5 million people. The increase in caseload and expenditures in recent years is largely due to the implementation of federal health care reform.

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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[a]
2012-13	$15.0	$6.4	$28.5	$49.9
2013-14	16.6	5.7	34.1	56.4
2014-15	17.1	8.3	54.1	79.5
2015-16[a] [b]	15.3	13.7	61.0	92.4
2016-17[b]	16.5	11.9	54.0	85.0

[a] Totals may not add due to rounding.

[b] Estimated.

Litigation is pending with respect to certain cost reductions implemented by the state. See "LITIGATION—Actions Regarding Medi-Cal Reimbursements and Fees."

Health Care Reform. California continues implementation of the federal Affordable Care Act (ACA). Since January 1, 2014, more than 5 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 2016-17 Governor's Budget includes costs of $13.7 billion ($551.5 million General Fund) in fiscal year 2016-17 for the optional expansion. The federal government has committed to pay nearly 100 percent of the costs of this expansion for the first three years. Beginning January 1, 2017, California will begin to assume 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 estimated to be $2.1 billion. The 2016-17 Governor's Budget projects the optional expansion caseload to be 3.4 million in fiscal year 2016-17.

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 initial federal funding in the renewal is approximately $6.2 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
2012-13	443,264	$1.7
2013-14	425,526	1.9
2014-15	443,734	2.2
2015-16[(a)(b)]	463,537	2.9
2016-17[(a)(c)]	489,775	3.0

(a) Estimated.

(b) The increase in estimated fiscal year 2015-16 General Fund expenditures is primarily due to (1) assumed implementation of federal Department of Labor overtime regulations for IHSS effective February 2016; (2) one-time General Fund restoration of prior 7 percent across-the-board reduction to authorized hours of service; and (3) growth in caseload and average service hours per case.

(c) The increase in estimated fiscal year 2016-17 General Fund expenditures is primarily due to (1) assumed full year impact of federal Department of Labor overtime regulations for IHSS and (2) growth in caseload and average service hours per case.

CalWORKs. The California Work Opportunity and Responsibility to Kids ("CalWORKs") program, the state's version of the federal Temporary Assistance for Needy Families ("TANF") program, provides temporary cash assistance to low-income families with children to meet basic needs, such as shelter, food, and clothing. CalWORKs includes specific welfare-to-work requirements and provides supportive services, including child care, to enable adult participants to meet these requirements. Eligibility requirements and benefit levels are established by the state, but counties have flexibility in program design, services, and funding to meet local needs. The federal government pays a substantial portion of welfare benefit costs, subject to a requirement that states provide significant matching funds. Federal law imposes detailed eligibility and programmatic requirements for states to be entitled to receive federal funds. Federal law also imposes time limits on program availability for individuals, and establishes certain work requirements. Consistent with the federal law, CalWORKs contains time limits on the receipt of welfare aid. The centerpiece of CalWORKs is the linkage of eligibility to work participation requirements.

The state annually receives a TANF block grant allocation of $3.7 billion from the federal government. To qualify for the TANF funds, the state is required annually to expend a "Maintenance of Effort," 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 2013, and the state is therefore

subject to a penalty. The federal government waived the penalty for FFY 2007 and the state is seeking relief from the FFYs 2008, 2009, 2010, 2011, 2012, and 2013 penalties, estimated to total approximately $1.3 billion. On June 24, 2014, the federal government approved the state's corrective compliance plan, which requires California to meet or exceed federal work participation rate requirements by September 30, 2015, to avoid incurring fiscal penalties for FFYs 2008 through 2010. Preliminary data indicates the state exceeded the 50 percent threshold required for corrective compliance in FFY 2015. If compliance is confirmed by the federal government, penalties levied from FFYs 2008 through 2010, totaling approximately $341 million, will be eliminated. A similar corrective compliance plan was submitted to the federal government in October 2015 to address the FFY 2011 and 2012 penalties, which requires the state to continue meeting or exceeding federal work participation rate requirements in FFY 2016.

The following table shows CalWORKs caseload and General Fund expenditures.

TABLE 15
CalWORKs Expenditures

(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2012-13	559,920	$1.5
2013-14[a]	550,928	1.2
2014-15[a]	535,532	0.6
2015-16[b] [c]	507,615	0.8
2016-17[b] [c]	496,558	0.8

[a] Reflects General Fund savings of approximately $300 million in fiscal year 2013-14 and $742 million in fiscal year 2014-15 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 anticipated General Fund savings of $742 million in fiscal year 2015-16 and $413 million in fiscal year 2016-17 from redirecting a portion of fiscal year 1991-92 realignment revenue from indigent health to CalWORKs.

[c] Estimated.

SSI/SSP. The federal Supplemental Security Income ("SSI") program provides a monthly cash benefit to eligible seniors and persons with disabilities who meet the program's income and resource requirements. In California, the SSI payment is augmented with a State Supplementary Payment ("SSP") grant. The 2016-17 Governor's Budget includes approximately $2.9 billion for the SSI/SSP program from the General Fund for fiscal year 2016-17, 2.7 percent more than the revised fiscal year 2015-16 funding level. The average monthly caseload in this program is estimated to be 1.3 million recipients in fiscal year 2016-17, a 0.8 percent increase over the revised fiscal year 2015-16 projected level.

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 300,000 individuals in the community and approximately 1,000 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
2012-13	257,557	$2.7
2013-14	275,337	2.8
2014-15	280,570	3.1
2015-16[(a)]	291,507	3.5
2016-17[(a)]	303,266	3.8

[(a)] Estimated.

Replacement of the Managed Care Organization Tax. On June 16, 2015, the Governor called a special session to address the financing of Medi-Cal, IHSS, and developmental disability services. Since 2005, the state has levied a tax on Medi-Cal managed care plans to increase payments to Medi-Cal providers and offset health care costs that would otherwise be paid from the General Fund. The state's current managed care organization (MCO) tax structure, which expires on June 30, 2016, does not comply with new federal guidance that such a tax be broad-based and not limited narrowly to Medi-Cal plans. In the special session, the Legislature *considered* a package of bills to modify and continue the MCO tax for 3 years to provide at least $1.3 billion annually for Medi-Cal. The bills also fund targeted provider payment increases for developmental disability services, debt reduction, and other purposes. *The bills were enacted on March 1, 2016, and subject to federal approval, the modified MCO tax will be implemented beginning fiscal year 2016-17.*

4. Public Safety

The 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 2016-17 Governor's Budget assumes an average daily adult inmate population of 128,834 in fiscal year 2016-17 and an average daily adult parole population of 42,571 in fiscal year 2016-17.

The 2016-17 Governor's Budget includes total expenditures (excluding capital outlay) of $10.5 billion ($10.3 billion from the General Fund) for CDCR, including salaries and benefits of approximately $7.5 billion. The 2016-17 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).

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 2016-17 Governor's Budget includes $1.9 billion from the General Fund for the Receiver's Medical Services and Pharmacy Programs, compared to the 2015 Budget Act, which totaled $1.8 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.

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*.

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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)

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(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 (i) 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 next 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 $11.3 billion in the BSA in fiscal year 2019-20 (including a proposed $2 billion deposit to the BSA in fiscal year 2016-17 above the amount required by law) and $6.7 billion in additional reductions of debts and liabilities in its first five years of operation. See Table 6.

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 estimated to be approximately $2.9 billion and $1.9 billion, respectively, for fiscal year 2015-16; and $3.2 billion and $2.5 billion, respectively, for fiscal year 2016-17.

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 Post-Employment Benefits" or "OPEB."

As of June 30, *2015*, approximately *177,870* retirees were enrolled to receive health benefits and *144,660* 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 Post-employment Benefits Other Than Pensions, the state now reports on its liability for post-employment healthcare as well as other forms of post-employment 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 26, 2016, 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, 2015, the pay-as-you go funding policy results in an AAL of $74.19 billion as of June 30, 2015, of which $74.10 billion is unfunded. Additionally, the pay-as-you go funding policy results in an annual OPEB cost of $5.69 billion, estimated employer contributions of $1.97 billion and an expected net OPEB obligation of $26.20 billion for fiscal year 2015-16. The annual required contribution for fiscal year 2016-17 is estimated at $5.77 billion.

The actuarial liability increased from $71.81 billion as of June 30, 2014, to $74.19 billion as of June 30, 2015. If the previous assumptions had been realized, the actuarial liability would have increased to $75.69 billion as of June 30, 2015. The key factors contributing to the unexpected decrease in actuarial liabilities of $1.50 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 $1.71 billion. This change in accrued liability is mainly driven by the relationship between the assumed trend rate for claims cost in 2015 used in last year's valuation and the trend rate for 2015 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.

- Subsequent to the June 30, 2015, GASB No. 45 actuarial valuation, GRS performed an experience review for the period July 1, 2007 to June 30, 2014, where all healthcare related assumptions were reviewed. Many of these assumptions were updated to reflect actual experience over the seven-year period. These changes have been adopted by the SCO for this valuation. The assumption changes decreased liabilities by approximately $1.83 billion.

- Trend rates for the June 30, 2015, valuation were reviewed and updated since the last valuation. The trend rates are assumed to be 8.00 percent beginning in 2017 graded down to an ultimate rate of 4.50 percent beginning in 2022. This assumption change increased the liabilities by approximately $1.78 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 State Controller's Office 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)]
2011-12	$4.74	$1.72	36%	$12.91	$63.84	341
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[(a)]	5.69	1.97	35	26.20	N/A	N/A

(a) Net employer contribution and Net OPEB Obligation estimated for fiscal year ending June 30, 2016.

(b) Amounts are projected as of the valuation date.

Source: State of California OPEB Valuation as of June 30, 2015.

The following table illustrates the state's budget for post-employment benefits from fiscal years 2011-12 to 2016-17 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. Employees in bargaining unit 12, hired after January 1, 2011, are subject to a longer vesting period. Bargaining Unit 9 *and 10* employees hired after January 1, 2016 also will be subject to a longer vesting schedule and an 80/80 percent contribution formula. *The Administration and Bargaining Unit 6 have reached a tentative agreement on a new contract that would require a longer vesting schedule and 80/80 percent contribution formula for employees hired on or after January 1, 2017.*

TABLE 19
Actual Costs/Budget for Other Post-employment 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
2011-12	$1,504,928	$1,466,528	N/A	$1,504,928	$1,466,528
2012-13	1,365,234	1,337,089	222,135	1,587,369	1,559,224[b]
2013-14	1,382,717	1,378,709	225,332	1,608,049	1,604,041
2014-15	1,461,931	1,455,931	255,638	1,717,569	1,711,569
2015-16[c]	1,584,930	1,580,330	264,084	1,849,014	1,844,414
2016-17[c]	1,743,956	1,739,356	291,096	2,035,052	2,030,452

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

(b) Contributions for post-employment benefits are included for all years displayed in this table. However, beginning in fiscal year 2012-13, CSU contributions are split out and identified separately.

(c) Estimated Contributions.

Source: State of California, Department of Finance.

Three state employee bargaining units have agreements which provide for some prefunding of OPEB liabilities. These units represent a little less than 10 percent of total state unionized employees.

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 began in 2015 with five bargaining units with contracts expiring in 2015. *Agreements have been reached with* Bargaining Units 9 *and 10*, which represent state engineers *and scientists, respectively, that require* matching contributions to an OPEB trust fund to set aside 100 percent of the actuarially determined "normal costs." The funding schedule for both agreements will be phased in over three years beginning July 1, 2017. Additionally, these two unions and the state agreed that new employees hired after January 1, 2016, 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. *Recently, the Administration and Bargaining Unit 6 reached a tentative agreement which also requires matching contributions to an OPEB trust fund to set aside 100 percent of the actuarially determined normal costs. Employees in Bargaining Unit 6, representing the California Correctional Peace Officers, hired on or after January 1, 2017 are also subject to a lower employer subsidy for retiree health care and a longer vesting period to qualify for retiree health benefits.* These initial agreements represent the template for contract renewals with the three outstanding bargaining units as well as for those expiring in the future.

The Administration continues to actively bargain with the remaining bargaining units whose memorandum of understanding expired in July 2015. Additionally, in fiscal year 2015-16, the Administration will begin collective bargaining negotiations with 15 of the state's 21 bargaining units, whose contracts with the state will expire in early July 2016. The Department of Finance estimates that the state's share of prefunding for Executive Branch employees will be approximately $600 million annually once fully implemented. (The "Executive Branch" generally excludes employees in the legislative and judicial branches of the state government, as well as employees of CSU and UC. See "OVERVIEW OF STATE GOVERNMENT—Organization of State Government.")

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.

Unemployment Insurance

The Unemployment Insurance ("UI") program is a federal-state program that provides weekly UI payments to eligible workers who lose their jobs through no fault of their own. To be eligible for benefits, a claimant must be able and available to work, seeking work, and be willing

to accept a suitable job. The regular unemployment program is funded by unemployment tax contributions paid by employers for each covered worker.

Due to the high rate of unemployment during the Great Recession, the employer contributions were not sufficient to cover the cost of the benefits to claimants. Commencing in January 2009, in accordance with federal law, the state began to fund deficits in the state UI Fund through a federal loan to support benefit payments. The UI Fund deficit reached $10.2 billion at the end of calendar year 2012, but has decreased to $6.7 billion at the end of calendar year 2015. The UI Fund deficit is projected to be $4.5 billion at the end of calendar year 2016.

Pursuant to federal law, if the state is unable to repay a loan within the same year it is taken, state funds must be used to pay the annual interest payments on the borrowed funds. However, repayment of principal on this federal UI loan is strictly an employer responsibility, and not a liability of the state's General Fund. To ensure that the federal loan is repaid, when a state has an outstanding loan balance for two consecutive years, the federal government reduces the Federal Unemployment Tax Act ("FUTA") credit it gives to employers. This is equivalent to an increase in the FUTA tax on employers, and has the effect of paying off the principal of the federal UI loan. These changes have already started and will increase annually until the loan is repaid, which is projected to be in 2018. Commencing in fiscal year 2011-12, the state has been required to pay interest on these loans. Fiscal year 2015-16 and projected fiscal year 2016-17 amounts from the General Fund to make these interest payments are less than $200 million annually.

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 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 2012-13 through 2016-17.

TABLE 20
State Appropriations Limit
(Dollars in Millions)

	Fiscal Year				
	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**
State Appropriations Limit	$84,221	$89,716	$89,902	$94,042	$98,837[(a)]
Appropriations Subject to Limit	-71,702	-71,352	-80,551[(a)]	-87,409[(a)]	-91,078[(a)]
Amount (Over)/Under Limit	$12,519	$18,364	$9,351[(a)]	$6,633[(a)]	$7,759[(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 9.8 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. Although Proposition 13 limited property tax growth rates, it also has had a smoothing effect on property tax revenues, ensuring greater stability in annual revenues than existed before Proposition 13 passed.

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 is proposed to continue without change in the 2016-17 Governor's 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. Property Tax Revenues

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 5.58 percent in fiscal year 2015-16 and 5.59 percent in fiscal year 2016-17. 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 2016-17 Governor's Budget, Proposition 98 General Fund savings are anticipated to be $1.1 billion in each of fiscal years 2015-16, 2016-17, and 2017-18. Proposition 98 General Fund savings are anticipated to be at least $1 billion in each fiscal year after fiscal year 2017-18 , 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: (1) a state special fund sales tax of 1.0625 percent (projected to total $6.9 billion in fiscal year 2016-17) and (2) $589.2 million in vehicle license fees (for fiscal year 2016-17). 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 $2.6 billion in fiscal year 2015-16.

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 2015 Budget Act, the General Fund is projected to have up to approximately $27 billion of internal funds (excluding the BSA and the SFEU) available during fiscal year 2015-16. See "—Inter-Fund Borrowings" for a further description of this process.

One fund from which moneys may be borrowed to provide additional cash resources to the General Fund is the BSA. While during fiscal years 2008-09 through 2013-14 there were no funds available in the BSA, the BSA is now funded at a projected $3.5 billion in fiscal year 2015-16. 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 is typically 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 the current fiscal year, RANs had been issued in all but one fiscal year since the mid-1980s and have always been paid at maturity. No RANs are planned in fiscal years 2015-16 or 2016-17. 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 those 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 2011-12 through 2014-15 and estimates the amount currently available based on the 2015-16 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)

	2013	2014	2015	2016[a]	2017[a]
Available Internal Borrowable Resources	$21,215.3	$23,761.5	$28,291.3	$32,290.0	$40,814.6
Outstanding Loans					
From Special Fund for Economic Uncertainties	948.2	0	0	957.3	2,230.0
Budget Stabilization Account	0	0	0	0	4,651.1
From Special Funds and Accounts	1,486.7	0	0	0	0
Total Outstanding Internal Loans	(2,434.9)	0	0	(957.3)	(6,881.1)
Unused Internal Borrowable Resources	$18,780.4	$23,761.5	$28,291.3	$31,332.7	$33,933.5

[a] Estimated.
Source: Years ended June 30, 2013 through June 30, 2015: State of California, Office of the State Controller.
Years ending June 30, 2016 and June 30, 2017: State of California, Department of Finance.

Cash Management Borrowings

As part of its cash management program, the state has 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 in the past five fiscal years. No RANs are planned in the current fiscal year.

TABLE 22
State of California Revenue Anticipation Notes Issued

(Dollars in Billions)

Fiscal Year	Type	Principal Amount	Date of Issue	Maturity or Redemption Date
2010-11	Interim Notes	$6.7	October 28, 2010	November 23, 2010*
	Notes Series A-1	2.25	November 23, 2010	May 25, 2011
	Notes Series A-2	7.75	November 23, 2010	June 28, 2011
2011-12	Interim Notes	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	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 2014-15 through 2016-17

The state entered the 2014-15 fiscal year in the strongest cash position since the start of the Great Recession in 2008. For the first time since fiscal year 2007-08, the state began a fiscal year without any internal borrowings, and a positive cash balance in the General Fund of $1.922 billion. The state managed its cash flow needs for fiscal year 2014-15 entirely through the use of internal borrowing and an external RANs borrowing of $2.8 billion, the smallest RANs borrowing since fiscal year 2006-07.

The state's cash position continued to be 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 indicate that internal borrowings will 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 does not plan to use any external RANs borrowing in fiscal year 2015-16, only the second time this has occurred since the commencement of annual RANs borrowings in the early 1980s. The 2016-17 Governor's Budget assumes a continuation of a strong cash position throughout the year, with no plans for external cash flow borrowing.

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 2015-16.

- 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 January 1, 2016, 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 January 1, 2016)

Authorized and Outstanding		Authorized but Unissued*	
Primarily Payable from General Fund	Self-Liquidating	Primarily Payable from General Fund	Self-Liquidating
$75.3 billion	$728.7 million	$29.3 billion	$467.6 million

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

An initiative measure to authorize $9 billion of general obligation bonds for K-12 school construction has received sufficient signatures to be placed on the November 2016 ballot. Under state law, proponents of this measure may remove it from the ballot up to the end of June 2016.

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 4.77 percent of the state's total outstanding general obligation bonds. With respect to the $1,050,000,000 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.

Type of Bonds	Outstanding Principal Amount ($000) as of January 1, 2016	Current Variable Rate Interest Mode	Liquidity Support[(a)]	Other Information
General Obligation	$2,473,690	Daily/Weekly VRDO	Letters of Credit	
General Obligation	400,000	Indexed Floating Rate to Respective Mandatory Tender Dates	None	Mandatory Tenders on December 1, 2016, December 1, 2017, May 1, 2018 and December 3, 2018
General Obligation	98,100	Indexed Floating Rate to Respective Maturity Dates	None	Fixed Maturities on each May 1 in the years 2017 through 2020
General Obligation	650,000	Fixed Term Rate to Respective Mandatory Tender Dates	None	Mandatory Tenders on December 1, 2016, December 1, 2017 and December 2, 2019
TOTAL	$3,621,790			

[(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. It is currently the state's policy to use commercial paper notes to provide flexibility for bond programs, such as to provide interim funding for voter-approved projects and 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 15, 2016, 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 January 1, 2016, is set forth in the following table.

Lease-Revenue Obligations
(as of January 1, 2016)

Outstanding General Fund Supported Issues	Authorized but Unissued
$10.8 billion	$3.6 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.

The CSU proposes to restructure substantially all of the approximately $987.5 million of existing CSU lease revenue bonds which financed the CSU facilities by issuing its general revenue bonds to defease the SPWB Bonds.

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 January 1, 2016.

An initiative Constitutional amendment related to the issuance and sale of state revenue bonds has received sufficient signatures to be placed on the November 2016 ballot. Under state law, proponents of the measure may remove it from the ballot up to the end of June 2016. If approved by a majority of voters in November 2016, this measure would require statewide voter approval before any revenue bonds could be issued or sold by the state, a state agency or a joint agency created by or including the state for any "single project" having a cost of $2 billion or more. As many of the specific aspects of this initiative measure are not yet clear, including, for instance, what constitutes a "single project," what exactly constitutes a revenue bond, and how the $2 billion threshold is calculated, it is impossible to predict what impact this measure, if approved, would have on the state's ability to use revenue bonds to finance large infrastructure or other projects.

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 2015-16 through the maturity of the outstanding BABs (mostly 20 to 30 years from issuance) based on the 35 percent subsidy rate is approximately $7.45 billion for the general obligation BABs and $191.8 million for the SPWB lease-revenue BABs.

Pursuant to certain federal budget legislation adopted in August 2011, starting as of March 1, 2013, the government's BAB subsidy payments were reduced as part of a government-wide "sequestration" of many program expenditures. The amount of the reduction of the BAB subsidy payment has been less than $30 million annually and is presently scheduled to continue until 2025, although Congress can terminate or modify it sooner, or extend it. None of the BAB subsidy payments are pledged to pay debt service for the general obligation and SPWB BABs, so this

reduction will not affect the state's ability to pay its debt service on time, nor have any material impact on the state's General Fund.

Future Issuance Plans; General Fund Debt Ratio

Based on estimates from the Department of Finance, and sales completed in the first half of fiscal year 2015-16, approximately $2.2 billion of new money general obligation bonds (some of which may initially be in the form of commercial paper notes) and approximately $224 million of lease-revenue bonds are expected to be issued in fiscal year 2015-16. Based on estimates from the 2016-17 Governor's Budget, approximately $4 billion of new money general obligation bonds and approximately $358 million of lease-revenue bonds are expected to be issued in fiscal year 2016-17. 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 2016-17 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 2015-16 and 6.54 percent in fiscal year 2016-17.

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 for general obligation and lease-revenue bond debt service is estimated to equal approximately $1.4 billion for fiscal year 2015-16 and $1.4 billion for fiscal year 2016-17. Including the estimated offsets reduces the General Fund Debt Ratio to 5.37 percent in fiscal year 2015-16 and 5.37 percent in fiscal year 2016-17. 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 2010-11 THROUGH 2014-15" 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 $2.35 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 December 1, 2015, the balance of the reserve fund for the enhanced bonds was $150 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 were 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 October 31, 2015, OSHPD insured 103 loans to nonprofit or publicly owned health facilities throughout California with a current outstanding aggregate par amount of approximately $1.8 billion. The cash balance of the Fund was approximately $164.3 million as of October 31, 2015. The biennial actuarial study of the Fund as of June 30, 2012, was completed in July 2014 (the "2012 actuarial study"). Based upon a number of assumptions, the 2012 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 2041-42. Even under the "most pessimistic scenario," the 2012 actuarial study found that there was a 70 percent likelihood that the Fund's reserves as of June 30, 2012 would protect against any General Fund losses until at least 2020-21, and a 90 percent likelihood that the Fund's reserves as of June 30, 2012 would protect against any General Fund losses until at least fiscal year 2017-18. There can be no assurances that the financial condition of the Fund has not materially declined since the 2012 actuarial study. The biennial actuarial study of the Fund as of June 30, 2014 is anticipated to be completed in spring 2016. More information on the program can be obtained from OSHPD's website.

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, 2015, the PMIA held approximately $45.3 billion of state moneys, and $20.3 billion invested for about 2,479 local governmental entities through the Local Agency Investment Fund ("LAIF"). The assets of the PMIA as of December 31, 2015 are shown in the following chart.

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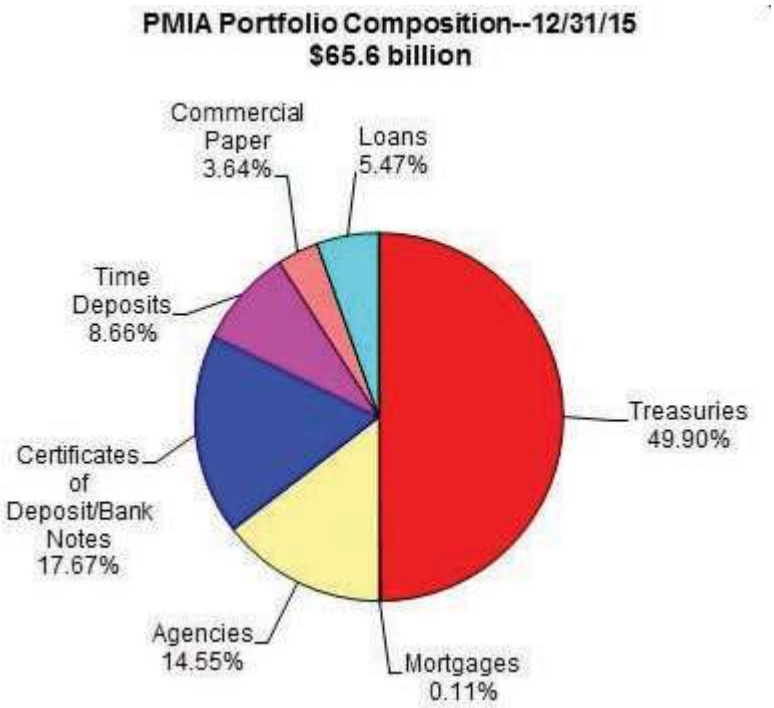

Source: State of California, Office of the State Treasurer.

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, 2015 was 179 days. Over the prior 12 months, the average life has ranged from 179 days to 247 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	Kamala D. Harris	Democrat	2010
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.

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 2016-17 Governor's Budget estimates the state work force for fiscal year 2016-17 at approximately 353,000 positions. Approximately 144,000 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 is the exclusive representative for 9 of 21 BUs, or approximately 50 percent of those represented employees subject to collective bargaining. Currently, the Administration is in collective bargaining negotiations with *five* of the state's BUs that represent *attorneys and administrative law judges*, firefighters, craft and maintenance workers, *stationary engineers, and psychiatric technicians*. The Administration *has* reached *agreements* for new MOUs with the professional engineers' *and professional scientists'* union leadership. Additionally, *the Administration recently reached a tentative agreement with BU 6, correctional peace officers, and the contract is in the process of legislative and membership ratification.* With the exception of firefighters, each of these units' MOUs with the state *either* expired in early July 2015 *or will expire in early July 2016.* For firefighters, the BU has exercised its option to reopen the contract, pursuant to existing provisions within the MOU. While the Administration and the affected BUs negotiate new or revised MOUs, the existing MOUs continue in effect until replaced or extended pursuant to law. A key priority for the Administration during bargaining is addressing the state's $74 billion unfunded retiree health care obligation through shared prefunding of program costs along with other cost containment strategies. See "STATE FINANCES – OTHER ELEMENTS – Retiree Health Care Costs."

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 "PROPOSED FISCAL YEAR 2016-17 BUDGET—Development of Revenue Estimates."

In July 2015, California's total population reached 39.1 million residents, an increase of 0.89 percent since July 2014. This marks continuation of the relatively high annual growth rate of California's population that has occurred during this decade. Since the national census on April 1, 2010, the state has grown by 1.8 million persons. California's population growth rate is expected to decrease to 0.88 percent annually for the next two years, resulting in a population of 39.4 million in July 2016 and 39.8 million in July 2017.

Natural increase (births minus deaths) is expected to account for most of the growth during this time; however, net migration into the state is also projected to gradually increase as economic conditions continue to improve. California's population is expected to grow to 40.1 million people by July 2018.

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 total five-year growth rate of 4.4 percent (from 2015-2020) is higher than the anticipated 2.8 percent growth in the preschool-age group (0-4 years old). The school-age group (5-17 years old) is expected to grow by 0.8 percent and the college-age group (18-24 years old) to decrease by 5 percent. The working-age population (25-64 years old) is expected to grow by 3.5 percent. The population of the retirement-age group (age 65 and older), is expected to expand rapidly (20.6 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	37,339,485	0.7	309,346,863	0.8	12.1
2011	37,676,006	0.9	311,718,857	0.8	12.1
2012	38,037,860	1.0	314,102,623	0.8	12.1
2013	38,366,541	0.9	316,427,395	0.7	12.1
2014	38,725,091	0.9	318,907,401	0.8	12.1
2015	39,071,323	0.9	321,418,820	0.8	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.

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)

Year	Labor Force	Employment	Unemployment Rate California	Unemployment Rate United States
2005	17,525	16,586	5.4	5.1
2006	17,649	16,784	4.9	4.6
2007	17,899	16,931	5.4	4.6
2008	18,203	16,845	7.5	5.8
2009	18,221	16,172	11.3	9.3
2010	18,305	16,083	12.1	9.6
2011	18,361	16,236	11.6	8.9
2012	18,484	16,592	10.2	8.1
2013	18,638	17,001	8.8	7.4
2014	18,800	17,383	7.5	6.2
2015	18,981	17,806	6.2	5.3

Note: 2015 information is preliminary as of January 31, 2016.

Source: State of California, Employment Development Department.

Employment, Income, Construction and Export Growth

The following table shows California's nonfarm payroll employment distribution and growth for 2005 and 2015.

TABLE 25
Nonfarm Payroll Employment by Major Sector
2005 and 2015

(Thousands)

Industry Sector	Employment 2005	Employment 2015	Distribution of Employment 2005	Distribution of Employment 2015
Mining and Logging	23.6	29.4	0.2%	0.2
Construction	905.3	722.1	6.0	4.5
Manufacturing				
Nondurable Goods	545.7	469.7	3.6	2.9
Durable Goods	959.4	801.3	6.4	5.0
High Technology	384.2	334.7	2.6	2.1
Other durable Goods	575.2	466.6	3.8	2.9
Trade, Transportation Utilities	2,820.0	2,950.1	18.8	18.3
Information	473.6	472.9	3.2	2.9
Financial Activities	920.3	795.2	6.1	4.9
Professional Business Services	2,162.0	2,561.7	14.4	15.9
Educational Health Services	1,802.3	2,488.2	12.0	15.4
Leisure Hospitality	1,475.2	1,827.8	9.8	11.3
Other Services	505.5	549.8	3.4	3.4
Government				
Federal Government	250.4	242.9	1.7	1.5
State Local Government	2,169.8	2,203.1	14.5	13.7
TOTAL	**15,012.9**	**16,114.0**	**100.0%**	**100.0%**

Note: 2015 information is preliminary as of January 31, 2016.

Note: Figures may not add due to rounding.
Source: State of California, Employment Development Department.

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	$1,398,953	5.6	13.2
2006	1,501,831	7.4	13.2
2007	1,565,343	4.2	13.0
2008	1,602,749	2.4	12.8
2009	1,537,136	-4.1	12.7
2010	1,583,447	3.0	12.7
2011	1,691,003	6.8	12.8
2012	1,812,315	7.2	13.0
2013	1,849,505	2.1	13.1
2014	1,939,528	4.9	13.2

Note: 2015 information was not available as of January 31, 2016.

Note: omits income for government employees overseas.

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

TABLE 27
Personal Income Per Capita

(Dollars in Millions)

Year	California	Annual Change	United States	Annual Change	California of U.S.
2005	$39,046	4.8%	$35,904	4.6	108.8
2006	41,693	6.8	38,144	6.2	109.3
2007	43,182	3.6	39,821	4.4	108.4
2008	43,786	1.4	41,082	3.2	106.6
2009	41,588	-5.0	39,376	-4.2	105.6
2010	42,411	2.0	40,277	2.3	105.3
2011	44,852	5.8	42,453	5.4	105.7
2012	47,614	6.2	44,266	4.3	107.6
2013	48,125	1.1	44,438	0.4	108.3
2014	49,985	3.9	46,049	3.6	108.5

Note: 2015 information was not available as of January 31, 2016.

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

	Units			
Year	**Total**	**Single**	**Multiple**	**Valuation[a] (Dollars in Millions)**
2006	164,187	107,658	56,529	$38,182
2007	112,574	68,039	44,535	28,560
2008	65,265	32,562	32,703	17,960
2009	36,425	25,265	11,161	12,009
2010	44,365	25,311	19,054	13,704
2011	46,758	21,640	25,118	14,435
2012	58,898	27,599	31,298	17,697
2013	85,954	37,173	48,781	23,158
2014	85,348	36,787	48,561	24,178
2015	95,522	42,659	52,863	28,292

[a] Valuation includes additions and alterations.

Note: 2015 information is preliminary as of January 31, 2016.

Source: Construction Industry Research Board; California Homebuilding Foundation.

TABLE 29
Non-residential Construction
(Dollars in Thousands)

Year	Commercial	Industrial	Other	Additions and Alterations	Total
2006	$7,733,068	$1,760,888	$3,873,055	$ 7,741,610	$21,108,621
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	7,696,677	1,122,589	4,470,893	11,518,226	24,808,385

Note: 2015 information is preliminary as of January 31, 2016.

Source: Construction Industry Research Board; California Homebuilding Foundation.

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

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

Year	Exports[a]	Annual Change
2005	$116,689.9	5.9
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	161,746.0	1.5
2013	168,044.8	3.9
2014	174,128.6	3.6

[a] Origin of Movement (OM) series

Note: 2015 information was not available as of January 31, 2016.

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

BANK ARRANGEMENTS TABLE

The following table includes certain information relating to bank arrangements the state has entered into. 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 15, 2016

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	$50,000,000	JP Morgan Chase	12/16/2016	LOC	Daily
	2003A 2-3	$200,000,000	Bank of Montreal	9/7/2018	LOC	Daily
GO VRDOs	2003B 1-4	$250,000,000	JP Morgan Chase (80.0%) CA Public Employees' Retirement System (20.0%)	11/10/2016	LOC	Weekly
GO VRDOs	2003C 1	$100,000,000	Bank of America, N.A.	11/2/2018	LOC	Weekly
	2003C 3-4	$100,000,000	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	$150,000,000	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	$50,000,000	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	$35,000,000	Citibank, N.A.	9/7/2018	LOC	Weekly
GO VRDOs	2004B 5-6	$100,000,000	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	12/16/2016	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	12/16/2016	LOC	Daily
Total GO VRDOs		**$2,473,690,000**				

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	11/04/2019	LOC	Up to 90 days
	A3/B3	$150,000,000 $50,000,000	JP Morgan Chase (75%) CA Public Employees' Retirement System (25%)	12/16/2016	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 CP	**$2,225,000,000**				
Grand Total		**$4,698,690,000**				

(a) For GO commercial paper (CP), the total outstanding par represents the maximum principal amount of CP that can be outstanding at any one time under the related bank agreement. There is no Series A4/B4 CP outstanding and the issuance of Series A4/B4 CP is not currently authorized.

STATE DEBT TABLES

The tables which follow provide information on outstanding state debt, authorized but unissued general obligation bonds and commercial paper notes, debt service requirements for state general obligation and lease-revenue bonds, and authorized and outstanding state revenue bonds. The "Bank Arrangements Table" contains certain information relating to letters of credit, liquidity facilities and other bank arrangements entered into in connection with variable rate obligations and commercial paper notes. 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.

Monthly updates of certain of the tables are available on the website of the State Treasurer.

The following tables do not include the following bond sales since January 1, 2016:

(1) $2,951,120,000 of Various Purpose General Obligation Bonds sold on March 8, 2016 and closed on March 17, 2016. This sale included $1,817,865,000 of refunding bonds which will (together with premium paid by the purchasers of the bonds) prepay $1,963,930,000 of currently outstanding General Obligation Bonds. The balance of the sale will fund new projects or repay outstanding commercial paper notes.

(2) $53,945,000 of State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of General Services), 2016 Series B (San Diego Office Building Complex) which sold on March 22, 2016.

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OUTSTANDING STATE DEBT
FISCAL YEARS 2010-11 THROUGH 2014-15
(Dollars in Thousands Except for Per Capita Information)

	2010-11	2011-12	2012-13	2013-14	2014-15
Outstanding Debt (a)					
General Obligation Bonds					
General Fund (Non-Self Liquidating)	$ 71,283,705	$ 73,060,865	$ 74,456,230	$ 75,714,125	$ 76,005,055
Enterprise Fund (Self Liquidating)	$ 1,216,115	$ 1,115,935	$ 884,180	$ 671,180	$ 646,750
Special Revenue Fund (Self Liquidating)	$ 6,787,220	$ 5,910,480	$ 4,731,745	$ 3,417,115	$ 929,735
Total General Obligation Bonds	$ 79,287,040	$ 80,087,280	$ 80,072,155	$ 79,802,420	$ 77,581,540
Revenue Bonds					
Lease-Purchase Debt	$ 9,426,325	$ 11,330,355	$ 11,822,140	$ 11,266,240	$ 10,989,480
Proposition 1A Receivables Program	$ 1,895,000	$ 1,895,000	$ 0	$ 0	$ 0
Total Revenue Bonds	$ 11,321,325	$ 13,225,355	$ 11,822,140	$ 11,266,240	$ 10,989,480
Total Outstanding General Obligation and Revenue Bonds	$ 90,608,365	$ 93,312,635	$ 91,894,295	$ 91,068,660	$ 88,571,020
Bond Sales During Fiscal Year					
Non-Self Liquidating General Obligation Bonds	$ 4,525,000	$ 7,817,390	$ 7,417,170	$ 5,905,370	$ 6,613,070
Self Liquidating General Obligation Bonds	$ 0	$ 0	$ 0	$ 0	$ 110,000
Proposition 1A Receivables Revenue Bonds	$ 0	$ 0	$ 0	$ 0	$ 0
Self Liquidating Special Fund Revenue Bonds	$ 0	$ 438,635	$ 0	$ 0	$ 0
Lease-Purchase Debt	$ 0	$ 2,627,115	$ 1,678,130	$ 4,849,680	$ 728,085
Debt Service (b)					
Non-Self Liquidating General Obligation Bonds	$ 5,704,729	$ 5,782,240	$ 5,424,867	$ 6,307,696	$ 6,577,536
Lease-Purchase Debt	$ 973,824	$ 980,862	$ 1,194,881	$ 978,202	$ 1,103,973
General Fund Receipts (c)	$ 95,536,379	$ 87,769,787	$ 103,424,674	$ 103,966,197	$ 116,385,580
Non-Self Liquidating General Obligation Bonds Debt Service as a Percentage of General Fund Receipts	5.97	6.59	5.25	6.07	5.65
Lease-Purchase Debt Service as a Percentage of General Fund Receipts	1.02	1.12	1.16	0.94	0.95
Population (d)	37,309,382	37,570,112	37,867,483	38,164,011	38,449,378
Non-Self Liquidating General Obligation Bonds Outstanding per Capita	$ 1,910.61	$ 1,944.65	$ 1,966.23	$ 1,983.91	$ 1,976.76
Lease-Purchase Debt Outstanding per Capita	$ 252.65	$ 301.58	$ 312.20	$ 295.21	$ 285.82
Personal Income (e)	$ 1,587,403,750	$ 1,664,635,750	$ 1,720,052,000	$ 1,827,919,750	$ 1,943,915,250
Non-Self Liquidating General Obligation Bonds Outstanding as Percentage of Personal Income	4.49%	4.39	4.33	4.14	3.91
Lease-Purchase Debt Outstanding as Percentage of Personal Income	0.59	0.68	0.69	0.62	0.57

(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, 2015.

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 01/01/2016
(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	39,555	0	0
+ 1990 School Facilities Bond Act	123	06/05/90	797,875	82,785	0	0
+ 1992 School Facilities Bond Act	155	11/03/92	898,211	230,620	0	0
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	40	03/05/02	2,600,000	2,078,520	22,170	227,005
+ California Library Construction and Renovation Bond Act of 1988	85	11/08/88	72,405	11,945	0	0
*+ California Park and Recreational Facilities Act of 1984	18	06/05/84	368,900	11,525	0	0
* California Parklands Act of 1980	1	11/04/80	285,000	2,340	0	0
California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	50	03/07/00	350,000	247,915	0	5,040
*+ California Safe Drinking Water Bond Law of 1976	3	06/08/76	172,500	2,825	0	0
* California Safe Drinking Water Bond Law of 1984	28	11/06/84	75,000	1,730	0	0
* California Safe Drinking Water Bond Law of 1986	55	11/04/86	100,000	21,275	0	0
California Safe Drinking Water Bond Law of 1988	81	11/08/88	75,000	26,525	0	0
*+ California Wildlife, Coastal, and Park Land Conservation Act	70	06/07/88	768,670	109,180	0	0
Children's Hospital Bond Act of 2004	61	11/02/04	750,000	644,585	180	47,145
Children's Hospital Bond Act of 2008	3	11/04/08	980,000	658,765	450	304,455
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (Hi-Ed)	1A	11/03/98	2,500,000	1,673,220	0	0
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (K-12)	1A	11/03/98	6,700,000	3,876,785	0	11,400
* Clean Air and Transportation Improvement Bond Act of 1990	116	06/05/90	1,990,000	736,075	0	4,985
* Clean Water Bond Law of 1984	25	11/06/84	325,000	9,870	0	0
* Clean Water and Water Conservation Bond Law of 1978	2	06/06/78	375,000	4,155	0	0
Clean Water and Water Reclamation Bond Law of 1988	83	11/08/88	65,000	18,860	0	0
* Community Parklands Act of 1986	43	06/03/86	100,000	2,455	0	0
* County Correctional Facility Capital Expenditure Bond Act of 1986	52	06/03/86	495,000	13,595	0	0
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	86	11/08/88	500,000	65,555	0	0
++++ Disaster Preparedness and Flood Prevention Bond Act of 2006	1E	11/07/06	3,990,000	2,228,850	0	1,718,652

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 01/01/2016
(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	66,930	970	7,490
* Fish and Wildlife Habitat Enhancement Act of 1984	19	06/05/84	85,000	4,830	0	0
Higher Education Facilities Bond Act of 1988	78	11/08/88	600,000	22,580	0	0
Higher Education Facilities Bond Act of June 1990	121	06/05/90	450,000	44,985	0	540
Higher Education Facilities Bond Act of June 1992	153	06/02/92	900,000	285,945	0	0
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	1B	11/07/06	19,925,000	15,520,930	606,140	2,889,005
Housing and Emergency Shelter Trust Fund Act of 2002	46	11/05/02	2,100,000	805,895	8,050	79,495
Housing and Emergency Shelter Trust Fund Act of 2006	1C	11/07/06	2,850,000	1,245,450	155,000	939,135
Housing and Homeless Bond Act of 1990	107	06/05/90	150,000	1,330	0	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (Hi-Ed)	47	11/05/02	1,650,000	1,352,940	0	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (K-12)	47	11/05/02	11,400,000	9,071,580	0	57,810
Kindergarten-University Public Education Facilities Bond Act of 2004 (Hi-Ed)	55	03/02/04	2,300,000	1,997,695	3,585	58,019
Kindergarten-University Public Education Facilities Bond Act of 2004 (K-12)	55	03/02/04	10,000,000	8,553,185	8,830	96,190
Kindergarten-University Public Education Facilities Bond Act of 2006 (Hi-Ed)	1D	11/07/06	3,087,000	2,986,265	3,545	38,775
Kindergarten-University Public Education Facilities Bond Act of 2006 (K-12)	1D	11/07/06	7,329,000	6,625,355	34,255	421,105
* Lake Tahoe Acquisitions Bond Act	4	08/02/82	85,000	100	0	0
* New Prison Construction Bond Act of 1986	54	11/04/86	500,000	1,665	0	0
New Prison Construction Bond Act of 1988	80	11/08/88	817,000	11,090	0	2,165
New Prison Construction Bond Act of 1990	120	06/05/90	450,000	14,435	0	605
Passenger Rail and Clean Air Bond Act of 1990	108	06/05/90	1,000,000	34,360	0	0
Public Education Facilities Bond Act of 1996 (Higher Education)	203	03/26/96	975,000	470,145	2,355	4,650
++ Public Education Facilities Bond Act of 1996 (K-12)	203	03/26/96	2,012,035	863,135	0	0
++++ Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	13	03/07/00	1,884,000	1,354,195	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	2,493,490	240,270	2,449,715
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000	12	03/07/00	2,100,000	1,429,985	0	73,820
++++ Safe, Clean, Reliable Water Supply Act	204	11/05/96	969,500	517,430	0	62,915
Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century	1A	11/04/08	9,950,000	706,140	0	8,923,225
* School Building and Earthquake Bond Act of 1974	1	11/05/74	40,000	14,635	0	0

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 01/01/2016
(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	129,110	0	0
School Facilities Bond Act of 1992	152	06/02/92	1,900,000	482,775	0	10,280
Seismic Retrofit Bond Act of 1996	192	03/26/96	2,000,000	1,126,875	0	0
* State, Urban, and Coastal Park Bond Act of 1976	2	11/02/76	280,000	3,680	0	0
Stem Cell Research and Cures Bond Act of 2004	71	11/02/04	3,000,000	1,433,820	108,560	1,123,650
Veterans Homes Bond Act of 2000	16	03/07/00	50,000	34,495	0	975
Veterans Housing and Homeless Prevention Bond Act of 2014	41	06/03/14	600,000	830	775	598,250
Voting Modernization Bond Act of 2002	41	03/05/02	200,000	28,765	0	64,495
Water Conservation Bond Law of 1988	82	11/08/88	60,000	21,515	0	5,235
*++++ Water Conservation and Water Quality Bond Law of 1986	44	06/03/86	136,500	25,720	0	230
Water Quality, Supply, and Infrastructure Improvement Act of 2014	1	11/04/14	7,545,000	325	24,710	7,519,910
++++ Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	50	11/05/02	3,345,000	2,669,095	1,810	309,574
Total General Fund Bonds			**135,239,341**	**75,253,215**	**1,221,655**	**28,099,286**

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 01/01/2016
(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	154,775	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	29,695	0	0
Veterans Bond Act of 1990	142	11/06/90	400,000	45,910	0	0
Veterans Bond Act of 1996	206	11/05/96	400,000	120,175	0	0
Veterans Bond Act of 2000	16	11/07/00	500,000	369,960	0	0
+++ Veterans Bond Act of 2008	12	11/04/08	300,000	0	0	300,000
Total Enterprise Fund Bonds			**4,710,000**	**728,675**	**0**	**467,600**
TOTAL GENERAL OBLIGATION BONDS			**139,949,341**	**75,981,890**	**1,221,655**	**28,566,886**

(a) A total of not more than $2.075 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 January 1, 2016

	Total Debt		
	Interest	**Principal**	**Total (a)**
GENERAL OBLIGATION BONDS			
GENERAL FUND NON-SELF LIQUIDATING (b)			
Fixed Rate	$ 57,719,807,248.50	$ 71,631,425,000.00	$ 129,351,232,248.50
Variable Rate (c)	345,690,165.88	3,621,790,000.00	3,967,480,165.88
ENTERPRISE FUND SELF LIQUIDATING			
Fixed Rate	298,067,847.50	728,675,000.00	1,026,742,847.50
REVENUE BONDS			
GENERAL FUND LEASE-REVENUE			
Lease-Revenue	6,043,990,857.47	10,764,485,000.00	16,808,475,857.47
General Fund and Lease-Revenue Total (d)	**$ 64,407,556,119.35**	**$ 86,746,375,000.00**	**$ 151,153,931,119.35**

(a) Includes scheduled mandatory sinking fund payments.
(b) Does not include outstanding commercial paper.
(c) The estimate of future interest payments is based on rates in effect as of January 1, 2016. The interest rates for the daily, weekly and monthly rate bonds range from 0.01 - 1.16%.
The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, Series 2013A & 2013B 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 January 1, 2016

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2016	$ 1,922,517,933.97	$ 1,608,300,000.00	$ 3,530,817,933.97
2017	3,780,138,093.12	2,670,300,000.00	6,450,438,093.12
2018	3,670,397,887.45	2,545,715,000.00	6,216,112,887.45
2019	3,552,055,970.62	2,684,855,000.00	6,236,910,970.62
2020	3,403,579,892.64	2,837,895,000.00	6,241,474,892.64
2021	3,274,959,512.73	2,438,095,000.00	5,713,054,512.73
2022	3,146,575,802.81	2,666,985,000.00	5,813,560,802.81
2023	3,018,084,758.03	2,287,735,000.00	5,305,819,758.03
2024	2,909,160,112.93	2,056,880,000.00	4,966,040,112.93
2025	2,802,605,413.15	2,312,780,000.00	5,115,385,413.15
2026	2,685,363,889.10	2,447,515,000.00	5,132,878,889.10
2027	2,559,681,072.06	2,341,365,000.00	4,901,046,072.06
2028	2,444,769,334.61	2,332,695,000.00	4,777,464,334.61
2029	2,330,854,946.35	2,484,545,000.00	4,815,399,946.35
2030	2,208,150,180.10	2,661,150,000.00	4,869,300,180.10
2031	2,062,862,334.05	2,745,370,000.00	4,808,232,334.05
2032	1,932,528,634.40	2,565,645,000.00	4,498,173,634.40
2033	1,794,578,195.01	2,563,870,000.00	4,358,448,195.01
2034	1,666,645,335.26	3,387,565,000.00	5,054,210,335.26
2035	1,434,492,644.09	3,143,005,000.00	4,577,497,644.09
2036	1,248,149,300.76	2,764,395,000.00	4,012,544,300.76
2037	1,076,269,524.37	3,122,660,000.00	4,198,929,524.37
2038	887,842,559.44	3,268,625,000.00	4,156,467,559.44
2039	735,493,428.95	3,415,270,000.00	4,150,763,428.95
2040	454,769,662.50	1,767,885,000.00	2,222,654,662.50
2041	292,957,793.75	2,190,000,000.00	2,482,957,793.75
2042	190,677,793.75	1,319,000,000.00	1,509,677,793.75
2043	135,220,418.75	1,326,325,000.00	1,461,545,418.75
2044	61,651,398.75	875,000,000.00	936,651,398.75
2045	30,773,425.00	550,000,000.00	580,773,425.00
2046	6,000,000.00	250,000,000.00	256,000,000.00
Total	**$ 57,719,807,248.50**	**$ 71,631,425,000.00**	**$ 129,351,232,248.50**

(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.
Total represents the remaining debt service requirements from February 1, 2016 through June 30, 2016.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Variable Rate
As of January 1, 2016

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2016	$ 13,644,183.28	$ 21,000,000.00	$ 34,644,183.28
2017	28,010,892.11	184,675,000.00	212,685,892.11
2018	27,772,910.09	243,305,000.00	271,077,910.09
2019	27,430,294.06	113,420,000.00	140,850,294.06
2020	27,226,885.17	105,500,000.00	132,726,885.17
2021	27,036,123.63	154,400,000.00	181,436,123.63
2022	26,614,816.07	39,200,000.00	65,814,816.07
2023	26,610,710.07	61,100,000.00	87,710,710.07
2024	26,621,962.56	173,600,000.00	200,221,962.56
2025	26,575,542.12	116,400,000.00	142,975,542.12
2026	26,567,334.48	203,300,000.00	229,867,334.48
2027	22,054,382.53	390,600,000.00	412,654,382.53
2028	13,041,822.86	399,000,000.00	412,041,822.86
2029	7,803,266.11	407,700,000.00	415,503,266.11
2030	6,571,271.41	254,390,000.00	260,961,271.41
2031	6,053,833.86	163,600,000.00	169,653,833.86
2032	4,537,180.97	316,600,000.00	321,137,180.97
2033	1,515,916.40	271,400,000.00	272,915,916.40
2034	246.41	1,600,000.00	1,600,246.41
2035	100.00	-	100.00
2036	100.43	-	100.43
2037	99.57	-	99.57
2038	100.00	-	100.00
2039	100.00	-	100.00
2040	91.69	1,000,000.00	1,000,091.69
Total	**$ 345,690,165.88**	**$ 3,621,790,000.00**	**$ 3,967,480,165.88**

(a) The estimate of future interest payments is based on rates in effect as of January 1, 2016. The interest rates for the daily, weekly and monthly rate bonds range from 0.01 - 1.16 .
The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, Series 2013A 2013B 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.
Total represents the remaining estimated debt service requirements from February 1, 2016 through June 30, 2016.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR ENTERPRISE FUND SELF LIQUIDATING BONDS
Fixed Rate
As of January 1, 2016

Fiscal Year Ending June 30	Current Debt		
	Interest	Principal	Total (a)
2016	$ 12,389,489.37	$ 19,730,000.00	$ 32,119,489.37
2017	23,216,470.00	71,955,000.00	95,171,470.00
2018	20,970,523.40	59,805,000.00	80,775,523.40
2019	19,344,057.50	47,080,000.00	66,424,057.50
2020	18,063,530.10	39,370,000.00	57,433,530.10
2021	16,878,363.75	29,375,000.00	46,253,363.75
2022	16,148,072.50	13,630,000.00	29,778,072.50
2023	15,797,493.75	9,695,000.00	25,492,493.75
2024	15,614,108.75	4,365,000.00	19,979,108.75
2025	15,485,198.75	4,660,000.00	20,145,198.75
2026	15,417,343.75	-	15,417,343.75
2027	15,154,622.50	16,695,000.00	31,849,622.50
2028	14,724,887.26	8,835,000.00	23,559,887.26
2029	14,100,143.15	31,905,000.00	46,005,143.15
2030	12,803,803.89	50,980,000.00	63,783,803.89
2031	11,146,092.76	50,700,000.00	61,846,092.76
2032	9,433,487.10	49,630,000.00	59,063,487.10
2033	7,730,942.50	42,535,000.00	50,265,942.50
2034	6,206,086.43	37,520,000.00	43,726,086.43
2035	4,952,656.25	28,670,000.00	33,622,656.25
2036	3,987,406.25	22,810,000.00	26,797,406.25
2037	3,093,967.79	23,025,000.00	26,118,967.79
2038	2,322,200.00	15,300,000.00	17,622,200.00
2039	1,695,700.00	16,025,000.00	17,720,700.00
2040	1,039,400.00	16,790,000.00	17,829,400.00
2041	351,800.00	17,590,000.00	17,941,800.00
Total	**$ 298,067,847.50**	**$ 728,675,000.00**	**$ 1,026,742,847.50**

(a) Includes scheduled mandatory sinking fund payments.
Total represents the remaining debt service requirements from February 1, 2016 through June 30, 2016.

SOURCE: State of California, Office of the Treasurer.

STATE PUBLIC WORKS BOARD AND OTHER LEASE-REVENUE FINANCING OUTSTANDING ISSUES
As of January 1, 2016

Name of Issue		Outstanding
GENERAL FUND SUPPORTED ISSUES:		
State Public Works Board		
California Community Colleges	$	242,950,000
California Department of Corrections and Rehabilitation		4,260,785,000
Trustees of the California State University		987,525,000
Various State Facilities (a)		4,990,395,000
Total State Public Works Board Issues	**$**	**10,481,655,000**
Total Other State Facilities Lease-Revenue Issues (b)	$	282,830,000
Total General Fund Supported Issues	**$**	**10,764,485,000**
SPECIAL FUND SUPPORTED ISSUES:		
East Bay State Building Authority	$	11,915,000
San Bernardino Joint Powers Financing Authority		20,985,000
Total Special Fund Supported Issues	**$**	**32,900,000**
TOTAL	**$**	**10,797,385,000**

(a) Includes projects that are supported by multiple funding sources in addition to the General Fund.
(b) Includes $79,815,000 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 January 1, 2016

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2016	$ 274,503,795.18	$ 176,930,000.00	$ 451,433,795.18
2017	537,344,601.59	547,540,000.00	1,084,884,601.59
2018	510,926,901.84	606,485,000.00	1,117,411,901.84
2019	481,843,595.09	584,800,000.00	1,066,643,595.09
2020	453,018,575.10	569,440,000.00	1,022,458,575.10
2021	425,880,028.81	532,425,000.00	958,305,028.81
2022	399,393,277.09	520,010,000.00	919,403,277.09
2023	374,917,170.96	478,260,000.00	853,177,170.96
2024	351,344,553.00	465,105,000.00	816,449,553.00
2025	327,584,305.92	484,380,000.00	811,964,305.92
2026	302,431,275.90	499,385,000.00	801,816,275.90
2027	276,134,348.70	525,645,000.00	801,779,348.70
2028	248,840,729.38	539,685,000.00	788,525,729.38
2029	220,642,329.72	507,470,000.00	728,112,329.72
2030	193,683,481.62	501,305,000.00	694,988,481.62
2031	166,783,116.54	496,895,000.00	663,678,116.54
2032	138,841,975.33	504,510,000.00	643,351,975.33
2033	112,219,837.42	428,980,000.00	541,199,837.42
2034	87,248,274.41	441,165,000.00	528,413,274.41
2035	61,802,508.87	408,600,000.00	470,402,508.87
2036	42,538,962.50	264,370,000.00	306,908,962.50
2037	29,820,925.00	260,800,000.00	290,620,925.00
2038	16,656,150.00	202,380,000.00	219,036,150.00
2039	7,511,337.50	136,055,000.00	143,566,337.50
2040	2,078,800.00	81,865,000.00	83,943,800.00
Total	**$ 6,043,990,857.47**	**$ 10,764,485,000.00**	**$ 16,808,475,857.47**

(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.
Total represents the remaining debt service requirements from February 1, 2016 through June 30, 2016.

SOURCE: State of California, Office of the Treasurer.

STATE AGENCY REVENUE BONDS
AND CONDUIT FINANCING
As of December 31, 2015

Issuing Agency	Outstanding[(a)(b)(c)]
State Revenue Bond Financing Programs:	
California Alternative Energy and Advanced Transportation Financing Authority	3,409,067
California Department of Transportation - GARVEE	49,315,000
California Earthquake Authority	350,000,000
California Health Facilities Financing Authority	62,210,000
California Housing Finance Agency	2,613,143,175
California Infrastructure and Economic Development Bank	538,890,000
California State University	4,250,198,000
Department of Water Resources - Central Valley Project	2,418,700,000
Department of Water Resources - Power Supply Program	5,278,455,000
The Regents of the University of California	15,988,850,000
Veterans Revenue Debenture	314,290,000
TOTAL	**31,867,460,242**
Conduit Financing:	
California Alternative Energy and Advanced Transportation Financing Authority	55,307,533
California Educational Facilities Authority	4,557,242,770
California Health Facilities Financing Authority	13,299,354,659
California Housing Finance Agency	465,038,142
California Infrastructure and Economic Development Bank	4,098,546,833
California Pollution Control Financing Authority	3,721,488,421
California School Financing Authority	496,946,433
TOTAL	**26,693,924,791**

(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

PENSION SYSTEMS EX-1-1
General EX-1-1
Pension Reform EX-1-2
1. PEPRA EX-1-2
2. CalSTRS Funding Solution EX-1-3
CalPERS EX-1-3
1. General EX-1-3
2. Members and Employers EX-1-4
3. Retirement Benefits EX-1-5
4. Member and State Contributions EX-1-6
5. Prospective Funding Status; Future State Contributions EX-1-7
6. Investment Policy; Investment Returns EX-1-9
7. Actuarial Methods and Assumptions EX-1-10
8. Actuarial Valuation; Determination of Required Contributions EX-1-11
9. Funding Status EX-1-12
10. Other Retirement Plans EX-1-13
CalSTRS EX-1-13
1. General EX-1-13
2. Members and Employers EX-1-14
3. Retirement Benefits EX-1-14
4. Funding for the DB Program EX-1-15
5. Change in Accounting Standards EX-1-17
6. Funding for the SMBA EX-1-17
7. Actuarial Methods and Assumptions EX-1-18
8. Actuarial Valuation EX-1-19
9. Funding Status EX-1-20
10. Prospective Funding Status; Future Contributions EX-1-22
11. Investment Policy; Investment Returns EX-1-22

TABLES

TABLE 31 CALPERS MEMBERSHIP (STATE EMPLOYEES) AS OF JUNE 30 .....EX-1-4

TABLE 32 CALPERS (STATE ONLY) SCHEDULE OF PENSION BENEFITS PAID...EX-1-6

TABLE 33 STATE CONTRIBUTIONS TO PERF, INCLUDING CSU EX-1-7

TABLE 34 CALPERS INVESTMENT RESULTS BASED ON MARKET VALUE.....EX-1-9

TABLE 35 PERF TIME-WEIGHTED AVERAGE RETURNS AS OF JUNE 30, 2015...EX-1-10

TABLE 36 ACTUARIAL ASSUMPTIONS—PERF EX-1-11

TABLE 37 PERF SCHEDULE OF FUNDING PROGRESS STATE EMPLOYEES ONLY EX-1-12

TABLE 38 DB PROGRAM MEMBERSHIP EX-1-14

TABLE 39 DB PROGRAM SCHEDULE OF BENEFITS PAID AND ADMINISTRATIVE EXPENSES EX-1-15

TABLE 40 SCHEDULE OF GENERAL FUND CONTRIBUTIONS FROM THE STATE.....EX-1-18

TABLE 41 ACTUARIAL METHODS AND ASSUMPTIONS - DB PROGRAM.....EX-1-19

TABLE 42 DB PROGRAM SCHEDULE OF FUNDING PROGRESS EX-1-21

TABLE 43 CALSTRS INVESTMENT RESULTS BASED ON MARKET VALUE.....EX-1-23

TABLE 44 CALSTRS TIME-WEIGHTED GROSS RETURNS AS OF JUNE 30, 2015.EX-1-23

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 2016-17 Governor's Budget does not allocate any of UC's appropriation specifically to fund its employer retirement costs, but directs $171 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. 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 provided by CalPERS and CalSTRS and makes no representations nor expresses any opinion as to the accuracy of the information provided 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, 2015.

Pension Reform

1. PEPRA

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, CalPERS noted 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. CalSTRS Funding Solution

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 will increase 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 will increase from 8.25 percent to a total of 19.1 percent of creditable compensation, and the state's total contribution to the DB Program will increase from approximately 3.5 percent on July 1, 2014 to 6.3 percent of payroll on July 1, 2016 and thereafter. In addition, the state will continue to pay 2.5 percent of payroll annually for a supplemental inflation protection program—for a total of 8.8 percent. See "CalSTRS—Funding for the DB Program" for more information on the plan.

CalPERS

1. General

CalPERS administers a total of 13 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 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, State Director of the Department of Human Resources, and the State Treasurer, who serve ex officio. The other CalPERS Board members include a member elected by school employees, a member elected by retirees, a member elected

by state employees, a member elected by other 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

CalPERS is a multiple-employer defined benefit retirement system. 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 formula 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, 2014 and June 30, 2015.

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

Category	2014	2015
Retirees	180,666	186,144
Survivors and Beneficiaries	30,575	32,692
Active Members	246,834	250,959
Inactive Members	94,813	86,845
Total	552,888	556,640

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2014 and June 30, 2015.

Benefits to state employees are paid according to the category of employment and the type of benefit coverage provided by the state. 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 of the 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 CDCR who have the same service retirement and other benefits as Miscellaneous Members, but who also have industrial death and disability benefits under certain limited circumstances.

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

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

3. Retirement Benefits

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

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The following table shows the amount of pension benefits paid from CalPERS for fiscal years 2009-10 through 2013-14.

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

(Dollars in Millions)

Fiscal Year	Benefits Paid
2009-10	$5,485
2010-11	6,017
2011-12	6,711
2012-13	6,935
2013-14	7,409

Note: 2015 information was not available as of January 31. 2016.

Source: CalPERS State and Schools Actuarial Valuation for fiscal years ended June 30, 2010 through June 30, 2012; State Actuarial Valuation for Fiscal Years Ended June 30, 2013 through June 30, 2014.

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 members are based on a percentage of their salary ranging from 3 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 2016-17 Governor's Budget includes the following employer contribution rates:

	Contribution Rates
State Miscellaneous Tier 1	27.382%
California State University, Miscellaneous Tier 1	27.382
State Miscellaneous Tier 2	27.689
State Industrial	19.881
State Safety	19.982
State Peace Officers Firefighters	42.047
California State University, Peace Officers and Firefighters	42.047
California Highway Patrol	50.919

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
2012-13	$2,948	$1,506	$449	$449	$3,397	$1,955
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[(a)]	4,338	2,281	585	584	4,922	2,866
2016-17[(a)]	4,829	2,534	636	636	5,465	3,171

[(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. There can be no assurances that the required annual contribution to CalPERS will not continue to significantly increase and that such increases will not materially adversely affect the financial condition of the state.

In accordance with state law, the actuarial valuation for the fiscal year ended June 30, 2014 includes a sensitivity analysis of discount rates. The analysis shows that employer contribution rates are highly sensitive to changes in the discount rate and that employer contribution rates would be significantly reduced if a higher discount rate is used, and employer contribution rates would significantly increase if a lower discount rate is used. The actuarial report for the year ended June 30, 2014 contains information concerning the specific impact on employer contribution rates and unfunded liability resulting from these different discount rate assumptions.

The tables below show projected state contribution rates for fiscal year 2017-18 through fiscal year 2019-20 for the employee categories under five different investment return scenarios. The projected rates assume that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur. The five different investment return scenarios are as follows (figures in parentheses are negative numbers):

- The first scenario assumes a negative (3.80) percent return for each of the fiscal years 2015-16, 2016-17 and 2017-18.
- The second scenario assumes a 2.80 percent return for each of the fiscal years 2015-16, 2016-17 and 2017-18.
- The third scenario assumes the return for each of the fiscal years 2015-16, 2016-17 and 2017-18 would be CalPERS' assumed 7.50 percent investment return.
- The fourth scenario assumes a 12.00 percent return for each of the fiscal years 2015-16, 2016-17 and 2017-18.
- The fifth scenario assumes an 18.90 percent return for each of the fiscal years 2015-16, 2016-17 and 2017-18.

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

Estimated: Fiscal Year 2017-18

Assumed return	(3.80)%	2.80%	7.50%	12.00%	18.90%
Projected Contribution Rates					
State Miscellaneous Tier 1	29.1%	28.5%	28.1%	27.7%	27.1%
State Miscellaneous Tier 2	28.8	28.2	27.8	27.4	26.8
State Industrial	20.3	19.8	19.5	19.2	18.7
State Safety	19.4	19.0	18.8	18.5	18.1
State Peace Officers Firefighters	42.6	41.8	41.2	40.7	39.9
California Highway Patrol	52.1	51.3	50.7	50.2	49.4

Source: CalPERS State Actuarial Valuation, Fiscal Year Ended June 30, 2014.

Estimated: Fiscal Year 2018-19

Assumed return	(3.80)%	2.80%	7.50%	12.00%	18.90%
Projected Contribution Rates					
State Miscellaneous Tier 1	31.8%	30.2%	28.9%	27.7%	25.8%
State Miscellaneous Tier 2	31.6	30.0	28.8	27.6	25.6
State Industrial	22.2	20.9	19.9	18.9	17.4
State Safety	20.6	19.6	18.8	18.0	16.8
State Peace Officers Firefighters	46.1	43.8	42.1	40.5	37.9
California Highway Patrol	55.8	53.6	51.9	50.2	47.6

Source: CalPERS State Actuarial Valuation, Fiscal Year Ended June 30, 2014.

	Estimated: Fiscal Year 2019-20				
Assumed return	(3.80)%	2.80%	7.50%	12.00%	18.90%
	Projected Contribution Rates				
State Miscellaneous Tier 1	35.3%	32.2%	29.8%	27.3%	23.3%
State Miscellaneous Tier 2	35.3	32.2	29.8	27.3	23.3
State Industrial	24.9	22.3	20.4	18.4	15.1
State Safety	22.4	20.4	18.8	17.2	14.6
State Peace Officers Firefighters	50.7	46.4	43.0	39.6	34.1
California Highway Patrol	60.7	56.4	53.0	49.7	44.1

Source: CalPERS State Actuarial Valuation, Fiscal Year Ended June 30, 2014.

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 "Investment Policy," serve to guide CalPERS' asset allocation strategy for PERF. The CalPERS Board reviews the Investment Policy annually, taking into consideration 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, 2005 through June 30, 2015, as well as time-weighted average returns.

TABLE 34
CalPERS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Return
2004-05	12.3%
2005-06	11.8
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

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2005 through June 30, 2015.

TABLE 35
PERF Time-Weighted Average Returns as of June 30, 2015

Period	Time Weighted Average Rate of Return
3 years	10.9%
5 years	10.7
10 years	6.2

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2015.

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, 2011 through June 30, 2014.

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TABLE 36
Actuarial Assumptions—PERF

	Fiscal Year			
Assumption	**2010-11**	**2011-12**	**2012-13**	**2013-14**
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, 2010 through June 30, 2012; State Actuarial Valuation for Fiscal Years Ended June 30, 2013 through June 30, 2014.

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. However, CalPERS has signaled it would not incorporate a new risk management approach into state contribution rates until fiscal year 2017-18 at the earliest.

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, 2012 actuarial valuation and was completed February 24, 2014.

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.

The Chief Actuary stated that the approach provides a single measure of funded status and unfunded liabilities, less volatility in extreme years, a faster path to full funding, and more transparency to employers about future contribution rates. These changes will accelerate the repayment of unfunded liabilities (including fiscal year 2008-09 investment losses) of the state plans in the near term. Under the CalPERS Board action, actual rates for the state were not set using the new methods until fiscal year 2015-16, reflecting the June 30, 2014 valuation.

9. Funding Status

The following table sets forth the schedule of funding progress relating to the state's participation in PERF as of the ten most recent actuarial valuation dates. Funding progress is measured by a comparison of the state's share of PERF assets to pay state employee benefits with plan liabilities.

On October 2, 2015 the CalPERS Board of Administration released the June 30, 2014 State Actuarial Valuation, which showed marginally lower than expected fiscal year 2015-16 state employer contribution rates and improved funded status due to strong investment performance, an increase in new employees subject to lower pension-reform benefits, and other demographic factors. The unfunded liability allocable to state employees (excluding judges and elected officials) was $43.3 billion as of June 30, 2014, a decrease of $6.7 billion from the June 30, 2013 valuation. The funded status increased to 72.1 percent as of June 30, 2014 as compared to 66.1 percent in the June 30, 2013 valuation. This actuarial information is available on the CalPERS website: http://www.calpers.ca.gov/eip-docs/about/committee-meetings/agendas/financeadmin/201504/item-8b-00.pdf.

TABLE 37
PERF Schedule of Funding Progress
State Employees Only

(Dollars in Millions)

	Fiscal Year				
	2009-10	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Market Value of Assets (MVA)[(a)]	$76,266	$91,159	$88,810	$97,453	$111,982
Actuarial Accrued Liabilities	121,446	129,648	134,314	147,393	155,247
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis	(45,180)	(38,489)	(45,504)	(49,940)	(43,265)
Covered Payroll	16,281	16,212	15,680	15,347	16,476
Funded Ratio (MVA)	62.8	70.3	66.1%	66.1%	72.10

[(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 Year Ended June 30, 2013 and June 30, 2014.

10. Other Retirement Plans

In addition to PERF, CalPERS also administers JRF, JRF II, LRF, and the 1959 Survivor Benefit program, which are defined benefit plans.

In the JRF actuarial reports for the year ended June 30, 2014, CalPERS reported that JRF had an unfunded actuarial liability of approximately $3.4 billion. For the same year, the JRF II and the LRF reported funding surpluses of $63 million and $19 million, respectively. In the 1959 Survivor Benefit program actuarial report for the year ended June 30, 2014, CalPERS reported that the program had an unfunded actuarial liability of approximately $25.5 million. The state's fiscal year 2016-17 retirement contributions from the General Fund are estimated to be $201.8 million for JRF and $68.2 million for JRF II, $4.7 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 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 attached as APPENDIX G 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 new limited rate setting authority 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, 2014, the DB Program included 1,690 employers. The following table reflects the total number of members in the DB Program as of June 30, 2014 and 2015.

TABLE 38
DB Program Membership

Membership	June 30, 2015	June 30, 2014	Percent Change
Active Members	429,460	420,887	2.0%
Inactive Members	184,396	182,815	0.8
Retirees and Beneficiaries	282,100	275,627	2.3
Total Membership	895,956	879,329	1.9

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2015.

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 increased the retirement age for new CalSTRS members hired on or after January 1, 2013. New 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).

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	$10,092	$110
2011-12	10,677	138
2012-13	11,355	137
2013-14[1]	11,616	146
2014-15[1]	12,165	137

[1] Pursuant to GASB 67, the CalSTRS Comprehensive Annual Financial Report no longer displays the DB Program independent of the STRP beginning in fiscal year 2014. The DB Program amounts were provided by CalSTRS.
Source: CalSTRS Comprehensive Annual Financial Reports for Fiscal Years ended June 30, 2011 through 2013. CalSTRS for Fiscal Years ended June 30, 2014 and 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. Although specific amounts vary from year to year, approximately 55 percent of DB Program assets 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 will increase over time on July 1, 2014, 2015 and 2016 to 10.25 percent for members not subject to PEPRA and to 9.205 percent for members subject to PEPRA.

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 will 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.

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 will increase its supplemental contribution to the July 1, 1990 benefit obligation and it will be phased in 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 through 2045-46 it will increase to 4.311 percent. Beginning fiscal year 2017-18 through fiscal year 2045-46, the CalSTRS Board is authorized to adjust the supplemental state contribution up 0.50 percent each year to eliminate the unfunded obligation for benefits in place as of July 1, 1990. If there is no unfunded obligation, the supplemental contribution shall be reduced to zero.

The plan also 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 2015 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 2015 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 is now required to provide a schedule in the notes to the financial statements that display the proportionate share of contributions per employer. Employers will 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 2015 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 addition, CalSTRS has allocated the proportionate share of its NPL to employers and the state (as a nonemployer contributing entity) in the 2015 CalSTRS Financial Statements to assist employers and the state in implementing GASB 68 in their respective financial statements for the year ended June 30, 2015. GASB Statement 68 requires employers and nonemployer contributing entities to report any NPL as a liability in their Statement of Net Position. In "Schedule A" of the Independent Auditor's Report and Other Pension Information of the STRP for the fiscal year ended June 30, 2015 (which is available on the CalSTRS website at www.calstrs.ca.gov), 34.59 percent of the NPL is allocated to the state. The State Controller will continue to evaluate this allocation until release of the state's financial statements for the year ended June 30, 2015 and the percentage may be less than or greater than the 34.59 percent contained in the 2015 CalSTRS Financial Statements.

6. Funding for the SMBA

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
2012-13	$530	$642	$188	$1,360
2013-14	527	581	252	1,360
2014-15[(a)]	528	582	376	1,486
2015-16	548	607	781	1,936
2016-17	580	647	1,241	2,468

[(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 18, 2015 (the "2014 CalSTRS Valuation"), was prepared as of June 30, 2014, and is available on the CalSTRS website. The actuarial assumptions and methods used in the 2014 CalSTRS Valuation were based on the most recent experience report (the "2010 Experience Analysis") prepared by the CalSTRS Consulting Actuary in February 2012.

In preparing the 2014 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, 2015.

TABLE 41
Actuarial Methods and Assumptions - DB Program

	Fiscal Year			
Methods	**2011-12**	**2012-13**	**2013-14**	**2014-15**
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	Open	Open
Remaining Amortization Period	30 years	30 years	30 years	30 years
Asset Valuation Method	Expected value with 33 adjustment to market value	Expected value with 33 adjustment to market value	Expected value with 33 adjustment to market value	Expected value with 33 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, 2012, 2013, 2014, and 2015.

8. Actuarial Valuation

According to CalSTRS and as reflected in the 2014 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 2014 CalSTRS

Valuation, due to the asset smoothing method, approximately one-third of the approximately $16.4 billion investment gain was recognized in June 30, 2014 (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, will require 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 will continue 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 progress as of the five most recent actuarial valuation dates based on information provided by CalSTRS from the actuarial valuation reports for such years. Funding progress is measured by a comparison of DB Program assets with DB Program liabilities.

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TABLE 42
DB Program Schedule of Funding Progress

(Dollars in Millions)

	Fiscal Year				
	2009-10	**2010-11**	**2011-12**	**2012-13**	**2013-14**[(b)]
Market Value of Assets (MVA)[(a)]	$117,129	$140,040	$134,835	$147,907	$169,406
Actuarial Value of Assets (AVA)	140,291	143,930	144,232	148,614	158,495
Actuarial Accrued Liabilities (AAL)-entry age	196,315	208,405	215,189	222,281	231,213
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis[(a)]	(79,186)	(68,365)	(80,354)	(74,374)	(61,807)
Excess of Actuarial Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) AVA Basis	(56,024)	(64,475)	(70,957)	(73,667)	(72,718)
Covered Payroll	26,275	25,576	25,388	25,479	26,470
Funded Ratio (MVA)[(a)]	60	67%	63	67%	73
Funded Ratio (AVA)	71	69%	67%	67%	69

(a) The CalSTRS Comprehensive Annual Financial Report reports the STRP assets and does not provide a separate accounting of only the DB Program assets. The market value of the DB Program assets for the fiscal years ended June 30, 2010 through 2014 was provided by the CalSTRS Consulting Actuary.

(b) The AAL is referred to as the Actuarial Obligation and the UAAL is referred to as the Unfunded Actuarial Obligation (UAO) in the 2014 CalSTRS Valuation.

Source: CalSTRS Actuarial Valuations for Fiscal Years ended June 30, 2010 through 2014.

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According to CalSTRS, the market value of the entire DB Program investment portfolio (including the SBMA assets) was $184.4 billion as of June 30, 2015, an increase from $178.3 billion (or 3.4 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, on June 24, 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.

According to the 2014 CalSTRS Valuation, future revenues from contributions and appropriations for the DB Program are projected to be sufficient to finance its obligation by 2046.

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, 2015, as well as time-weighted average returns.

TABLE 43
CalSTRS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Gross Return
2004-05	11.09%
2005-06	13.21
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
2015-16	4.77

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2015.

TABLE 44
CalSTRS Time-Weighted Gross Returns as of June 30, 2015

Period	Time-Weighted Rate of Return
3 years	12.26%
5 years	12.14
10 years	7.02

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2015.

February 2016

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

BETTY T. YEE
California State Controller

BETTY T. YEE
California State Controller

March 10, 2016

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2015, through February 29, 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 Governor's Budget. These cash flow estimates are predicated on projections and assumptions made by DOF in preparation of the 2016-17 Governor's 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 Governor's Budget Estimates
(Amounts in thousands)

	July 1 through February 29				
	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	70,957,161	70,663,315	293,846	0.4	66,347,527
Nonrevenues	1,262,603	1,189,033	73,570	6.2	1,710,064
Total Receipts	72,219,764	71,852,348	367,416	0.5	68,057,591
Less Disbursements:					
State Operations	20,562,922	20,585,639	(22,717)	(0.1)	20,782,420
Local Assistance	62,050,260	61,837,703	212,557	0.3	58,835,078
Capital Outlay	139,093	179,866	(40,773)	(22.7)	149,845
Nongovernmental	2,409,391	2,370,957	38,434	1.6	2,069,781
Total Disbursements	85,161,666	84,974,165	187,501	0.2	81,837,124
Receipts Over / (Under) Disbursements	(12,941,902)	(13,121,817)	179,915	(1.4)	(13,779,533)
Net Increase / (Decrease) in Temporary Loans	10,412,490	10,592,405	(179,915)	(1.7)	11,857,904
GENERAL FUND ENDING CASH BALANCE	-	-	-		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	**$ -**	**$ -**	**$ -**		$ -
BORROWABLE RESOURCES					
Available Borrowable Resources	$ 33,066,088	$ 31,335,735	$ 1,730,353	5.5	$ 29,864,232
Outstanding Loans (b)	10,412,490	10,592,405	(179,915)	(1.7)	11,857,904
Unused Borrowable Resources	$ 22,653,598	$ 20,743,330	$ 1,910,268	9.2	$ 18,006,328

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 Governor's Budget. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $10.4 billion is comprised of $10.4 billion of internal borrowing. Current balance is comprised of $0.0 billion carried forward from June 30, 2015, plus current year Net Increase/(Decrease) in Temporary Loans of $10.4 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. Prior month reported actuals and Budget Act estimates reflect these state operation expenses as a State Universities and Colleges expense. Year-to-date actuals for this expense total $155.7 million.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of February		July 1 through February 29				
			2016				2015
	2016	2015	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount		Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 30,848	$ 55,339	$ 246,241	$ 243,440	$ 2,801	1.2	$ 265,861
Corporation Tax	189,481	3,614	3,819,934	3,486,438	333,496	9.6	4,006,051
Cigarette Tax	1,949	5,990	54,306	52,004	2,302	4.4	63,992
Estate, Inheritance, and Gift Tax	503	443	1,496	809	687	84.9	2,142
Insurance Companies Tax	24,967	22,193	1,255,247	1,236,039	19,208	1.6	1,221,340
Personal Income Tax	2,877,627	2,630,777	48,336,059	48,245,800	90,259	0.2	44,735,939
Retail Sales and Use Taxes	3,664,528	3,455,719	16,353,089	16,552,777	(199,688)	(1.2)	15,345,269
Vehicle License Fees	1	10	18	13	5	38.5	121
Pooled Money Investment Interest	2,176	253	17,044	15,866	1,178	7.4	9,806
Not Otherwise Classified	61,578	133,202	873,727	830,129	43,598	5.3	697,006
Total Revenues	**6,853,658**	**6,307,540**	**70,957,161**	**70,663,315**	**293,846**	**0.4**	**66,347,527**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	138,000	138,000	-	-	621,400
Transfers from Other Funds	35,827	81,265	390,078	351,936	38,142	10.8	321,838
Miscellaneous	198,955	200,239	734,525	699,097	35,428	5.1	766,826
Total Nonrevenues	**234,782**	**281,504**	**1,262,603**	**1,189,033**	**73,570**	**6.2**	**1,710,064**
Total Receipts	**$ 7,088,440**	**$ 6,589,044**	**$ 72,219,764**	**$ 71,852,348**	**$ 367,416**	**0.5**	**$ 68,057,591**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of February		July 1 through February 29				
			2016				2015
	2016	2015	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount		Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 92,326	$ 127,799	$ 1,070,669	$ 1,065,077	$ 5,592	0.5	$ 1,072,312
Business, Consumer Services and Housing	2,196	2,108	18,056	15,287	2,769	18.1	15,479
Transportation	2	-	6	3	3	100.0	35
Resources	183,064	85,479	1,381,920	1,188,209	193,711	16.3	975,482
Environmental Protection Agency	5,449	1,587	27,353	147,510	(120,157)	(81.5)	26,856
Health and Human Services:							
Health Care Services and Public Health	15,241	15,571	221,410	218,508	2,902	1.3	216,295
Department of State Hospitals	132,497	126,365	1,054,653	1,039,159	15,494	1.5	1,028,515
Other Health and Human Services	46,556	47,298	434,929	468,248	(33,319)	(7.1)	369,142
Education:							
University of California	237,548	228,496	2,185,330	2,185,561	(231)	(0.0)	2,077,205
State Universities and Colleges	210,224	211,593	2,259,549 (e)	2,315,782	(56,233)	(2.4)	2,048,623
Other Education	22,890	20,405	145,291	150,324	(5,033)	(3.3)	134,458
Dept. of Corrections and Rehabilitation	779,004	762,706	6,574,811	6,675,505	(100,694)	(1.5)	6,465,023
Governmental Operations	58,275	99,606	490,888	512,264	(21,376)	(4.2)	515,740
General Government	234,141	182,882	1,864,356 (e)	1,812,663	51,693	2.9	3,285,469
Public Employees Retirement System	(205,565)	(193,952)	182,199	174,474	7,725	4.4	102,234
Debt Service (d)	575,568	422,509	2,624,302	2,589,865	34,437	1.3	2,464,172
Interest on Loans	-	17	27,200	27,200	-	-	(14,620)
Total State Operations	**2,389,416**	**2,140,469**	**20,562,922**	**20,585,639**	**(22,717)**	**(0.1)**	**20,782,420**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	2,847,728	2,912,062	30,850,026	31,364,077	(514,051)	(1.6)	30,344,931
Community Colleges	464,886	349,924	3,991,729	3,925,567	66,162	1.7	3,374,509
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	1,299,725	1,299,725	-	-	968,957
Other Education	299,385	202,606	2,091,942	2,141,638	(49,696)	(2.3)	1,871,030
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	4,819	8,643	194,418	192,477	1,941	1.0	204,061
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	210
Health Care Services and Public Health:							
Medical Assistance Program	2,312,722	1,242,613	13,225,176	12,563,401	661,775	5.3	13,395,762
Other Health Care Services/Public Health	21,741	8,629	125,637	118,447	7,190	6.1	123,533
Developmental Services - Regional Centers	224,093	425,654	2,639,000	2,571,546	67,454	2.6	2,419,748
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	490,125	228,144	4,239,194	4,482,110	(242,916)	(5.4)	3,487,288
CalWORKs	19,531	(4,740)	737,307	691,181	46,126	6.7	316,314
Other Social Services	117,154	125,584	507,692	552,322	(44,630)	(8.1)	487,576
Tax Relief	-	-	206,976	215,828	(8,852)	(4.1)	207,878
Other Local Assistance	82,031	70,597	1,941,438	1,719,384	222,054	12.9	1,633,281
Total Local Assistance	**6,884,215**	**5,569,716**	**62,050,260**	**61,837,703**	**212,557**	**0.3**	**58,835,078**

See notes on page A1.

(Continued)

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

	Month of February		July 1 through February 29				
			2016				2015
	2016	2015	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount		Actual
CAPITAL OUTLAY	**4,955**	**1,556**	**139,093**	**179,866**	**(40,773)**	**(22.7)**	**149,845**
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	-	-	31,506	16,034	15,472	96.5	802,687
Transfer to Revolving Fund	197	5,899	7,456	9,312	(1,856)	(19.9)	7,473
Advance:							
MediCal Provider Interim Payment	-	-	-	-	-	-	-
State-County Property Tax Administration Program	(12,218)	(11,325)	49,155	31,184	17,971	57.6	38,793
Social Welfare Federal Fund	(35,011)	(1)	(30,722)	(37,569)	6,847	(18.2)	(101,821)
Local Governmental Entities	-	-	(1,188)	(1,188)	-	-	(1,161)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	-	-	(304,816)	(304,816)	-	-	(282,612)
Total Nongovernmental	**(47,032)**	**(5,427)**	**2,409,391**	**2,370,957**	**38,434**	1.6	**2,069,781**
Total Disbursements	**$ 9,231,554**	**$ 7,706,314**	**$ 85,161,666**	**$ 84,974,165**	**$ 187,501**	**0.2**	**$ 81,837,124**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ -	$ -	$ 1,115,700	$ 1,115,700	$ -	-	$ 449,700
Budget Stabilization Account	-	-	3,460,422	3,460,422	-	-	1,606,422
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	2,143,114	1,117,270	5,836,368	6,016,283	(179,915)	(3.0)	7,001,782
Revenue Anticipation Notes	-	-	-	-	-	-	2,800,000
Net Increase / (Decrease) Loans	**2,143,114**	**$ 1,117,270**	**$ 10,412,490**	**$ 10,592,405**	**$ (179,915)**	**(1.7)**	**$ 11,857,904**

See notes on page A1.

(Concluded)

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

	July 1 through February 29			
	General Fund		Special Funds	
	2016	2015	2016	2015
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 246,241	$ 265,861	$ -	$ -
Corporation Tax	3,819,934	4,006,051	-	-
Cigarette Tax	54,306	63,992	470,937	551,361
Estate, Inheritance, and Gift Tax	1,496	2,142	-	-
Insurance Companies Tax	1,255,247	1,221,340	975,447	920,082
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	3,133,806	3,634,307
Diesel & Liquid Petroleum Gas	-	-	280,170	228,488
Jet Fuel Tax	-	-	1,963	1,778
Vehicle License Fees	18	121	1,631,587	1,505,565
Motor Vehicle Registration and Other Fees	-	-	2,911,769	2,825,936
Personal Income Tax	48,336,059	44,735,939	864,674	801,649
Retail Sales and Use Taxes	16,353,089	15,345,269	9,738,181	9,768,178
Pooled Money Investment Interest	17,044	9,806	108	104
Total Major Taxes, Licenses, and Investment Income	**70,083,434**	**65,650,521**	**20,008,642**	**20,237,448**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	1,466	1,904	37,149	36,294
Electrical Energy Tax	-	-	468,619	398,422
Private Rail Car Tax	9,824	8,780	-	-
Penalties on Traffic Violations	-	-	34,888	39,101
Health Care Receipts	8,396	5,774	-	-
Revenues from State Lands	66,012	246,390	-	-
Abandoned Property	(95,189)	(123,290)	-	-
Trial Court Revenues	27,489	30,365	931,024	972,223
Horse Racing Fees	784	814	8,357	8,150
Cap and Trade	-	-	1,302,110	234,725
Miscellaneous	854,945	526,269	8,636,284	5,678,761
Not Otherwise Classified	**873,727**	**697,006**	**11,418,431**	**7,367,676**
Total Revenues, All Governmental Cost Funds	**$ 70,957,161**	**$ 66,347,527**	**$ 31,427,073**	**$ 27,605,124**

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 February 29				
	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	70,957,161	69,577,701	1,379,460	2.0	66,347,527
Nonrevenues	1,262,603	1,040,696	221,907	21.3	1,710,064
Total Receipts	72,219,764	70,618,397	1,601,367	2.3	68,057,591
Less Disbursements:					
State Operations	20,562,922	20,136,557	426,365	2.1	20,782,420
Local Assistance	62,050,260	61,950,015	100,245	0.2	58,835,078
Capital Outlay	139,093	234,131	(95,038)	(40.6)	149,845
Nongovernmental	2,409,391	2,325,105	84,286	3.6	2,069,781
Total Disbursements	85,161,666	84,645,808	515,858	0.6	81,837,124
Receipts Over / (Under) Disbursements	(12,941,902)	(14,027,411)	1,085,509	(7.7)	(13,779,533)
Net Increase / (Decrease) in Temporary Loans	10,412,490	11,497,999	(1,085,509)	(9.4)	11,857,904
GENERAL FUND ENDING CASH BALANCE	-	-	-		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	$ -	$ -	$ -		$ -
BORROWABLE RESOURCES					
Available Borrowable Resources	$ 33,066,088	$ 30,818,964	$ 2,247,124	7.3	$ 29,864,232
Outstanding Loans (b)	10,412,490	11,497,999	(1,085,509)	(9.4)	11,857,904
Unused Borrowable Resources	$ 22,653,598	$ 19,320,965	$ 3,332,633	17.2	$ 18,006,328

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 $10.4 billion is comprised of $10.4 billion of internal borrowing. Current balance is comprised of $0.0 billion carried forward from June 30, 2015, plus current year Net Increase/(Decrease) in Temporary Loans of $10.4 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. Prior month reported actuals and Budget Act estimates reflect these state operation expenses as a State Universities and Colleges expense. Year-to-date actuals for this expense total $155.7 million.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of February		July 1 through February 29				
			2016				2015
	2016	2015	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount		Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 30,848	$ 55,339	$ 246,241	$ 244,804	$ 1,437	0.6	$ 265,861
Corporation Tax	189,481	3,614	3,819,934	3,632,173	187,761	5.2	4,006,051
Cigarette Tax	1,949	5,990	54,306	55,474	(1,168)	(2.1)	63,992
Estate, Inheritance, and Gift Tax	503	443	1,496	-	1,496	-	2,142
Insurance Companies Tax	24,967	22,193	1,255,247	1,252,604	2,643	0.2	1,221,340
Personal Income Tax	2,877,627	2,630,777	48,336,059	46,779,672	1,556,387	3.3	44,735,939
Retail Sales and Use Taxes	3,664,528	3,455,719	16,353,089	16,735,489	(382,400)	(2.3)	15,345,269
Vehicle License Fees	1	10	18	-	18	-	121
Pooled Money Investment Interest	2,176	253	17,044	21,071	(4,027)	(19.1)	9,806
Not Otherwise Classified	61,578	133,202	873,727	856,414	17,313	2.0	697,006
Total Revenues	**6,853,658**	**6,307,540**	**70,957,161**	**69,577,701**	**1,379,460**	**2.0**	**66,347,527**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	138,000	-	138,000	-	621,400
Transfers from Other Funds	35,827	81,265	390,078	350,604	39,474	11.3	321,838
Miscellaneous	198,955	200,239	734,525	690,092	44,433	6.4	766,826
Total Nonrevenues	**234,782**	**281,504**	**1,262,603**	**1,040,696**	**221,907**	**21.3**	**1,710,064**
Total Receipts	**$ 7,088,440**	**$ 6,589,044**	**$ 72,219,764**	**$ 70,618,397**	**$ 1,601,367**	**2.3**	**$ 68,057,591**

See notes on page B1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of February		July 1 through February 29				
			2016				2015
	2016	2015	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount		Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 92,326	$ 127,799	$ 1,070,669	$ 1,089,702	$ (19,033)	(1.7)	$ 1,072,312
Business, Consumer Services and Housing	2,196	2,108	18,056	16,245	1,811	11.1	15,479
Transportation	2	-	6	-	6	-	35
Resources	183,064	85,479	1,381,920	1,156,127	225,793	19.5	975,482
Environmental Protection Agency	5,449	1,587	27,353	40,809	(13,456)	(33.0)	26,856
Health and Human Services:							
Health Care Services and Public Health	15,241	15,571	221,410	240,204	(18,794)	(7.8)	216,295
Department of State Hospitals	132,497	126,365	1,054,653	1,069,194	(14,541)	(1.4)	1,028,515
Other Health and Human Services	46,556	47,298	434,929	436,507	(1,578)	(0.4)	369,142
Education:							
University of California	237,548	228,496	2,185,330	2,160,952	24,378	1.1	2,077,205
State Universities and Colleges	210,224	211,593	2,259,549	2,214,380	45,169 (e)	2.0	2,048,623
Other Education	22,890	20,405	145,291	149,899	(4,608)	(3.1)	134,458
Dept. of Corrections and Rehabilitation	779,004	762,706	6,574,811	6,579,311	(4,500)	(0.1)	6,465,023
Governmental Operations	58,275	99,606	490,888	521,515	(30,627)	(5.9)	515,740
General Government	234,141	182,882	1,864,356	1,999,807	(135,451) (e)	(6.8)	3,285,469
Public Employees Retirement System	(205,565)	(193,952)	182,199	52,306	129,893	248.3	102,234
Debt Service (d)	575,568	422,509	2,624,302	2,398,623	225,679	9.4	2,464,172
Interest on Loans	-	17	27,200	10,976	16,224	147.8	(14,620)
Total State Operations	**2,389,416**	**2,140,469**	**20,562,922**	**20,136,557**	**426,365**	**2.1**	**20,782,420**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	2,847,728	2,912,062	30,850,026	31,468,924	(618,898)	(2.0)	30,344,931
Community Colleges	464,886	349,924	3,991,729	4,043,421	(51,692)	(1.3)	3,374,509
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	1,299,725	1,299,725	-	-	968,957
Other Education	299,385	202,606	2,091,942	1,988,824	103,118	5.2	1,871,030
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	4,819	8,643	194,418	193,261	1,157	0.6	204,061
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	210
Health Care Services and Public Health:							
Medical Assistance Program	2,312,722	1,242,613	13,225,176	12,555,729	669,447	5.3	13,395,762
Other Health Care Services/Public Health	21,741	8,629	125,637	218,132	(92,495)	(42.4)	123,533
Developmental Services - Regional Centers	224,093	425,654	2,639,000	2,848,737	(209,737)	(7.4)	2,419,748
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	490,125	228,144	4,239,194	4,378,070	(138,876)	(3.2)	3,487,288
CalWORKs	19,531	(4,740)	737,307	641,796	95,511	14.9	316,314
Other Social Services	117,154	125,584	507,692	494,835	12,857	2.6	487,576
Tax Relief	-	-	206,976	215,829	(8,853)	(4.1)	207,878
Other Local Assistance	82,031	70,597	1,941,438	1,602,732	338,706	21.1	1,633,281
Total Local Assistance	**6,884,215**	**5,569,716**	**62,050,260**	**61,950,015**	**100,245**	**0.2**	**58,835,078**

See notes on page B1.

(Continued)

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

	Month of February		July 1 through February 29				
			2016				2015
	2016	2015	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount		Actual
CAPITAL OUTLAY	**4,955**	**1,556**	**139,093**	**234,131**	**(95,038)**	**(40.6)**	**149,845**
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	-	-	31,506	115,571	(84,065)	(72.7)	802,687
Transfer to Revolving Fund	197	5,899	7,456	-	7,456	-	7,473
Advance:							
MediCal Provider Interim Payment	-	-	-	-	-	-	-
State-County Property Tax Administration Program	(12,218)	(11,325)	49,155	-	49,155	-	38,793
Social Welfare Federal Fund	(35,011)	(1)	(30,722)	-	(30,722)	-	(101,821)
Local Governmental Entities	-	-	(1,188)	-	(1,188)	-	(1,161)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	-	-	(304,816)	(310,466)	5,650	(1.8)	(282,612)
Total Nongovernmental	**(47,032)**	**(5,427)**	**2,409,391**	**2,325,105**	**84,286**	3.6	**2,069,781**
Total Disbursements	**$ 9,231,554**	**$ 7,706,314**	**$ 85,161,666**	**$ 84,645,808**	**$ 515,858**	**0.6**	**$ 81,837,124**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ -	$ -	$ 1,115,700	$ 1,115,700	$ -	-	$ 449,700
Budget Stabilization Account	-	-	3,460,422	3,460,422	-	-	1,606,422
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	2,143,114	1,117,270	5,836,368	6,921,877	(1,085,509)	(15.7)	7,001,782
Revenue Anticipation Notes	-	-	-	-	-	-	2,800,000
Net Increase / (Decrease) Loans	**2,143,114**	**$ 1,117,270**	**$ 10,412,490**	**$ 11,497,999**	**$ (1,085,509)**	**(9.4)**	**$ 11,857,904**

See notes on page B1.

(Concluded)