NEW ISSUE – BOOK ENTRY ONLY

Ratings: Moody's: Aa3
S&P: A
Fitch: A
(See "RATINGS" herein)

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

$2,369,640,000
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS

$882,055,000
VARIOUS PURPOSE
GENERAL OBLIGATION BONDS

$300,000,000
VARIOUS PURPOSE
GENERAL OBLIGATION BONDS
(GREEN BONDS)

$987,585,000
VARIOUS PURPOSE
GENERAL OBLIGATION REFUNDING BONDS

$200,000,000
GENERAL OBLIGATION BONDS
(MANDATORY PUT BONDS)

Dated: Date of Delivery **Bonds Due: As shown under "SUMMARY OF THE OFFERING"**

The State of California is issuing $882,055,000 Various Purpose General Obligation Bonds (the "Construction Bonds"), $300,000,000 Various Purpose General Obligation Bonds (Green Bonds) (the "Green Bonds") and $987,585,000 Various Purpose General Obligation Refunding Bonds (the "Refunding Bonds"), all bearing interest at fixed rates (collectively, the "Fixed Rate Bonds"), and $200,000,000 General Obligation Bonds (Mandatory Put Bonds) (the "Mandatory Put Bonds" and together with the Fixed Rate Bonds, the "Bonds"), bearing interest at a fixed rate to the Mandatory Tender Date as further described herein.

The Bonds are general obligations of the State to which the full faith and credit of the State are pledged. The principal of and interest on all State general obligation bonds, including the Bonds, are payable from any moneys in the General Fund of the State, subject under State law only to the prior application of such moneys to the support of the public school system and public institutions of higher education. See "AUTHORIZATION OF AND SECURITY FOR THE BONDS."

Certain of the Fixed Rate Bonds are subject to optional redemption prior to their stated maturities, as described herein. See "PROVISIONS APPLICABLE TO THE FIXED RATE BONDS—Redemption." In addition, the Mandatory Put Bonds are subject to optional and mandatory sinking fund redemption prior to their stated maturity as described herein. See "PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS—Redemption."

The Mandatory Put Bonds additionally are subject to mandatory tender for purchase on any date on or after their First Call Date (each, a "Purchase Date"), including the Mandatory Tender Date, as described herein. See "SUMMARY OF THE OFFERING" and "PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS—Tender Provisions." **There is no source of moneys to pay the purchase price of the Mandatory Put Bonds upon mandatory tender thereof on a Purchase Date, including the Mandatory Tender Date, other than proceeds of remarketing thereof. If the State does not purchase the Mandatory Put Bonds on a Purchase Date, including the Mandatory Tender Date, such non-purchase shall not constitute an event of default. There is no liquidity facility in place for the payment of the purchase price of the Mandatory Put Bonds on a Purchase Date, including the Mandatory Tender Date.** The Mandatory Put Bonds are subject to adjustment to another interest rate period, as further described herein. THIS OFFICIAL STATEMENT IS NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO THE MANDATORY PUT BONDS AFTER ADJUSTMENT TO ANY NEW INTEREST RATE PERIOD.

Interest on the Fixed Rate Bonds is payable on April 1 and October 1 of each year, commencing April 1, 2015, at the respective rates per annum set forth in "SUMMARY OF THE OFFERING." Interest on the Mandatory Put Bonds is payable on June 1 and December 1 of each year, commencing December 1, 2014, at the rate per annum set forth in "SUMMARY OF THE OFFERING" until the Mandatory Tender Date. The Bonds may be purchased in principal amounts of $5,000 or any integral multiple thereof in book-entry form only. See "PROVISIONS APPLICABLE TO ALL BONDS—General" and APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM."

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

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

The Bonds are offered when, as and if issued by the State and received by the Underwriters, subject to the approval of validity by the Honorable Kamala D. Harris, Attorney General of the State of California, and by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State. Orrick, Herrington & Sutcliffe LLP and Squire Patton Boggs (US) LLP are serving as Co-Disclosure Counsel to the State with respect to the Bonds. Orrick, Herrington & Sutcliffe LLP and Stradling Yocca Carlson & Rauth, a Professional Corporation, are serving as Co-Disclosure Counsel to the State regarding Appendix A. Certain matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. Public Resources Advisory Group is serving as the Financial Advisor to the State with respect to the Bonds. The Bonds are expected to be available for delivery through the facilities of The Depository Trust Company on or about October 7, 2014.

HONORABLE BILL LOCKYER
Treasurer of the State of California

Citigroup
(Joint Senior Manager)

Wells Fargo Securities(1)
(Joint Senior Manager)

BofA Merrill Lynch(2)
(Joint Senior Manager Green Bonds)

Jefferies
(Co-Senior Manager)

Academy Securities, Inc.	**Alamo Capital**	**Barclays**
Blaylock Beal Van, LLC	**BMO Capital Markets**	**Cabrera Capital Markets, LLC**
City National Securities, Inc.	**Drexel Hamilton LLC**	**Fidelity Capital Markets**
Goldman, Sachs & Co.	**J.P. Morgan**	**Mischler Financial Group**
Morgan Stanley	**O'Conner & Company Securities**	**Piper Jaffray & Co.**
Ramirez & Co., Inc.	**Raymond James**	**RBC Capital Markets**
RH Investment Corporation	**Siebert Brandford Shank & Co., L.L.C.**	**Southwest Securities, Inc.**
Stifel	**Wedbush Securities Inc..**	**William Blair & Company**
The Williams Capital Group, L.P		

Official Statement Dated: September 23, 2014

(1) Billing and delivery agent for the Construction Bonds, the Refunding Bonds and the Mandatory Put Bonds
(2) Billing and delivery agent for the Green Bonds

SUMMARY OF THE OFFERING

$882,055,000
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

Base CUSIP[†]: 13063C

Maturity Date (October 1)	Principal Amount	Interest Rate	Yield	CUSIP[†] Suffix	Maturity Date (October 1)	Principal Amount	Interest Rate	Yield	CUSIP[†] Suffix
2015	$ 15,000,000	2.000%	0.110%	LN8	2024	$55,000,000	5.000%	2.480%	LW8
2017	37,500,000	5.000	0.650	LP3	2025	60,000,000	5.000	2.600[c]	LX6
2018	37,500,000	5.000	0.980	LQ1	2026	29,000,000	5.000	2.720[c]	LY4
2019	37,500,000	5.000	1.280	LR9	2027	14,000,000	5.000	2.830[c]	LZ1
2020	57,555,000	5.000	1.620	LS7	2039	164,000,000	5.000	3.410[c]	MA5
2021	50,000,000	5.000	1.900	LT5	2044	24,945,000	4.000	3.810[c]	MB3
2022	65,000,000	5.000	2.180	LU2	2044	175,055,000	5.000	3.490[c]	MC1
2023	60,000,000	5.000	2.380	LV0					

$300,000,000
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS
(GREEN BONDS)

Base CUSIP[†]:13063C

Maturity Date (October 1)	Principal Amount	Interest Rate	Yield	CUSIP[†] Suffix
2028	$35,000,000	3.000%	3.150%	NP1
2028	65,000,000	5.000	2.900[c]	NR7
2037	100,000,000	3.750	3.840	NQ9
2037	100,000,000	5.000	3.370[c]	NS5

---

[c] Priced to October 1, 2024 call date at par.

[†] Copyright 2014, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, managed on behalf of the American Bankers Association by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the registered owners of the applicable Bonds. Neither the State nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

$987,585,000
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS

Base CUSIP†: 13063C

Maturity Date (April 1)	Principal Amount	Interest Rate	Yield	CUSIP† Suffix
2015	$39,990,000	2.000%	0.100%	MD9

Maturity Date (October 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP† Suffix	Maturity Date (October 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP† Suffix
2015	$20,050,000	2.000%	0.110%	ME7	2024	$7,945,000	4.000%	2.480%	MP2
2016	1,055,000	2.000	0.340	MF4	2024	41,125,000	5.000	2.480	NK2
2017	6,595,000	4.000	0.650	MG2	2025	4,775,000	4.000	2.600[c]	MQ0
2017	17,215,000	5.000	0.650	NC0	2025	37,310,000	5.000	2.600[c]	NL0
2018	8,690,000	3.000	0.980	MH0	2026	3,090,000	4.000	2.750[c]	MR8
2018	14,680,000	5.000	0.980	ND8	2026	45,905,000	5.000	2.720[c]	NB2
2019	3,815,000	4.000	1.280	MJ6	2027	13,620,000	3.000	100.000	MS6
2019	20,075,000	5.000	1.280	NE6	2027	36,950,000	5.000	2.830[c]	NA4
2020	5,540,000	4.000	1.620	MK3	2028	52,985,000	5.000	2.900[c]	MT4
2020	17,440,000	5.000	1.620	NF3	2029	74,800,000	5.000	2.970[c]	MU1
2021	9,560,000	3.000	1.900	ML1	2030	74,670,000	5.000	3.050[c]	MV9
2021	42,270,0000	5.000	1.900	NG1	2031	83,390,000	5.000	3.120[c]	MW7
2022	8,575,000	4.000	2.180	MM9	2032	87,615,000	5.000	3.180[c]	MX5
2022	23,970,000	5.000	2.180	NH9	2033	92,015,000	5.000	3.230[c]	MY3
2023	10,715,000	3.000	2.380	MN7	2034	12,010,000	3.625	3.660	MZ0
2023	27,885,000	5.000	2.380	NJ5	2034	41,260,000	5.000	3.280[c]	NM8

c Priced to October 1, 2024 call date at par.

$200,000,000
GENERAL OBLIGATION BONDS
(MANDATORY PUT BONDS)

Base CUSIP†: 13063C

Maturity Date (December 1)	Principal Amount	First Call Date	Mandatory Tender Date[1]	Initial Interest Rate	Initial Yield	CUSIP† Suffix
2032	$200,000,000	June 1, 2019	December 1, 2019	3.000%	1.530%	NN6

(1) Unless all of the Mandatory Put Bonds are purchased on the Mandatory Tender Date, none of the Mandatory Put Bonds will be purchased. In such event the Tender Agent will return all Mandatory Put Bonds to the Holders thereof and the Mandatory Put Bonds will then bear interest at successively higher interest rates until all the Mandatory Put Bonds are remarketed, redeemed or paid at maturity as further described herein. See "PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS—Tender Provisions."

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

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

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

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

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

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

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

(THIS PAGE INTENTIONALLY LEFT BLANK)

TABLE OF CONTENTS

Page

TABLE OF CONTENTS
(continued)

OFFICIAL STATEMENT

$2,369,640,000
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS

$882,055,000 **VARIOUS PURPOSE** **GENERAL OBLIGATION BONDS**	**$300,000,000** **VARIOUS PURPOSE** **GENERAL OBLIGATION BONDS** **(GREEN BONDS)**
$987,585,000 **VARIOUS PURPOSE** **GENERAL OBLIGATION REFUNDING BONDS**	**$200,000,000** **GENERAL OBLIGATION BONDS** **(MANDATORY PUT BONDS)**

INTRODUCTION

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

Description of the Bonds

This Official Statement describes $2,369,640,000 aggregate principal amount of (i) State various purpose general obligation bonds consisting of nine (9) series of bonds in the aggregate principal amount of $882,055,000 (the "Construction Bonds"), (ii) State various purpose general obligation bonds consisting of three (3) series of bonds in the aggregate principal amount of $300,000,000 (the "Green Bonds"), (iii) State various purpose general obligation refunding bonds consisting of thirty-two (32) series of bonds in the aggregate principal amount of $987,585,000 (the "Refunding Bonds" and, together with the Construction Bonds and the Green Bonds, the "Fixed Rate Bonds"), and (iv) State general obligation bonds consisting of one (1) series of bonds in the aggregate principal amount of $200,000,000 (the "Mandatory Put Bonds" and together with the Fixed Rate Bonds, the "Bonds"). The Bonds are described further below under "PROVISIONS APPLICABLE TO ALL BONDS." The Fixed Rate Bonds are additionally described below under "PROVISIONS APPLICABLE TO THE FIXED RATE BONDS—Identification, Authorization and Purposes of the Fixed Rate Bonds." The Mandatory Put Bonds additionally are described below under "PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS—Identification, Authorization and Purposes of the Mandatory Put Bonds."

The Mandatory Put Bonds are subject to adjustment to another interest rate period, as further described herein. THIS OFFICIAL STATEMENT IS NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO THE MANDATORY PUT BONDS AFTER ADJUSTMENT TO ANY NEW INTEREST RATE PERIOD.

The Bonds will be registered in the name of a nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial interests in the Bonds may be purchased in book-entry form only, in denominations of $5,000 or any integral multiple thereof. See "PROVISIONS APPLICABLE TO ALL BONDS—General" and APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM."

The issuance of each series of Bonds is authorized by the related general obligation bond act identified under "PROVISIONS APPLICABLE TO THE FIXED RATE BONDS—Identification, Authorization and Purposes of the Fixed Rate Bonds" and "PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS—Identification, Authorization and Purposes of the Mandatory Put Bonds" (each a "Bond Act" and collectively, the "Bond Acts") approved by the voters of the State and by resolutions of the applicable finance committees designated under such Bond Acts (collectively, the "Resolutions"). On any debt service payment date, all general obligation bonds, including the Bonds, have an equal claim on moneys in the General Fund of the State Treasury (the "General Fund") on that date for payment of debt service.

Plan of Finance

The Construction Bonds are being issued to (i) fund projects under certain of the Bond Acts, (ii) pay certain of the State's outstanding general obligation commercial paper notes (the "CP Notes") as they mature, and (iii) pay costs of issuance of the Construction Bonds.

The Green Bonds are being issued to (i) fund projects under certain of the Bond Acts, which projects have been identified as environmentally beneficial (the "Green Projects"), (ii) pay certain of the CP Notes, which funded Green Projects, as they mature, and (iii) pay costs of issuance of the Green Bonds.

The Refunding Bonds are being issued to (i) current or advance refund certain of the State's general obligation bonds for debt service savings and (ii) pay costs of issuance of the Refunding Bonds. See "PLAN OF FINANCE—Refunding Bonds—Plan of Refunding."

The Mandatory Put Bonds are being issued to (i) fund projects under a certain Bond Act and (ii) pay costs of issuance of the Mandatory Put Bonds.

In addition to the Bonds described in this Official Statement, the State currently expects to issue one or more additional series of its general obligation bonds (the "Additional GO Bonds") in or around November 2014. The proceeds of the Additional GO Bonds are currently expected to be used for the following purposes: (i) provide funds for capital projects and other programs approved by the voters in prior general obligation bond acts, (ii) pay certain of the State's outstanding CP Notes, and (iii) pay costs of issuance of the Additional GO Bonds. The expected issuance date and par amount of the Additional GO Bonds, if any are issued, are subject to change based upon legal, market and other factors.

Security and Source of Payment for the Bonds

The principal of and interest on all State general obligation bonds, including the Bonds, are payable from moneys in the General Fund, subject under State law only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. See "AUTHORIZATION OF AND SECURITY FOR THE BONDS—Security." See also APPENDIX A—"THE STATE OF CALIFORNIA—STATE FINANCES—The General Fund" and "—STATE

INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—General Obligation Bonds."

Redemption of Bonds; Tender of Mandatory Put Bonds

Certain of the Fixed Rate Bonds are subject to redemption prior to their respective stated maturity dates as described herein. See "PROVISIONS APPLICABLE TO THE FIXED RATE BONDS—Redemption."

The Mandatory Put Bonds are subject to optional redemption prior to their stated maturity on any date commencing on June 1, 2019 (the "First Call Date") until adjusted to another interest rate period at a price equal to 100% of the principal amount thereof, plus accrued interest.

In addition, the Mandatory Put Bonds are subject to mandatory tender for purchase on any date on or after the First Call Date (each a "Purchase Date"), including on the Mandatory Tender Date, at a price equal to 100% of the principal amount thereof, without premium, plus accrued interest. Unless all of the Mandatory Put Bonds are purchased on a Purchase Date, including the Mandatory Tender Date, none of the Mandatory Put Bonds will be purchased. In such event the Tender Agent will return all the Mandatory Put Bonds to the Holders thereof and the Mandatory Put Bonds will remain outstanding and bear interest at the then effective interest rate; provided, however, if all of the Mandatory Put Bonds are not purchased on the applicable Mandatory Tender Date, such Mandatory Put Bonds will on and after such date accrue interest at successively higher interest rates until all such Mandatory Put Bonds are remarketed, redeemed or paid at maturity. See "PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS—Tender Provisions" and "—Redemption."

State Financial Condition

The following paragraphs present an extremely abbreviated summary of certain fiscal issues relating to the State, all of which are described in more detail in APPENDIX A. Investors should review the whole of APPENDIX A.

During the recent recession, which officially ended in 2009, the State experienced the most significant economic downturn since the Great Depression of the 1930s. As a result, State tax revenues declined precipitously, resulting in large budget gaps and occasional cash shortfalls in the period from 2008 through 2011, which were addressed largely through various spending cuts and payment deferrals.

Voters approved Proposition 30 in 2012, providing increased revenues through the next several fiscal years. Prior to the termination of the temporary additional personal income tax rates under Proposition 30 on December 31, 2018, the Administration's plan is to completely pay off the unprecedented level of budgetary borrowings, debts and deferrals which were accumulated in order to balance budgets largely over the past decade (the "wall of debt"). As of the 2014 Budget Act, the State's budget is projected to remain balanced within the projection period ending in fiscal year 2017-18. See APPENDIX A—"DEFERRED OBLIGATIONS" and "CURRENT STATE BUDGET – Multi-Year Budget Projections."

Despite the recent significant budgetary improvements, there remain a number of major risks and pressures that threaten the State's financial condition, including the need to repay billions of dollars of obligations which were deferred to balance budgets during the economic downturn, as well as significant unfunded liabilities of the two main retirement systems managed by state entities, CalPERS and

CalSTRS. See APPENDIX A—"DEFERRED OBLIGATIONS" and "—CURRENT STATE BUDGET – Budget Risks." In addition, the State's revenues (particularly the personal income tax) can be volatile and correlate to overall economic conditions. 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.

Information Related to this Official Statement

The information set forth herein has been obtained from official sources that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder or any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

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

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

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

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

Continuing Disclosure

The State Treasurer will agree on behalf of the State to provide annually certain financial information and operating data relating to the State by not later than April 1 of each year in which any Bonds are outstanding (the "Annual Report"), commencing with the report to be filed on or before April 1, 2015, containing 2013-2014 Fiscal Year financial information, and to provide notice of the occurrence of certain enumerated events. The specific nature of the information to be contained in the Annual Report and the notices of events and certain other terms of the continuing disclosure obligation are set forth in APPENDIX C—"FORM OF CONTINUING DISCLOSURE CERTIFICATE."

In the past five years, the State Treasurer, on behalf of the State, has always filed annual continuing disclosure reports on a timely basis as required by its continuing disclosure undertakings. The State Treasurer has also, to his knowledge, complied with its undertakings to report on certain events, with the exception that in 2012 the State Treasurer discovered that the State had failed to file notices relating to downgrades of seven maturities of its general obligation bonds when a bond insurer's rating was downgraded. The State Treasurer was not aware of these occurrences at the time, since the rating agencies did not notify the State of their actions on the State's bonds. Reports for the actions have since been filed with the Electronic Municipal Market Access ("EMMA") website. The State has thousands of individual maturities of general obligation bonds outstanding, and has procedures in place to monitor events which may affect them, including rating changes. Filings through EMMA are linked to a particular issue of obligations by CUSIP number, which however is subject to being changed after the issuance of obligations as a result of various subsequent actions. Although the State Treasurer's Office uses its best efforts to link each report filed through EMMA to the correct 9-digit CUSIP number, there can be no guarantee of complete accuracy in this process, given the large number of State CUSIPs.

The State's Annual Reports and other required reports are available from the EMMA website (www.emma.msrb.org) operated by the Municipal Securities Rulemaking Board ("MSRB") or on such other website as may be designated by the MSRB or the Securities and Exchange Commission. The information contained on any such website is not part of this Official Statement and is not incorporated herein.

AUTHORIZATION OF AND SECURITY FOR THE BONDS

Authorization

The issuance of each series of Bonds is authorized by the related Bond Act identified under "PROVISIONS APPLICABLE TO THE FIXED RATE BONDS—Identification, Authorization and Purposes of the Fixed Rate Bonds" and "PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS—Identification, Authorization and Purposes of the Mandatory Put Bonds" approved by the voters of the State and by the related Resolution. Each Bond Act and the State General Obligation Bond Law in Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the California Government Code, as incorporated by reference into each Bond Act, provide for the authorization, sale, issuance, use of proceeds, repayment and refunding of the related series of Bonds.

Security

The Bonds are general obligations of the State, and each series of the Bonds is payable in accordance with the related Bond Act and Resolution out of the General Fund, subject under State law only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. Each of the Bond Acts provides that the State will collect annually in the same manner and at the same time as it collects other State revenue an amount sufficient to pay principal of and interest on the related series of Bonds in that year. Each of the Bond Acts also contains a continuing appropriation from the General Fund of the sum annually necessary to pay the principal of and interest on the related series of Bonds as they become due and payable. No further appropriation by the Legislature is required to pay the principal of and interest on the Bonds. Under the State Constitution, the appropriation to pay the principal of and interest on the Bonds as set forth in the Bond Acts cannot be repealed until the principal of and interest on the related Bonds are paid and discharged.

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

Remedies

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

The Resolutions do not contain any provision providing for the acceleration of the Bonds. Each Resolution states that in the case that one or more events of default occurs, then, and in every such case, the registered Bondholder is entitled to proceed to protect and enforce such registered Bondholder's rights by such appropriate judicial proceeding as such registered Bondholder deems most effectual to protect and enforce any such right, whether by mandamus or other suit or proceeding at law or in equity, for the specific performance of any covenant or agreement contained in the one or more Resolutions authorizing the affected Bonds, as more specifically set forth in each Resolution authorizing the Bonds pursuant to the respective Bond Acts. Beneficial owners of the Bonds (the "Beneficial Owners") cannot protect and enforce such rights except through the registered Bondholder. See "PROVISIONS APPLICABLE TO ALL BONDS—General" and APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM."

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

PLAN OF FINANCE

Construction Bonds

The Construction Bonds are being issued to (i) fund projects under certain of the Bond Acts, (ii) pay certain of the CP Notes as they mature and (iii) pay costs of issuance of the Construction Bonds. See "PROVISIONS APPLICABLE TO THE FIXED RATE BONDS—Identification, Authorization and Purposes of the Fixed Rate Bonds—Construction Bonds."

Green Bonds

The Green Bonds are being issued to (i) fund Green Projects under certain of the Bond Acts identified below, (ii) pay certain of the CP Notes, which funded Green Projects, as they mature, and (iii) pay costs of issuance of the Green Bonds. See "PROVISIONS APPLICABLE TO THE FIXED RATE BONDS—Identification, Authorization and Purposes of the Fixed Rate Bonds—Green Bonds."

Refunding Bonds

General. The Refunding Bonds are being issued to (i) current or advance refund certain of the State's general obligation bonds for debt service savings and (ii) pay costs of issuance of the Refunding Bonds. See "PROVISIONS APPLICABLE TO THE FIXED RATE BONDS—Identification, Authorization and Purposes of the Fixed Rate Bonds—Refunding Bonds."

Plan of Refunding. The State will deposit a portion of the net proceeds of the sale of the Refunding Bonds in the amount of $589,707,826.49 into the refunding escrow fund of the State Treasury established pursuant to Section 16784 of the California Government Code (the "Refunding Escrow Fund") to current refund $575,420,000.00 of selected maturities of outstanding State general obligation bonds (the "Current Refunded Bonds") on their respective redemption dates. The Current Refunded Bonds will be repaid within 90 days of the issuance of the Refunding Bonds so as to constitute a "current refunding" for federal tax purposes. Amounts in the Refunding Escrow Fund for the Current Refunded Bonds will be invested in the State Surplus Money Investment Fund, which is a portion of the State's Pooled Money Investment Account, described in APPENDIX A—"THE STATE OF CALIFORNIA—Investment of State Funds." See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

The State will also deposit a portion of the net proceeds of the sale of the Refunding Bonds in the amount of $547,438,751.12 into the Refunding Escrow Fund to advance refund $526,725,000.00 of selected maturities of outstanding State general obligation bonds (the "Advance Refunded Bonds" and together with the Current Refunded Bonds, the "Refunded Bonds") on their respective redemption dates. Amounts in the Refunding Escrow Fund for the Advance Refunded Bonds will be invested in United States Treasury securities.

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

Exhibit 1 to this Official Statement ("Exhibit 1") details the principal amount, maturity date, interest rate, redemption date and redemption price of the Refunded Bonds.

The State Treasurer intends to request Moody's Investors Service, Standard & Poor's Rating Services and Fitch Ratings to re-rate the Advance Refunded Bonds; however there can be no assurance whether or when such ratings agencies will re-rate the Advance Refunded Bonds. See "RATINGS." Following delivery of the Refunding Bonds, the State Treasurer also plans to request that Standard & Poor's CUSIP Global Services provide separate CUSIP numbers for any Advance Refunded Bond maturities which are partially refunded, and to ask DTC to allocate by lot those maturities between refunded and non-refunded bonds, if applicable (see Exhibit 1). DTC, in turn, is to then notify its Direct Participants of the resulting status of such Bonds. See APPENDIX B—"DTC AND THE BOOK-ENTRY SYSTEM."

Mandatory Put Bonds

The Mandatory Put Bonds are being issued to (i) fund projects under the Bond Act identified below and (ii) pay costs of issuance of the Mandatory Put Bonds. See "PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS—Identification, Authorization and Purposes of the Mandatory Put Bonds."

Future General Obligation Bond Sales

In addition to the Bonds described in this Official Statement, the State currently expects to issue Additional GO Bonds in or around November 2014. The proceeds of the Additional GO Bonds are currently expected to be used for the following purposes: (i) provide funds for capital projects and other programs approved by the voters in prior general obligation bond acts, (ii) pay certain of the State's outstanding CP Notes and (iii) pay costs of issuance of the Additional GO Bonds. The expected issuance date and par amount of the Additional GO Bonds, if any are issued, are subject to change based upon legal, market and other factors.

PROVISIONS APPLICABLE TO ALL BONDS

General

The Bonds will be registered in the name of a nominee of DTC, which will act as securities depository for the Bonds. Beneficial interests in the Bonds may be purchased in book-entry form only in denominations of $5,000 or any integral multiple thereof. See APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM." The information in APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM" has been furnished by DTC. No representation is made by the State or the Underwriters as to the accuracy or completeness of such information.

The Bonds will be dated and accrue interest from the date of their delivery, and will mature on the dates and in the amounts set forth in "SUMMARY OF THE OFFERING" on the pages immediately following the cover page of this Official Statement. Interest on the Bonds will be calculated on the basis of a 360-day year comprising twelve 30-day months. If any payment on the Bonds is due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and no interest will accrue as a result. Business Day means any day other than a Saturday, a Sunday, a State holiday or any other day determined not to constitute a Business Day pursuant to the book-entry only system of

DTC. Certain State holidays may fall on days that are not banking holidays, and can vary from year to year.

Principal and interest (including the redemption price) are payable directly to DTC by the State Treasurer. Upon receipt of payments of principal and interest, DTC is to in turn remit such principal and interest to the Direct Participants in DTC for disbursement by the Participants to the Beneficial Owners of the Bonds. The record date for the payment of interest on the Bonds is the close of business on the 15th day of the month immediately preceding an interest payment date, whether or not the record date falls on a Business Day.

Neither the State Treasurer nor the Underwriters can give any assurance that DTC will distribute to Direct Participants, or that Participants or others will distribute to the Beneficial Owners, payment of principal of and interest on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the State Treasurer nor the Underwriters are responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or to give any notice to a Beneficial Owner with respect to the Bonds or for any error or delay relating thereto.

Amendments to Resolutions or Bonds

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

Refunding of Bonds

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

"Permitted Investments" means (i) bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest, including receipts, certificates or any other evidences of an ownership interest in the investments identified in this clause (i) or in specified portions thereof; (ii) bonds or interest-bearing notes or obligations that are guaranteed as to principal and interest by a federal agency of the United States; (iii) pre-refunded municipal bonds which are rated no lower than the investments identified in clause (i) by each rating agency rating such bonds; (iv) bonds, consolidated bonds, collateral trust debentures, consolidated debentures or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended; debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended; bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act; bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act as amended and bonds of any federal home loan bank established under that act; obligations of the Federal Home Loan Mortgage Corporation; bonds, notes and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act as amended; and bonds, notes and other obligations guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act as amended, provided, however that the Permitted Investments specified in this clause (iv) shall be rated by at least two of any three rating agencies rating such obligations not lower than the higher of (1) the rating on the Bonds to be refunded at the time of the original issuance thereof and (2) the rating on the Bonds to be refunded at the time of refunding; or (v) deposit in the State Surplus Money Investment Fund.

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

PROVISIONS APPLICABLE TO THE FIXED RATE BONDS

The following description of certain provisions applicable to the Fixed Rate Bonds should be read in conjunction with the foregoing section "PROVISIONS APPLICABLE TO ALL BONDS" for information on various terms and conditions which apply to the Fixed Rate Bonds.

General

Interest on the Fixed Rate Bonds is payable on April 1 and October 1 in each year commencing on April 1, 2015 at the rates shown in "SUMMARY OF THE OFFERING" on the pages immediately following the cover page of this Official Statement.

The terms of each series of Fixed Rate Bonds are substantially identical, except that the State may assign each maturity of the Fixed Rate Bonds to one or more Bond Acts, rather than having all of the Fixed Rate Bonds mature proportionally by Bond Act across the entire maturity schedule.

Identification, Authorization and Purposes of the Fixed Rate Bonds

Construction Bonds. The Construction Bonds are being issued to (i) fund projects under certain of the Bond Acts, (ii) pay certain of the CP Notes as they mature and (iii) pay costs of issuance of the Construction Bonds. CP Notes to be refunded with the proceeds of the Construction Bonds will be repaid within 90 days after the issuance of the Construction Bonds so as to constitute a "current refunding" for federal tax purposes. The Construction Bonds are issued as nine (9) separate series under seven (7) separate Bond Acts, each authorized by the voters, as set forth below.

A portion of the proceeds of the Construction Bonds, after payment of costs of issuance, will be used to finance or refinance capital facilities or other voter-approved costs for public purposes, including children's hospitals; public primary, secondary, community college and university education facilities; highway safety, traffic reduction, air quality and port security; transportation; housing and emergency shelters; and local rail projects, pursuant to the Bond Acts identified below. Such proceeds may only be used for the aforementioned purposes and may not be borrowed for cash flow management or budgetary purposes.

Construction Bonds are general obligations of the State, and holders of the Construction Bonds do not assume any specific project risk related to any of the funded projects.

Bond Act	**Finance Committee**	**Series Designation**	**Amount ($)**
Children's Hospital Bond Act of 2008	Children's Hospital Bond Act Finance Committee	G	25,225,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	AJ	278,140,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	AL	274,415,000
Housing and Emergency Shelter Trust Fund Act of 2002	Housing Finance Committee	U	1,315,000
Housing and Emergency Shelter Trust Fund Act of 2006	Housing Finance Committee	L	59,730,000
Kindergarten-University Public Education Facilities Bond Act of 2006	State School Building Finance Committee	AR	43,310,000
Kindergarten-University Public Education Facilities Bond Act of 2006	Higher Education Facilities Finance Committee	AS	185,000
Public Education Facilities Bond Act of 1996	Higher Education Facilities Finance Committee	CQ	2,325,000
Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century (Only projects to be funded pursuant to Section 2704.095 of the California Streets and Highways Code)	High-Speed Passenger Train Finance Committee	H	197,410,000

Green Bonds. The Green Bonds are being issued to (i) fund Green Projects, (ii) pay certain of the CP Notes, which funded Green Projects, as they mature and (iii) pay costs of issuance of the Green Bonds. The purpose of including a portion of the Bonds as Green Bonds is to allow investors to invest directly in bonds which finance environmentally beneficial projects. The Green Bonds are issued as three (3) series under two (2) Bond Acts, each authorized by the voters, as set forth below.

Bond Act	Finance Committee	Series Designation	Amount ($)
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	AK	247,245,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	AM	43,780,000
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006	Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Finance Committee	Q	8,975,000

The State is selling "Green Bonds" to finance environmentally beneficial projects or portions thereof in one or more of the following Green Project categories, as applicable to various State Bond Acts:

- Air Pollution Reduction.

  Projects which reduce emissions to the air by promoting public transportation, including intercity rail projects and commuter or urban rail, buses, and waterborne transit. This category may also include emission reduction projects from activities related to the movement of freight along California's trade corridors and the retrofit of buses and trucks to reduce diesel exhaust.

- Clean Water and Drinking Water.

  Projects which are designed to improve the quality of drinking water, reduce pollution in the State's water supply according to State and federal standards, or improve water supply reliability.

- Energy Efficiency and Conservation Projects in Public Buildings.

  Projects which are designed to reduce energy costs in existing public buildings or create new energy-saving Leadership in Energy and Environmental Design (LEED) certified buildings, including educational facilities.

- Protection of Rivers, Lakes and Streams.

  Projects which protect and restore rivers, lakes and streams, their watersheds and associated land, water, and other natural resources.

- Protection of Beaches, Bays and Coastal Waterways.

  Projects which protect beaches, bays and coastal waters and watersheds, including projects to prevent contamination and degradation of coastal waters and watersheds, and projects to protect and restore the natural habitat of coastal waters and lands.

- Forest and Wildlife Conservation, and Open Space Protection.

  Projects which protect and conserve forests and wildlife habitat, and projects that include land protection programs and open space acquisitions.

- Flood Prevention.

  Projects which repair, rehabilitate, reconstruct, or replace levees, weirs, bypasses, and facilities of the State Plan of Flood Control, and projects which improve or add facilities to the State Plan of Flood Control to increase levels of flood prevention for urban areas. This category may include projects which are designed to manage stormwater runoff to reduce flood damage and where feasible, provide other benefits, including groundwater recharge, water quality improvement, and ecosystem restoration. This category may also include projects which protect, create and enhance flood protection corridors and bypasses.

- Sustainable Communities and Climate Change Reduction.

  Projects which improve the sustainability and livability of California's communities through investment in natural resources, including: urban greening projects that reduce energy consumption, conserve water, improve air and water quality, and provide other community benefits; and acquisition and development of new parks and expansion of overused parks.

Green Bonds are general obligations of the State, and holders of the Green Bonds do not assume any specific project risk related to any of the funded Green Projects.

The proceeds of the Green Bonds will be tracked by the State and deposited into segregated accounts. The State plans to post annual updates on the use of the proceeds of the Green Bonds on the State Treasurer's website at http://www.treasurer.ca.gov. The State plans to post a final list of projects funded when all proceeds of the Green Bonds have been spent. Once all of the proceeds of the Green Bonds have been spent, no further updates will be provided.

Refunding Bonds. The Refunding Bonds are being issued to (i) current or advance refund certain of the State's general obligation bonds for debt service savings and (ii) pay costs of issuance of the Refunding Bonds. The Refunding Bonds are issued as thirty-two (32) series under twenty-three (23) Bond Acts, each authorized by the voters, as set forth below.

A portion of the proceeds of the Refunding Bonds, after payment of costs of issuance, will be used to current or advance refund bonds which were issued to finance or refinance capital facilities or other voter-approved costs for public purposes, including correctional facilities; parks and recreation, clean water and clean air; reading and literacy improvement and public libraries; safe drinking water; earthquake safety and public building rehabilitation; public primary, secondary, community college and university education facilities; transportation; clean water, watershed protection and flood protection; water security, water quality, water supply and river, coastal and beach protection; seismic retrofit; wildlife, coastal and parkland conservation; and local rail projects, pursuant to the Bond Acts identified below.

Bond Act	Finance Committee	Series Designation	Amount ($)
1990 School Facilities Bond Act	State School Building Finance Committee	AH	5,200,000
1992 School Facilities Bond Act	State School Building Finance Committee	BE	9,990,000
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act Finance Committee	AM	45,800,000
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	California Clean Water, Clear Air, Safe Neighborhood Parks, and Coastal Protection Act Finance Committee	AN	27,740,000
California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	California Library Construction and Renovation Finance Committee	AD	2,795,000
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Higher Education Facilities Finance Committee	DO	50,515,000
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Higher Education Facilities Finance Committee	DP	41,205,000
Clean Air and Transportation Improvement Bond Act of 1990	Transportation Improvement Finance Committee	CF	3,730,000
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	1988 County Correctional Facility Capital Expenditure and Youth Facility Finance Committee	AN	4,370,000
Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	Earthquake Safety and Public Buildings Rehabilitation Finance Committee	AK	600,000
Higher Education Facilities Bond Act of June 1990	Higher Education Facilities Finance Committee	BC	1,705,000
Higher Education Facilities Bond Act of June 1992	Higher Education Facilities Finance Committee	BI	12,910,000
Kindergarten-University Public Education Facilities Bond Act of 2002	Higher Education Facilities Finance Committee	CD	61,450,000
Kindergarten-University Public Education Facilities Bond Act of 2002	Higher Education Facilities Finance Committee	CE	103,850,000
Kindergarten-University Public Education Facilities Bond Act of 2002	State School Building Finance Committee	CG	147,540,000
Kindergarten-University Public Education Facilities Bond Act of 2002	State School Building Finance Committee	CH	74,945,000
Kindergarten-University Public Education Facilities Bond Act of 2004	Higher Education Facilities Finance Committee	BK	4,710,000
Kindergarten-University Public Education Facilities Bond Act of 2004	State School Building Finance Committee	BJ	15,850,000
New Prison Construction Bond Act of 1988	1988 Prison Construction Committee	AN	2,790,000

Bond Act	Finance Committee	Series Designation	Amount ($)
New Prison Construction Bond Act of 1990	1990 Prison Construction Committee	AP	1,665,000
Passenger Rail and Clean Air Bond Act of 1990	Passenger Rail Finance Committee	AN	1,725,000
Public Education Facilities Bond Act of 1996	State School Building Finance Committee	CR	2,405,000
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee	BJ	77,340,000
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee	BK	65,345,000
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	BB	45,105,000
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	BC	41,400,000
Safe, Clean, Reliable Water Supply Act	Safe, Clean, Reliable Water Supply Finance Committee	BH	6,215,000
School Facilities Bond Act of 1990	State School Building Finance Committee	AN	8,935,000
School Facilities Bond Act of 1992	State School Building Finance Committee	BL	28,105,000
Seismic Retrofit Bond Act of 1996	Seismic Retrofit Finance Committee	BH	7,635,000
Seismic Retrofit Bond Act of 1996	Seismic Retrofit Finance Committee	BI	5,610,000
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 Finance Committee	AQ	78,405,000

Redemption

Optional Redemption of Fixed Rate Bonds. The Fixed Rate Bonds maturing after October 1, 2024, are subject to optional redemption prior to their respective stated maturity dates, in whole or in part, in such order of maturity as may be designated by the State Treasurer and by lot within any maturity, on any date on or after October 1, 2024, at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the date fixed for redemption.

Notice of Redemption. When Fixed Rate Bonds are to be redeemed, the State Treasurer is to give notice of redemption by mail and/or mutually acceptable electronic means only to DTC (not to the Beneficial Owners of the Bonds) not less than 30 or more than 60 days prior to the date fixed for redemption. DTC, in turn, is to send the notice of redemption to its Participants for distribution to the Beneficial Owners of the Bonds. See APPENDIX B—"THE BOOK–ENTRY ONLY SYSTEM." The notice from the State Treasurer will state, among other things, that the Fixed Rate Bonds or a designated portion thereof (in the case of partial redemption of a Fixed Rate Bond) are to be redeemed, the dated date of the Fixed Rate Bonds, the date fixed for redemption, the maturities of the Fixed Rate Bonds to be redeemed and the redemption price. The notice will also state that after the date fixed for redemption no further interest will accrue on the principal of any Fixed Rate Bonds called for redemption. The notice of redemption may also state that such redemption may be cancelled in whole or in part by the State Treasurer upon written notice to DTC no later than five business days prior to the date fixed for redemption. Notice of redemption will also be provided by electronic means to the MSRB's EMMA website.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price being held by the State Treasurer, the Fixed Rate Bonds so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Fixed Rate Bonds so called for redemption shall cease to accrue and the holders of said Fixed Rate Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof (including interest, if any, accrued to the redemption date), without interest accrued on any funds held after the redemption date to pay such redemption price.

PROVISIONS APPLICABLE TO THE MANDATORY PUT BONDS

The following description of certain provisions applicable to the Mandatory Put Bonds should be read in conjunction with the foregoing section "PROVISIONS APPLICABLE TO ALL BONDS" for information on various terms and conditions which apply to the Mandatory Put Bonds.

This Official Statement is not intended to provide information with respect to the Mandatory Put Bonds after adjustment of such Bonds to any Interest Rate Period (defined below) on and after the Purchase Date. Holders and prospective purchasers of the Mandatory Put Bonds should not rely on this Official Statement for information concerning the Mandatory Put Bonds in connection with any adjustment of the Interest Rate Period for such Bonds, but should look solely to the offering document to be provided and used in connection with any such adjustment.

General

The Mandatory Put Bonds are being issued as one (1) series under one (1) Bond Act (see "Identification and Authorization of Mandatory Put Bonds" below), and a resolution adopted by the Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee (the "Put Bonds Resolution"). Pursuant to the Put Bonds Resolution, the Mandatory Put Bonds will bear interest at the rate stated under "SUMMARY OF THE OFFERING," in the pages following the cover of this Official Statement, from the Date of Delivery of the Mandatory Put Bonds to but not including the Mandatory Tender Date (the "Initial Rate Period"). During the Initial Rate Period, interest on the Mandatory Put Bonds is payable on June 1 and December 1 of each year, commencing December 1, 2014.

Identification, Authorization and Purposes of the Mandatory Put Bonds

The Mandatory Put Bonds are being issued to (i) fund projects under the Bond Act identified below and (ii) pay costs of issuance of the Mandatory Put Bonds. The Mandatory Put Bonds are issued under the Bond Act identified below, which was authorized by the voters.

Bond Act	**Finance Committee**	**Series Designation**	**Amount ($)**
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	2014A	200,000,000

Tender Provisions

No Optional Tender. The Mandatory Put Bonds are not subject to optional tender by Bondholders.

Mandatory Tender for Purchase. The Mandatory Put Bonds are subject to mandatory tender for purchase on any date on or after the First Call Date, including on the Mandatory Tender Date, at a price equal to 100% of the principal amount thereof, without premium, plus accrued interest. Unless all of the Mandatory Put Bonds are purchased on a Purchase Date, including the Mandatory Tender Date, none of the Mandatory Put Bonds will be purchased. In such event the Tender Agent will return all the Mandatory Put Bonds to the Holders thereof and the Mandatory Put Bonds will remain outstanding and bear interest at the then effective interest rate; provided, however, if all of the Mandatory Put Bonds are not purchased on the applicable Mandatory Tender Date such Mandatory Put Bonds will on and after such date accrue interest at successively higher interest rates until all such Mandatory Put Bonds are remarketed, redeemed or paid at maturity, see "*Consequences if Mandatory Put Bonds are not Purchased on a Mandatory Tender Date; Notice of Mandatory Tender after a Mandatory Tender Date; Stepped Interest Rate*" below.

If the State does not purchase the Mandatory Put Bonds on a Purchase Date, including the related Mandatory Tender Date, such non-purchase shall not constitute an event of default under the Put Bonds Resolution. See "—*Sources of Funds for Purchase of Mandatory Put Bonds*" below.

Notice of Mandatory Tender for Purchase on or Prior to a Mandatory Tender Date. With respect to a mandatory tender for purchase of the Mandatory Put Bonds on or prior to the Mandatory Tender Date, the State Treasurer will give notice of mandatory tender of the Mandatory Put Bonds by electronic means only to DTC (not to the Beneficial Owners of the Mandatory Put Bonds), at least 30 and not more than 60 days prior to the applicable Purchase Date, which notice will state (1) the interest rate period applicable to the Mandatory Put Bonds from and after the Purchase Date; (2) that the Mandatory Put Bonds will be subject to mandatory tender for purchase and specify the Purchase Date; (3) the procedures for such mandatory tender for purchase; (4) the purchase price of the Mandatory Put Bonds; and (5) the consequences of a failed remarketing. DTC, in turn, is to send the notice of mandatory tender to its Participants for distribution to the Beneficial Owners of the Mandatory Put Bonds. See APPENDIX B—"THE BOOK–ENTRY ONLY SYSTEM."

Sources of Funds for Purchase of Mandatory Put Bonds. Tendered Mandatory Put Bonds will be purchased solely with proceeds from the remarketing thereof. The Put Bonds Resolution requires the

State Treasurer to appoint a remarketing agent (the "Remarketing Agent") no later than 60 days prior to the Mandatory Tender Date for the Mandatory Put Bonds and the State Treasurer will direct such Remarketing Agent to use its best efforts to remarket the Mandatory Put Bonds into the interest rate period designated by the State Treasurer.

There is no source of moneys to pay the purchase price of the Mandatory Put Bonds upon mandatory tender thereof on a Purchase Date, including the Mandatory Tender Date, other than proceeds of remarketing thereof. If the State does not purchase the Mandatory Put Bonds on a Purchase Date, including the related Mandatory Tender Date, such non-purchase shall not constitute an event of default. There is no liquidity facility in place for the payment of the purchase price of Mandatory Put Bonds on a Purchase Date, including the applicable Mandatory Tender Date.

Consequences if Mandatory Put Bonds are not Purchased on a Mandatory Tender Date; Notice of Mandatory Tender after a Mandatory Tender Date; Stepped Interest Rate. If on the applicable Mandatory Tender Date, all of the Mandatory Put Bonds subject to tender on such date are not purchased, then none of the Mandatory Put Bonds will be purchased and all tendered Mandatory Put Bonds shall be returned to their respective Holders. In such event, such Mandatory Put Bonds will bear interest at the Stepped Rate (defined below) from the applicable Mandatory Tender Date until all such Mandatory Put Bonds are remarketed, redeemed or paid at maturity.

On each Business Day following a Mandatory Tender Date on which all of the Mandatory Put Bonds were not purchased, the Remarketing Agent shall continue to use its best efforts to remarket the Mandatory Put Bonds into such interest rate period as directed by the State Treasurer. Once the Remarketing Agent has advised the State Treasurer that it has a good faith belief that it is able to remarket all of the Mandatory Put Bonds into the then directed interest rate period, the State Treasurer will establish a new mandatory tender date and will give notice by electronic means only to DTC (not to the Beneficial Owners of the Mandatory Put Bonds) not later than five (5) Business Days prior to the date on which the Mandatory Put Bonds are to be purchased, which notice will state (1) the interest rate period applicable to the Mandatory Put Bonds from and after the Purchase Date; (2) that the Mandatory Put Bonds will be subject to mandatory tender for purchase and specify the Purchase Date; (3) the procedures for the Mandatory tender for purchase; (4) the purchase price of the Mandatory Put Bonds; and (5) the consequences of a failed remarketing. DTC, in turn, is to send the notice of mandatory tender to its Participants for distribution to the Beneficial Owners of the applicable Mandatory Put Bonds. See APPENDIX B—"THE BOOK –ENTRY ONLY SYSTEM."

Mandatory Put Bonds that have not been purchased or redeemed on the Mandatory Tender Date shall bear interest from and including such Mandatory Tender Date until the date such Mandatory Put Bonds are remarketed, redeemed or paid at maturity at the respective rates per annum for the applicable period of days as set forth in the following table (the "Stepped Rate"):

For the Period (in Days) on and after the Mandatory Tender Date	Interest Rate Per Annum
0 to 89 days	6%
90 days and thereafter	8%

Delivery of Tendered Bonds. With respect to any Book-Entry Bond, delivery of such Bond to U.S. Bank, National Association, as tender agent, or any successor tender agent appointed by the State Treasurer (the "Tender Agent") in connection with the mandatory tender of Mandatory Put Bonds on a Purchase Date, including the Mandatory Tender Date will be effected by the making of, or the irrevocable authorization to make, appropriate entries on the books of DTC or any DTC Participant to reflect the transfer of the beneficial ownership interest in such Bond to the account of the Tender Agent, or to the account of a DTC Participant acting on behalf of the Tender Agent.

Mandatory Put Bonds Deemed Purchased. If moneys sufficient to pay the purchase price of Mandatory Put Bonds to be purchased pursuant to the Put Bonds Resolution are held by the Tender Agent on the date such Mandatory Put Bonds are to be purchased, such Mandatory Put Bonds will be deemed to have been purchased for all purposes of the Put Bonds Resolution, irrespective of whether or not such Mandatory Put Bonds will have been delivered to the Tender Agent, and neither the former holder of such Mandatory Put Bonds nor any other person will have any claim thereon, under the Put Bonds Resolution or otherwise, for any amount other than the purchase price thereof.

In the event of non-delivery of any Mandatory Put Bond to be purchased pursuant to the Put Bonds Resolution, the Tender Agent will segregate and hold uninvested the moneys for the purchase price of such Mandatory Put Bonds in trust, without liability for interest thereon, for the benefit of the former holders of such Mandatory Put Bonds, who will, except as provided in the following sentence, thereafter be restricted exclusively to such moneys for the satisfaction of any claim for the purchase price of such Mandatory Put Bonds. Any moneys which the Tender Agent will segregate and hold in trust for the payment of the purchase price of any Mandatory Put Bond and remaining unclaimed for two (2) years after the date of purchase will be paid, upon the State Treasurer's written request, to the State Treasurer. After the payment of such unclaimed moneys to the State Treasurer, the former holder of such Mandatory Put Bond will look only to the State Treasurer for the payment thereof.

Redemption

Optional Redemption. The Mandatory Put Bonds are subject to optional redemption, in whole or in part, on any date commencing on the First Call Date, at a price equal to 100% of the principal amount thereof, without premium, plus accrued interest to the date of redemption.

Sinking Fund Redemption. The Mandatory Put Bonds are subject to redemption prior to their stated maturity date, in part, by lot, from sinking fund payments made by the State, at a redemption price of 100% of the principal amount thereof plus accrued interest to the sinking fund payment date fixed for redemption, on December 1 of the years, and in the amounts, designated below:

Sinking Fund Payment Date (December 1)	Principal Amount Redeemed
2031	$100,000,000
2032†	100,000,000

† Maturity

Adjustment of Sinking Fund Payments upon Partial Optional Redemption. If the Mandatory Put Bonds are called for optional redemption in part (see "Redemption–*Optional Redemption*" above), the remaining sinking fund installments shall be adjusted as determined by the State Treasurer.

Notice of Redemption. When Mandatory Put Bonds are to be redeemed, the State Treasurer is to give notice of redemption by electronic means only to DTC (not to Beneficial Owners of the Mandatory Put Bonds) not less than 30 or more than 60 days prior to the date fixed for redemption, provided, however, that if such redemption occurs after the Mandatory Tender Date, such notice is to be provided not less than five (5) Business Days prior to the date fixed for redemption. DTC, in turn, is to send the notice of redemption to its Participants for distribution to the Beneficial Owners of the Mandatory Put Bonds. See APPENDIX B—"THE BOOK-ENTRY ONLY SYSTEM." The notice from the State Treasurer will state, among other things that such Mandatory Put Bonds or a designated portion thereof (in the case of partial redemption of a Mandatory Put Bond) are to be redeemed, the date of issue of the Mandatory Put Bonds, the date fixed for redemption, the source of funds to be used for such redemption and the redemption price. The notice will also state that if such notice is not rescinded, any conditions to redemption set forth in such notice are satisfied and moneys for payment of the redemption price are being held by the State Treasurer or any paying agent appointed by the Treasurer, as applicable, on the applicable date fixed for redemption, the interest on the Mandatory Put Bonds designated for redemption shall cease to accrue from and after the date fixed for redemption.

The State Treasurer may provide conditional notice of optional redemption, which may be conditioned on the receipt of moneys to carry out the redemption or any other event. In addition, the Treasurer may, no later than five (5) Business Days prior to the date fixed for optional redemption, rescind any notice of such optional redemption by notice given in the same manner and to the same persons as the notice being rescinded.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price being held by the State Treasurer, the Mandatory Put Bonds so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Mandatory Put Bonds so called for redemption shall cease to accrue and the holders of said Mandatory Put Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof (including interest, if any, accrued to the redemption date), without interest accrued on any funds held after the redemption date to pay such redemption price.

[Remainder of Page Intentionally Left Blank]

ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth the estimated amounts required to be made available for the payment of principal (whether at maturity or by sinking fund payments), interest and the total payments due on the Construction Bonds, the Green Bonds and the Mandatory Put Bonds.

Fiscal Year Ended June 30	Construction Bonds Principal	Green Bonds Principal	Mandatory Put Bonds Principal	Interest†	Fiscal Year Total Debt Service
2015	-	-	-	$31,185,196.89	$31,185,196.89
2016	$15,000,000	-	-	62,303,300.00	77,303,300.00
2017	-	-	-	62,153,300.00	62,153,300.00
2018	37,500,000	-	-	61,215,800.00	98,715,800.00
2019	37,500,000	-	-	59,340,800.00	96,840,800.00
2020	37,500,000	-	-	57,465,800.00	94,965,800.00
2021	57,555,000	-	-	55,089,425.00	112,644,425.00
2022	50,000,000	-	-	52,400,550.00	102,400,550.00
2023	65,000,000	-	-	49,525,550.00	114,525,550.00
2024	60,000,000	-	-	46,400,550.00	106,400,550.00
2025	55,000,000	-	-	43,525,550.00	98,525,550.00
2026	60,000,000	-	-	40,650,550.00	100,650,550.00
2027	29,000,000	-	-	38,425,550.00	67,425,550.00
2028	14,000,000	-	-	37,350,550.00	51,350,550.00
2029	-	$100,000,000	-	34,850,550.00	134,850,550.00
2030	-	-	-	32,700,550.00	32,700,550.00
2031	-	-	-	32,700,550.00	32,700,550.00
2032	-	-	$100,000,000	31,200,550.00	131,200,550.00
2033	-	-	100,000,000	28,200,550.00	128,200,550.00
2034	-	-	-	26,700,550.00	26,700,550.00
2035	-	-	-	26,700,550.00	26,700,550.00
2036	-	-	-	26,700,550.00	26,700,550.00
2037	-	-	-	26,700,550.00	26,700,550.00
2038	-	200,000,000	-	22,325,550.00	222,325,550.00
2039	-	-	-	17,950,550.00	17,950,550.00
2040	164,000,000	-	-	13,850,550.00	177,850,550.00
2041	-	-	-	9,750,550.00	9,750,550.00
2042	-	-	-	9,750,550.00	9,750,550.00
2043	-	-	-	9,750,550.00	9,750,550.00
2044	-	-	-	9,750,550.00	9,750,550.00
2045	200,000,000	-	-	4,875,275.00	204,875,275.00
Total	**$882,055,000**	**$300,000,000**	**$200,000,000**	**$1,061,491,546.89**	**$ 2,443,546,546.89**

† Interest on the Mandatory Put Bonds through the Mandatory Tender Date is based upon the initial interest rate for the Mandatory Put Bonds in "SUMMARY OF THE OFFERING" on the pages immediately following the cover page of this Official Statement and thereafter, assumes no change in the interest rate.

The following table sets forth the amounts required to be made available for the payment of principal, interest and the total payments due on the Refunding Bonds.

Fiscal Year Ended June 30	Refunding Bonds Principal	Interest	Fiscal Year Total Debt Service
2015	$39,990,000	$22,293,757.82	$62,283,757.82
2016	20,050,000	45,125,912.50	65,175,912.50
2017	1,055,000	44,914,862.50	45,969,862.50
2018	23,810,000	44,342,037.50	68,152,037.50
2019	23,370,000	43,282,412.50	66,652,412.50
2020	23,890,000	42,206,887.50	66,096,887.50
2021	22,980,000	41,081,912.50	64,061,912.50
2022	51,830,000	39,334,962.50	91,164,962.50
2023	32,545,000	37,364,062.50	69,909,062.50
2024	38,600,000	35,735,462.50	74,335,462.50
2025	49,070,000	33,690,587.50	82,760,587.50
2026	42,085,000	31,475,312.50	73,560,312.50
2027	48,995,000	29,237,637.50	78,232,637.50
2028	50,570,000	26,900,162.50	77,470,162.50
2029	52,985,000	24,447,487.50	77,432,487.50
2030	74,800,000	21,252,862.50	96,052,862.50
2031	74,670,000	17,516,112.50	92,186,112.50
2032	83,390,000	13,564,612.50	96,954,612.50
2033	87,615,000	9,289,487.50	96,904,487.50
2034	92,015,000	4,798,737.50	96,813,737.50
2035	53,270,000	1,249,169.24	54,519,169.24
Total	**$987,585,000**	**$609,104,439.56**	**$1,596,689,439.56**

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

LEGAL MATTERS

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

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

TAX MATTERS

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX D—"PROPOSED FORMS OF LEGAL OPINIONS."

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

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

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The State has made certain representations and covenanted to comply with certain restrictions, conditions, and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the

Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

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

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, Representative Dave Camp, Chair of the House Ways and Means Committee released draft legislation that would subject interest on the Bonds to a federal income tax at an effective rate of 10% or more for individuals, trusts and estates in the highest tax bracket, and the Obama Administration proposed legislation that would limit the exclusion from gross income of interest on the Bonds to some extent for high income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

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

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

LITIGATION

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

At any given time, including the present, there are numerous civil actions pending against the State, which could, if determined adversely to the State, affect the State's expenditures and, in some cases, its revenues and cash flow. While there can be no assurances as to the ultimate outcome and fiscal impact of such litigation, the State believes that it is unlikely that the outcome of any such litigation could adversely affect the ability of the State to pay the principal of and interest on the Bonds when due. See APPENDIX A—"THE STATE OF CALIFORNIA— LITIGATION."

UNDERWRITING

The Bonds are being purchased by an underwriting group consisting of the underwriters listed on the cover page hereof (the "Underwriters"). Wells Fargo Bank, National Association and Citigroup Global Markets Inc. are acting as representatives of the Underwriters with respect to the Construction Bonds, the Refunding Bonds and the Mandatory Put Bonds. Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., and Wells Fargo Bank, National Association are acting as the representatives of the Underwriters with respect to the Green Bonds.

The Underwriters have agreed to purchase the Construction Bonds, the Refunding Bonds and the Mandatory Put Bonds for an aggregate purchase price of $2,372,274,011.63 (representing the principal amount of the Construction Bonds, the Refunding Bonds and the Mandatory Put Bonds of $2,069,640,000.00, plus net original issue premium of $308,715,858.20, less an Underwriters' discount of $6,081,846.57). The Underwriters have agreed to purchase the Green Bonds for an aggregate purchase price of $322,516,956.48 (representing the principal amount of the Green Bonds of $300,000,000.00, plus net original issue premium of $23,520,400.00, less an Underwriters' discount of $1,003,443.52). The initial public offering prices of the Bonds may be changed from time to time by the Underwriters.

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

The sale of the Construction Bonds, the Refunding Bonds and the Mandatory Put Bonds is not contingent upon the sale of the Green Bonds. The sale of the Green Bonds is not contingent upon the sale of the Construction Bonds, the Refunding Bonds or the Mandatory Put Bonds.

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

FINANCIAL STATEMENTS

The Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2013 (the "Financial Statements") are included as APPENDIX F to this Official Statement. These Financial Statements have been examined by the State Auditor to the extent indicated in her report.

Certain unaudited financial information for the periods July 1, 2013 through June 30, 2014 and July 1, 2014 through August 31, 2014 are included as Exhibits 1 and 2, respectively, to Appendix A to this Official Statement. See APPENDIX A—"THE STATE OF CALIFORNIA—FINANCIAL STATEMENTS."

RATINGS

All of the Bonds have received ratings of "Aa3" by Moody's Investors Service, "A" by Standard & Poor's Rating Services and "A" by Fitch Ratings. An explanation of the significance and status of such credit ratings may be obtained from the rating agencies furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by any such rating agencies if, in their respective judgments, circumstances so warrant. Any revision or withdrawal of a credit rating could have an effect on the market prices and marketability of the Bonds. The State cannot predict the timing or impact of future actions by the rating agencies.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Bonds, Grant Thornton LLP, independent certified public accountants, will deliver a report that the firm has verified the mathematical accuracy of certain computations relating to the adequacy of the deposits to be made to the Refunding Escrow Fund with respect to the Current Refunded Bonds and the Advance Refunded Bonds to pay the amounts required as described under "PLAN OF FINANCE—Refunding Bonds—Plan of Refunding" herein and (b) the computations of yield of the Bonds and of the investments in the Refunding Escrow Fund with respect to the Advance Refunded Bonds. Bond Counsel will rely on this report in reaching their conclusion that the interest on the Bonds is excluded from gross income for federal tax purposes.

FINANCIAL ADVISOR

Public Resources Advisory Group is serving as the Financial Advisor to the State in connection with the issuance of the Bonds. The Financial Advisor has not been engaged, nor has it undertaken, to make an independent verification or assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

ADDITIONAL INFORMATION

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

Any statements in this Official Statement involving estimates, forecasts or matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official

Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds.

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

STATE OF CALIFORNIA
BILL LOCKYER
Treasurer of the State of California

(THIS PAGE INTENTIONALLY LEFT BLANK)

EXHIBIT 1
REFUNDED BONDS

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

The following table is a list of the Refunded Bonds to be refunded with proceeds of the Refunding Bonds.

Dated Date of Prior Bonds	CUSIP† (1306)	Principal Amount to be Refunded ($)	Aggregate Principal Amount Outstanding ($)	Maturity Date	Interest Rate (%)	Redemption Date	Redemption Price (%)
12/1/2004	2PH70	18,980,000	18,980,000	6/1/2015	5.000	12/1/2014	100
12/1/2004	2PH88	19,930,000	19,930,000	6/1/2016	5.000	12/1/2014	100
12/1/2004	2PH96	24,225,000	24,225,000	6/1/2020	5.000	12/1/2014	100
12/1/2004	2PJ29	25,375,000	25,375,000	6/1/2021	4.500	12/1/2014	100
12/1/2004	2PJ37	30,000,000	30,000,000	6/1/2022	4.750	12/1/2014	100
12/1/2004	2PJ45	35,000,000	35,000,000	6/1/2023	5.000	12/1/2014	100
12/1/2004	2PJ52	35,000,000	35,000,000	6/1/2024	5.000	12/1/2014	100
12/1/2004	2PJ60	35,000,000	35,000,000	6/1/2025	5.000	12/1/2014	100
12/1/2004	2PJ78	32,080,000	32,080,000	6/1/2026	5.000	12/1/2014	100
12/1/2004	2PJ86	33,680,000	33,680,000	6/1/2027	5.000	12/1/2014	100
12/1/2004	2PJ94	35,280,000	35,280,000	6/1/2028	5.000	12/1/2014	100
12/1/2004	2PK27	36,955,000	36,955,000	6/1/2029	5.000	12/1/2014	100
12/1/2004	2PK35	79,365,000	79,365,000	6/1/2031	5.000	12/1/2014	100
12/1/2004	2PK43	134,550,000	134,550,000	6/1/2034	5.000	12/1/2014	100
3/1/2005	2PS37	455,000	64,010,000	3/1/2016	5.000	3/1/2015	100
3/1/2005	2PS45	1,065,000	76,435,000	3/1/2017	5.000	3/1/2015	100
3/1/2005	2PS52	26,185,000	73,785,000	3/1/2018	5.000	3/1/2015	100
3/1/2005	2PS60	25,990,000	76,490,000	3/1/2019	5.000	3/1/2015	100
3/1/2005	2PS78	4,835,000	55,385,000	3/1/2020	5.000	3/1/2015	100
3/1/2005	2PS94	30,520,000	58,860,000	3/1/2022	5.000	3/1/2015	100
3/1/2005	2PP97	7,810,000	7,810,000	3/1/2025	4.125	3/1/2015	100
3/1/2005	2PQ21	8,190,000	8,190,000	3/1/2026	4.125	3/1/2015	100
3/1/2005	2PQ39	8,590,000	8,590,000	3/1/2027	4.250	3/1/2015	100

Dated Date of Prior Bonds	CUSIP† (1306)	Principal Amount to be Refunded ($)	Aggregate Principal Amount Outstanding ($)	Maturity Date	Interest Rate (%)	Redemption Date	Redemption Price (%)
3/1/2005	2PQ47	9,005,000	9,005,000	3/1/2028	4.250	3/1/2015	100
3/1/2005	2PQ54	9,445,000	9,445,000	3/1/2029	4.250	3/1/2015	100
3/1/2005	2PQ62	9,905,000	9,905,000	3/1/2030	4.250	3/1/2015	100
3/1/2005	2T6G4	29,275,000	29,275,000	3/1/2033	5.000	3/1/2015	100
3/1/2005	2PQ88	24,535,000	24,535,000	3/1/2035	4.500	3/1/2015	100
6/1/2005	2RKW7	12,015,000	12,015,000	6/1/2024	4.375	6/1/2015	100
6/1/2005	2RKX5	12,585,000	12,585,000	6/1/2025	4.500	6/1/2015	100
6/1/2005	2RKY3	13,185,000	13,185,000	6/1/2026	5.000	6/1/2015	100
6/1/2005	2RKZ0	13,810,000	13,810,000	6/1/2027	5.000	6/1/2015	100
6/1/2005	2RLA4	14,465,000	14,465,000	6/1/2028	5.000	6/1/2015	100
6/1/2005	2RLB2	15,150,000	15,150,000	6/1/2029	5.000	6/1/2015	100
6/1/2005	2RLC0	75,465,000	75,465,000	6/1/2031	5.000	6/1/2015	100
6/1/2005	2RLD8	82,985,000	82,985,000	6/1/2033	5.000	6/1/2015	100
6/1/2005	2RLE6	91,260,000	91,260,000	6/1/2035	4.750	6/1/2015	100
		$1,102,145,000					

APPENDIX A

THE STATE OF CALIFORNIA

September 24, 2014

Note: Since the date of the Preliminary Official Statement, certain information in Appendix A has been updated, shown in italics on the following pages: A-7, A-8, A-82, A-145, A-149, and A-151.

TABLE OF CONTENTS

TABLES

INTRODUCTION TO
THE STATE OF CALIFORNIA AND APPENDIX A

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

State Financial Condition

During the recent recession, which officially ended in 2009, the state experienced the most significant economic downturn since the Great Depression of the 1930s. As a result, state tax revenues declined precipitously, resulting in large budget gaps and occasional cash shortfalls in the period from 2008 through 2011, which were addressed largely through various spending cuts and payment deferrals.

Voters approved Proposition 30 in 2012, providing increased revenues through the next several fiscal years. Prior to the termination of the temporary additional personal income tax rates under Proposition 30 on December 31, 2018, the Administration's plan is to completely pay off the unprecedented level of budgetary borrowings, debts and deferrals which were accumulated in order to balance budgets largely over the past decade (the "wall of debt"). As of the 2014 Budget Act, the state's budget is projected to remain balanced within the projection period ending in fiscal year 2017-18. See "DEFERRED OBLIGATIONS" and "CURRENT STATE BUDGET – Multi-Year Budget Projections."

Despite the recent significant budgetary improvements, there remain a number of major risks and pressures that threaten the state's financial condition, including the need to repay billions of dollars of obligations which were deferred to balance budgets during the economic downturn, as well as significant unfunded liabilities of the two main retirement systems managed by state entities, CalPERS and CalSTRS. See "DEFERRED OBLIGATIONS" and "CURRENT STATE BUDGET – Budget Risks." In addition, the state's revenues (particularly the personal income tax) can be volatile and correlate to overall economic conditions. 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.

State Revenues, Expenditures and Cash Management

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 correctional programs. For a discussion of the sources and uses of state funds, see "STATE FINANCES."

The 2014 Budget Act and related legislation (the "2014-15 Budget") provide for a multi-year General Fund plan that is balanced. For the current fiscal year it appropriates $108.0 billion in expenditures, projects $109.4 billion in resources ($105.5 billion revenues and transfers and $3.9 billion fund balance carried over from 2013-14), and projects a $449 million reserve at the end of fiscal year 2014-15, in addition to a projected $1.606 billion in the Budget Stabilization Account. The 2014-15 Budget projects that the state will end fiscal year 2013-14 with a reserve of $2.948 billion. See "CURRENT STATE BUDGET".

The 2014-15 Budget is a continuation of a multi-year General Fund strategy that is structurally balanced, significantly pays down the "wall of debt", and projects the "wall of debt" will be fully eliminated by the end of fiscal year 2017-18. See "DEFERRED OBLIGATIONS." Additionally, for the first time since 2007-08, the budget includes a transfer into the Budget Stabilization Account ("BSA" or "rainy day fund").

The state manages its cash flow requirements during the fiscal year primarily with a combination of external borrowing and internal borrowing by the General Fund from over 700 special funds. Since June 2008, the General Fund has typically ended each fiscal year with a net borrowing from these special funds. However, as of June 30, 2014, the General Fund had a cash surplus of $1.9 billion and did not owe any monies to these special funds and other state funds from internal borrowing for cash management purposes (compared to almost $2.435 billion owed at June 30, 2013 and $9.593 billion at June 30, 2012). See "STATE FINANCES – Inter-Fund Borrowings."

General Fund

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 reports of General Fund cash receipts and disbursements attached to this APPENDIX A as EXHIBIT 1 and EXHIBIT 2 and the audited financial statements in APPENDIX E to this Official Statement. See "STATE FINANCES" and "FINANCIAL STATEMENTS."

The state Constitution specifies that an annual budget shall be proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under state law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected resources for the ensuing fiscal year. State law also requires the Governor to update the Governor's Budget projections and budgetary proposals by May 14 of each year (the "May Revision"). The May Revision is normally the basis for final negotiations between the Governor and Legislature to reach agreement on appropriations and other legislation to fund state government for the ensuing fiscal year (the "Budget Act"). The state Constitution calls for adoption of a balanced budget by a majority vote of each House of the Legislature (the vote requirement had been two-thirds prior to 2011) by June 15 of each year. The Governor has 12 calendar days to either sign or veto the enrolled budget.

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 "THE BUDGET PROCESS – Constraints on the Budget Process."

State Indebtedness and Other Obligations

As of July 1, 2014, the state had outstanding obligations 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, consisting of $75.7 billion principal amount of general obligation bonds and $11.3 billion of lease-revenue bonds. As of July 1, 2014, there was approximately $25.8 billion of authorized and unissued long-term voter-approved general obligation bonds payable principally from the General Fund and approximately $4.1 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. Revenue bonds represent obligations payable from state revenue-producing enterprises and projects, which are not payable from the General Fund, and conduit obligations payable only from revenues paid by local governments or private users of facilities financed by the revenue bonds.

California has always paid when due the principal of and interest on all its debts, including general obligation bonds, general obligation commercial paper notes, lease-revenue obligations and short term obligations, including revenue anticipation notes ("RANs") and revenue anticipation warrants ("RAWs"). Detailed information regarding the state's long-term debt appears in the sections "STATE INDEBTEDNESS AND OTHER OBLIGATIONS" and "STATE DEBT TABLES."

Deferred Obligations

In addition to the bonds and other obligations described in the preceding paragraphs, as part of budget solutions in prior fiscal years the state engaged in budgetary actions which created pressures or repayment obligations upon the General Fund in future years. Over a number of years, the state adopted budget solutions for a fiscal year by deferring certain required payments (including Proposition 98 payments to schools, Medi-Cal reimbursements, state payrolls and payments to the state pension fund) from that fiscal year into the next year; ultimately these deferrals are being repeated year after year until paid. In addition, the General Fund is the ultimate source of repayment of Economic Recovery Bonds (which are expected to be effectively paid in full by the end of 2014-15), and is obligated for certain legislatively-approved interfund borrowings (loans from special funds), reimbursement of borrowings from state and local governments, reimbursements to local governments and school districts for the costs of state mandates placed on those entities under state laws, settle-up payments for Proposition 98, payments to employees for compensated absences, costs for self insurance, and future payment of interest owed on borrowings from the federal government for unemployment insurance payments. (In some cases, the Legislature has the ability to modify, further extend the timing of or even cancel the repayment of some of these obligations.) See "DEFERRED OBLIGATIONS," including Table 7.

The 2014-15 Budget further reduces the "wall of debt" by continuing to pay down inter-year deferrals. As of the 2014 Budget Act, the total amount of deferrals and legislatively-approved budgetary borrowing from special funds (as contrasted to short-term borrowing from special funds for cash management purposes) was projected to be $26.7 billion by the end of fiscal year 2013-14. The 2014-15 Budget includes further reductions in such deferred obligations of over $10 billion, leaving a balance of $15.5 billion at the end of 2014-15. The Administration projects that all outstanding budgetary borrowing and deferrals will be entirely repaid by the end of fiscal year 2017-18.

As of the 2014-15 Budget, in addition to the Proposition 98 budgetary deferrals and settle-up payments referred to above (and set forth in Table 7), the General Fund is obligated to repay school and community college districts for past underfunding which is permitted under Proposition 98 ("maintenance factor"). The Department of Finance estimates that the total outstanding balance at the end of fiscal year 2013-14 for the Proposition 98 maintenance factor was $6.6 billion. The outstanding balance at the end of fiscal year 2014-15 is projected to be $4.0 billion. The Proposition 98 maintenance factor is repaid pursuant to the constitutional repayment formula in years when growth in per capita General Fund revenue outpaces growth in per capita personal income. See "STATE FINANCES – Proposition 98 and K-14 Funding."

State Pension Funds and Retiree Health Care Costs

The two main state pension funds face large unfunded future liabilities. CalPERS reported an unfunded accrued liability allocable to state employees (excluding judges and elected officials) as of June 30, 2013, of $36.4 billion on an actuarial value of assets ("AVA") basis (an increase of $8.2 billion from the June 30, 2012 Valuation) and $49.9 billion on a market value of assets ("MVA") basis (an increase of $4.4 billion from the June 30, 2012 Valuation). The California State Teachers' Retirement System ("CalSTRS") reported the unfunded accrued liability of its Defined Benefit Plan as of June 30, 2013 at $73.7 billion on an AVA basis (an increase of $2.7 billion from the June 30, 2012 valuation), and $74.4 billion on an MVA basis (a decrease of $6 billion from the June 30, 2012 valuation).

General Fund contributions to CalPERS and CalSTRS are estimated to be approximately $2.7 billion and $1.5 billion, respectively, for the 2014-15 fiscal year. The combined contributions, which include contributions for California State University ("CSU"), represent about 3.8 percent of all General Fund expenditures in fiscal year 2014-15. See "CURRENT STATE BUDGET."

There can be no assurances that the state's annual required contributions to CalPERS and CalSTRS will not significantly increase in the future. 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. The Governor signed Chapter 47, Statutes of 2014 (AB 1469) on June 24, 2014, that increases statutorily required contributions to CalSTRS from the state, school districts, and teachers beginning July 1, 2014. The AB 1469 funding plan includes additional increases in contribution rates for the state, school districts, and teachers over the next several years in order to eliminate the current CalSTRS unfunded liability by 2045-46. Recent action by the CalPERS Board to revise amortization and smoothing policies is expected to result in more rapid increases in state retirement contributions commencing in fiscal year 2015-16. The Board in February 2014 also adopted staff recommendations to change mortality and other assumptions, which will result in increased contribution rates starting in fiscal year 2014-15. See "PENSION TRUSTS – Prospective Funding Status; Future Contributions."

The state also provides postemployment health care and dental benefits to state employees and their spouses and dependents (when applicable) and utilizes a "pay-as-you-go" funding policy. These are sometimes referred to as Other Post Employments Benefits or "OPEB." As reported in the state's OPEB Actuarial Valuation Report, the state has an Unfunded Actuarial Accrued Liability relating to state retirees' other postemployment benefits which was estimated at $64.57 billion as of June 30, 2013 (as compared to $63.84 billion estimated as of June 30, 2012). See "STATE FINANCES – Retiree Health Care Costs."

Financial Statements

APPENDIX E to this Official Statement, which is incorporated into this APPENDIX A, contains the Audited Basic Financial Statements of the state for the year ended June 30, 2013, 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, 2013. See "FINANCIAL STATEMENTS."

In addition, EXHIBIT 1 and EXHIBIT 2 to APPENDIX A contains the State Controller's unaudited reports of General Fund cash receipts and disbursements for the period July 1, 2013 through June 30, 2014 and for the period July 1, 2014 through August 31, 2014, respectively.

Population and Economy of the State

The State of California is by far the most populous state in the nation, nearly 50 percent larger than the second-ranked state according to the 2010 U.S. Census. The 2013 estimate of California's population is 38.2 million residents, which is 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, agriculture, 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 is experiencing a gradual and broadening recovery. Continued growth in the high-technology sector, international trade, and tourism are being supplemented by better residential construction and real estate conditions.

Demographic and economic statistical information and a discussion of economic assumptions are included in this APPENDIX A under "CURRENT STATE BUDGET – Economic Assumptions Underlying the 2014 Budget Act" and "ECONOMY AND POPULATION."

Certain Defined Terms

The following terms and abbreviations are used in this 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. See "STATE FINANCES – Budget Reserves."

"ERBs" or "Economic Recovery Bonds" means Economic Recovery Bonds of the state issued pursuant to Proposition 57. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Economic Recovery Bonds."

"EXHIBIT 1" means the State Controller's Unaudited Statement of General Fund Cash Receipts and Disbursements for the period from July 1, 2013 through June 30, 2014 as attached to this APPENDIX A as EXHIBIT 1.

"EXHIBIT 2" means the State Controller's Unaudited Statement of General Fund Cash Receipts and Disbursements for the period from July 1, 2014 through August 31, 2014 as attached to this APPENDIX A as EXHIBIT 2.

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

"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 ballot. See "STATE FINANCES – Sources of Tax Revenue."

"Proposition 39" means the California Clean Energy Jobs Act, an initiative measure which was approved by the voters in the November 2012 statewide general election ballot. See "STATE FINANCES – Sources of Tax Revenue."

"SB 105" means Senate Bill 105 (Chapter 310, Statutes of 2013), providing additional appropriations in fiscal year 2013-14 to address a court-ordered reduction of the prisoner population in state prisons.

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

"2013 Budget Act" means the Budget Act for fiscal year 2013-14, adopted on June 27, 2013.

"2013-14 Governor's Budget" means the Governor's Proposed Budget for fiscal year 2013-14 released on January 10, 2013.

"2013-14 May Revision" means the May Revision of the 2013-14 Governor's Budget released on May 14, 2013.

"2013-14 Budget" means the 2013 Budget Act plus related legislation to implement the budget.

"2014 Budget Act" means the Budget Act for fiscal year 2014-15, adopted on June 20, 2014.

"2014-15 Governor's Budget" means the Governor's Budget for fiscal year 2014-15 released on January 9, 2014.

"2014-15 May Revision" means the May Revision of the 2014-15 Governor's Budget released May 13, 2014.

"2014-15 Budget" means the 2014 Budget Act plus related legislation to implement the budget.

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 significant developments have occurred since the previous state Appendix A released in April 2014.

The 2014 Budget Act. On June 20, 2014, the Governor signed Chapter 25, Statutes of 2014 (SB 852)—the 2014 Budget Act. The 2014-15 Budget, comprised of the 2014 Budget Act and related legislation, continues to pay down the "wall of debt," invests in public schools, pays for the recent expansion of health care coverage for millions, deposits $1.6 billion to the state's rainy day fund (BSA), and includes a plan to shore up teacher pensions. At the time of budget enactment, the 2014-15 Budget projected that the state would end fiscal year 2014-15 with a $449 million budget reserve on June 30, 2015, in addition to the money in the BSA. The 2014-15 Budget includes trigger mechanisms that would require specified additional General Fund expenditures if state revenues rise higher than anticipated in the budget. See "CURRENT STATE BUDGET."

Recent Tax Receipts. The Department of Finance reported that, based on agency cash receipts, tax receipts for July 2014 were $100 million above the 2014-15 Budget Act estimates of $6.078 billion.

The Department of Finance reported that, based on agency cash receipts, tax receipts for August 2014 were $56 million below the 2014-15 Budget Act estimate of $6.215 billion. As noted in the report, General Fund sales and use tax receipts were reduced by $343 million to correct an under-allocation of sales taxes to local government funds in prior fiscal years. For *the 2014-15 fiscal year-to-date, tax receipts are $49 million above the 2014-15 Budget Act estimate of $12.292 billion. The actual receipts year-to-date total of $12.341 billion reflects a $5 million revision to the reported July cash figures above.*

The State Controller's unaudited reports of General Fund cash receipts and disbursements for the period July 1, 2014 through August 31, 2014 were released on September 9, 2014, and are included as EXHIBIT 2 to Appendix A. *As with the Department of Finance cash report, the State Controller's Office report reflects that General Fund sales and use tax receipts were reduced by $343 million.*

CalSTRS Funding Solution. On June 24, 2014, the Governor signed Chapter 47, Statutes of 2014, (AB 1469), a comprehensive funding solution to eliminate the CalSTRS unfunded liability on the Defined Benefit Plan by 2045-46 through increased contributions from the state, school districts and school employees. The plan will start modestly in fiscal year 2014-15 and the increased contribution levels will be phased in over a period of years to provide all the affected parties sufficient time to prepare for future budget costs. See "PENSION TRUSTS – Pension Reform."

Saving for a Rainy Day. The state's budget each year is heavily dependent on the performance of the stock market and the resulting capital gains. In response to the volatility of these revenues and the resulting boom-and-bust budget cycles, the Legislature placed a constitutional amendment on the November 2014 ballot for a rainy day fund that requires both paying down liabilities and building up a reserve fund in the BSA which can be used to respond to cyclical downturns in revenues in emergencies. See "CURRENT STATE BUDGET" and "STATE FINANCES – Budget Reserves."

Drought. California is in the third year of a drought. The National Weather Service has declared extreme drought conditions or worse exist in more than 80 percent of the state as of July 15, 2014. However, a relatively small proportion of California's economy will be directly impacted by water shortages. In particular, agricultural production totaled $46.7 billion out of $2.2 trillion in 2013 California GDP. Small impacts from drought were included in the 2014-15 May Revision forecast, and so far data have confirmed that agriculture and other sectors should largely be able to adjust in 2014. See "CURRENT STATE BUDGET – Development of Revenue Estimates."

Federal Medi-Cal Ruling. The federal government recently clarified guidance (released in July 2014) that disallows the state's usage of tax revenues assessed on Medi-Cal managed care plans to draw down federal funding, beginning in January 2017. Under current law, Chapter 33, Statutes of 2013 (SB 78), Medi-Cal managed care plans are assessed a state tax of approximately 4 percent, which sunsets June 30, 2016. Therefore, this federal rule will not impact the state's current tax on Medi-Cal managed care.

Recent Earthquake. Governor Edmund G. Brown Jr. issued an emergency proclamation on August 24, 2014, for three counties in California due to the effects of a 6.0 magnitude earthquake in the early morning of August 24 near the City of Napa and continued aftershocks. The earthquake damaged certain critical infrastructure, homes and other structures and caused fires and the temporary closure of some roads and highways. It is too early to know at this time whether there will be any material costs to the General Fund resulting from the earthquake.

Pacific Gas and Electric Company ("PG&E") Decision. On September 2, 2014, Administrative Law Judges at the Public Utilities Commission (PUC) issued multiple decisions regarding penalties to be levied on PG&E. The total penalty breakdown consists of a $950 million fine to be paid to the state's General Fund and $450 million in directed investments for PG&E pipeline improvements and other safety and training requirements. The decision will become final in 30 days unless an appeal is filed or a PUC Commissioner requests a review of the decision. (PG&E has announced that it intends to appeal the decision.) At this point, the state does not have any information on the exact date this decision will become final, or when or how much of this penalty will ultimately be paid to the General Fund. The 2014 Budget Act included an estimate that the state General Fund would receive over $300 million from all state wide settlements. Any changes to that assumption will be addressed in the 2015-16 Governor's Budget.

CURRENT STATE BUDGET

General

The 2014-15 Budget, including the 2014 Budget Act, was enacted on June 20, 2014. It includes a multi-year plan that is balanced, establishes a rainy day fund, addresses the CALSTRS unfunded liabilities, and pays down a substantial portion of budgetary debt from past years.

General Fund revenues and transfers for fiscal year 2014-15 are projected at $105.5 billion, an increase of $3.3 billion or 3.2 percent compared with revised estimates for fiscal year 2013-14. General Fund expenditures for fiscal year 2014-15 are projected at $108.0 billion, an increase of $7.3 billion or 7.2 percent compared with revised estimates for fiscal year 2013-14. The projected excess of expenditures over revenues and transfers is due in part to the budgetary accounting treatment of the Budget Stabilization Account (BSA) transfer, described in the next paragraph, and to the significant amount of expenditures to pay down "wall of debt" liabilities. See Table 3.

For the first time since the 2007-08 fiscal year, full funding of the BSA will occur during fiscal year 2014-15. Pursuant to Proposition 58 of 2004, the state will set aside 3 percent of estimated General Fund revenues, estimated at about $3.2 billion, in the BSA. Under Proposition 58, half this amount will remain in the BSA, and half will be transferred to a redemption account to retire the Economic Recovery Bonds (one of the components of the "wall of debt"). Under the state's budgeting procedures (and included in the figures in the previous paragraph), the $1.6 billion transferred to the BSA for "rainy day" purposes will be reflected as a reduction of revenues and transfers, while the $1.6 billion used to retire the Economic Recovery Bonds will be reflected as an expenditure of General Fund resources. See "STATE FINANCES – Budget Reserves – Budget Stabilization Account."

The 2014-15 Budget has the following other major components:

- Proposition 98 – proposes funding of $60.9 billion for fiscal year 2014-15, of which $44.5 billion is from the General Fund. When combined with General Fund increases of

$4.9 billion in 2012-13 and 2013-14, the 2014-15 Budget includes a $10.3 billion increase in the General Fund investment in K-14 education compared to the 2013-14 Budget. The Budget also repays $5.1 billion in school budgetary deferrals in fiscal year 2014-15, and includes a "trigger" mechanism that will appropriate any additional Proposition 98 resources attributable to the 2013-14 and 2014-15 fiscal years for the purpose of retiring up to $1 billion of the remaining deferral balance, if state revenues rise higher than anticipated in the 2014-15 Budget. See "STATE FINANCES – Proposition 98 and K-14 Funding".

- Higher Education – proposes total state funding of $13.0 billion for all major segments of Higher Education, including $12.6 billion from the General Fund (both Non-Proposition 98 and Proposition 98), an increase of $1.2 billion General Fund from revised estimates for fiscal year 2013-14. The remaining funds include special and bond funds.

- Health and Human Services – proposes $49.0 billion, including $29.7 billion General Fund and $19.4 billion from special funds, for these programs. See "STATE FINANCES – Health and Human Services."

- Implementation of the Affordable Care Act – proposes $14.5 billion, including $477.7 million from the General Fund, to implement federal health care reform, which started in January 2014, and will provide coverage to millions of Californians. See "STATE FINANCES – Health and Human Services – Health Programs – Health Care Reform."

- Prison Funding – includes total state funding of $12.0 billion, including $9.6 billion from the General Fund and $2.4 billion from special funds, for the Department of Corrections and Rehabilitation and other related programs. See "STATE FINANCES – California Department of Corrections and Rehabilitation" and "LITIGATION – Prison Healthcare Reform and Reduction of Prison Population."

- Redevelopment Agency Dissolution Savings – includes Proposition 98 General Fund savings of $1.1 billion in fiscal year 2013-14 and $811 million in fiscal year 2014-15. This reflects the receipt of a like amount of property tax revenues in each fiscal year by K-12 schools and community colleges.

- Payment of Interest on Unemployment Insurance Fund Debt – includes $218.5 million from the General Fund to make the 2014 interest payment on the outstanding loan from the federal unemployment account. Interest will continue to accrue and be payable annually until the principal on the loan is repaid. The principal amount of the federal loan is projected to be $8.8 billion at the end of calendar year 2014 compared to $9.7 billion at the end of 2013. See "STATE FINANCES – Unemployment Insurance."

- Cash Management – Cash flow needs will be managed through internal and external borrowing. The 2014-15 Budget projects the need for $2.8 billion in revenue anticipation notes, compared with $5.5 billion in fiscal year 2013-14.

- Reserve Policy – the 2014-15 Budget includes a constitutional amendment to appear on the November 2014 ballot which would significantly amend the existing rainy day fund deposit requirements into the BSA established by Proposition 58. See "STATE FINANCES – Budget Reserves."

• <u>"Trigger" Mechanism for Additional General Fund Expenditures</u> – includes provisions that would require, if state revenues rise higher than anticipated in the 2014-15 Budget, further reducing or eliminating the remaining $1 billion in school deferrals (see Proposition 98 above) and $800 million in local government mandate claims. Additional provisions would have required $200 million in deferred maintenance expenditures for state buildings, the University of California, and the California State University, if 2013-14 property taxes had been higher than anticipated (and therefore, would have offset state K-14 Proposition 98 costs). However, these property taxes have recently been certified at a level that is not higher than anticipated in the 2014-15 Budget. As a result, the additional $200 million in deferred maintenance expenditures are not required. The property tax amount was certified at approximately $73 million lower than anticipated and therefore requires an additional $73 million from the General Fund to cover Proposition 98 costs. Final certification for 2013-14 property taxes will be made in February, 2015.

• <u>Paying Down Debts and Liabilities</u> – the 2014-15 Budget reduces more than $10 billion of debts, deferrals, and budgetary obligations accumulated over the prior decade comprising the "wall of debt" by paying down the deferral of payments to schools by $5 billion, paying off the Economic Recovery Bonds, repaying various special fund loans and funding $100 million in mandate claims that have been owed to local governments since 2004 or longer. See "DEFERRED OBLIGATIONS."

• <u>Shoring Up Teacher Pensions</u> – the 2014-15 Budget sets forth a plan of shared responsibility among the state, school districts and teachers to eliminate the current unfunded liability in CalSTRS (the pension system for public school teachers in the state) in about 30 years. Barring state action, CalSTRS was expected to run out of money in 33 years. The first year's contributions from each of the state, school districts and teachers are modest, totaling about $275 million ($59.1 million General Fund). The contributions will increase in subsequent years, reaching more than $5 billion annually in total funds (approximately $900 million General Fund) when the rates are fully phased in for all parties by 2020-21. See "PENSION TRUSTS."

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

The following table summarizes the General Fund in the 2014-15 Budget:

TABLE 1

General Fund Budget Summary

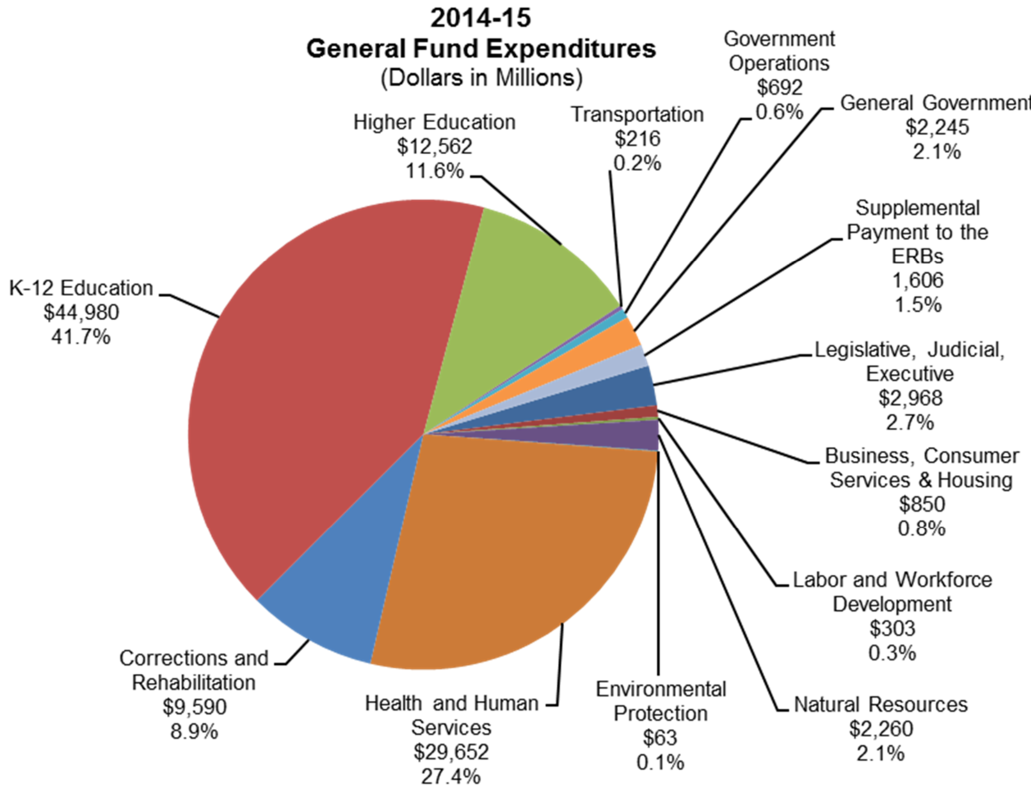
(Dollars in Millions)

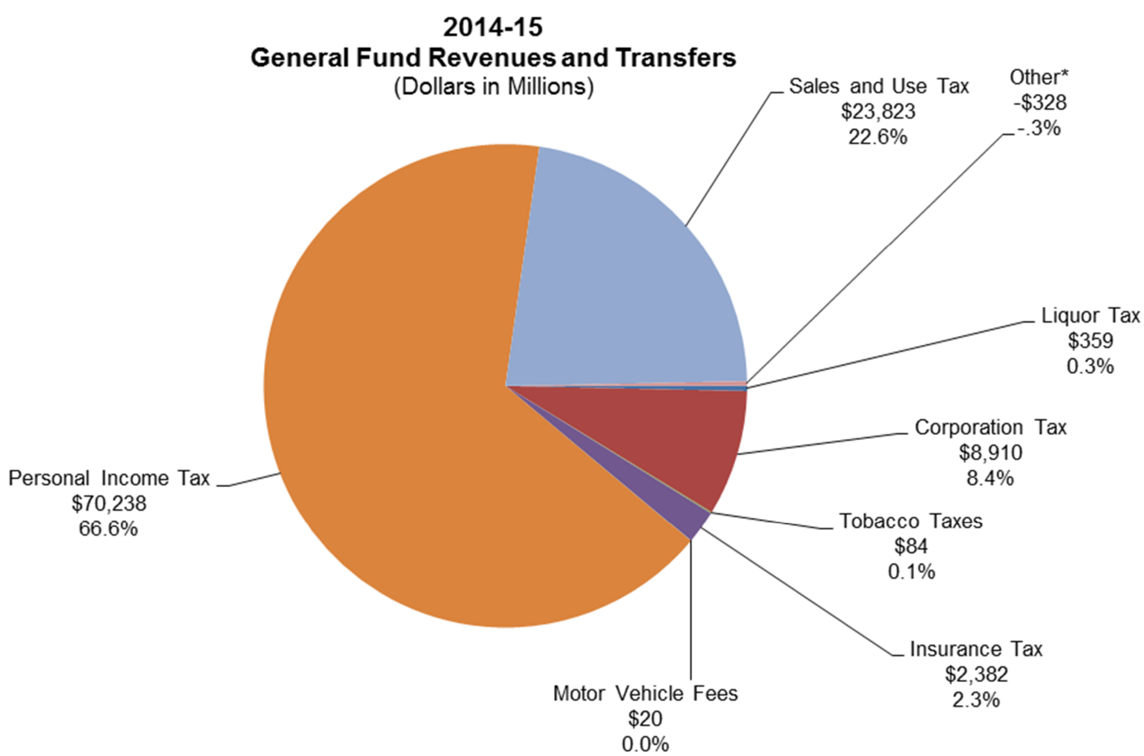
	As of 2013 Budget Act	**As of 2014 Budget Act**	
	Fiscal Year 2013-14	**Fiscal Year 2013-14**	**Fiscal Year 2014-15**
Prior Year Balance	$ 872	$ 2,429	$ 3,903
Revenues and Transfers	97,098	102,185	105,488
Total Resources Available	97,970	104,614	109,391
Non-Proposition 98 Expenditures	57,226	57,980	63,525
Proposition 98 Expenditures	39,055	42,731	44,462
Total Expenditures	96,281	100,711	107,987
Fund Balance	1,689	3,903	1,404
Budget Reserves:			
Reserve for Liquidation of Encumbrances	618	955	955
Special Fund for Economic Uncertainties	1,071	2,948	449
Budget Stabilization Account/ Rainy Day Fund			1,606

Source: State of California, Department of Finance.

The following charts summarize the principal components of the 2014 Budget Act, as of its adoption.

In the chart below showing General Fund Expenditures, the state's expenditures for contributions to the pension funds and for debt service on bonds are not shown separately, but are included within the applicable expenditure category in the chart. The state's contributions to CalPERS and CalSTRS in fiscal year 2014-15 are a combined $4.2 billion, or 3.8 percent of total expenditures from the General Fund. The net debt service costs on general obligation bonds and lease-revenue bonds paid by rental payments from the General Fund total $5.9 billion, or 5.46 percent of total expenditures. These debt service costs were net of reimbursement from various special funds (e.g., vehicle weight fees offsetting costs of transportation bonds) and subsidy payments from the federal government for taxable Build America Bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Build America Bonds."





*The “Other” category is negative because it includes a transfer to the Budget Stabilization Account of $1,606 million.

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 Governor's Budget by January 10 and the May Revision by May 14.

National Economy. The national economy experienced an uneven expansion in 2013. Following an annual growth rate of 1.1 percent in the first quarter of 2013, output of the national economy (Real Gross Domestic Product) grew by 2.5 percent in the second quarter, 4.1 percent in the third quarter, and 2.6 percent in the fourth quarter (due in part to the federal government shutdown).

Before falling by 2.9 percent in the first quarter of 2014, the economy had experienced eleven consecutive quarters of growth. The recovery is expected to pick up later in 2014 and 2015. (These figures reflect the new national accounts methodology used by the U.S. Bureau of Economic Analysis.)

The national unemployment rate declined gradually from the middle of 2011 through early 2014, to 6.1 percent in June 2014. Nonfarm payroll employment expanded at a modest pace from 2011 through the same period.

Home building has been gradually improving but is still relatively weak compared to pre-crisis levels and historical averages. While still at a subdued level with respect to pre-crisis levels, housing starts were up over 18 percent during 2013, and have continued to improve since then. Home prices in most metropolitan areas have continued to improve.

After shrinking in 2013, the U.S. trade deficit began to climb again in the early part of 2014 due to slower export growth and increasing imports.

California Economy. California's recovery spread to more sectors of the economy in 2013, with continued progress in early 2014. Growth in the high-technology sector, international trade, and tourism are being supplemented by better residential construction and real estate conditions. Overall, California's real GDP increased by 2 percent in 2013, and totaled $2.2 trillion at current prices, making it the 8th largest economy in the world. While the current drought is one of the most severe in California's history, it is expected that farmers will largely be able to offset the effects of surface water shortfalls through groundwater pumping, shifting crop patterns, and planting fewer acres. A continuation of drought conditions past 2014 would have more severe impacts, as options for adjustment would be even more limited.

Personal income increased in fourteen of the sixteen quarters through the end of 2013, with decreases only in the fourth quarter of 2011 and the first quarter of 2013. The decrease in early 2013 was partially due to the expiration of the federal payroll tax holiday. These numbers also reflect the revised methodology implemented by the U.S. Bureau of Economic Analysis for the national accounts. Although the reported levels of personal income have changed as a result of the revised methodology, these changes merely reflect more accurate statistics about the underlying state of the economy. As such, the changes will not have any impact on revenue. In the longer run, the more accurate economic data could lead to more accurate revenue forecasts.

The methodology was also revised for the payroll survey, with in-home support service jobs now included under the educational and health services industry. California was one of the last states to exclude these jobs from the payroll survey, and the new numbers are more consistent with statistics for the nation and other states. Due to an aging population, there has been strong growth in in-home support service jobs, which increased the pace of the recovery. Using the new methodology, California's nonfarm payroll jobs grew by 391,700 between December 2012 and December 2013, or by 32,600 jobs per month on average. In 2012, employment grew by 465,800, or by 38,800 jobs per month. (The employment statistics were revised back to 1990 using the new methodology, and the revised statistics are higher from 1990 to the present.) In February 2014, the private sector had surpassed the pre-recession peak in payroll employment, but the declines in the government sector meant that total nonfarm payroll jobs did not surpass the pre-recession peak until June 2014. Despite the drought, farm employment has been relatively steady, with farm jobs averaging 406,600 in the first half of 2014 compared with 407,400 jobs in 2013. The state unemployment rate reached a high of 12.4 percent in late 2010. The rate has improved since then, falling to 7.4 percent in June 2014. In comparison, the national unemployment rate was 6.1 percent in June 2014.

After hitting a low of close to 200,000 units (seasonally-adjusted and annualized) in the middle of 2007, sales of existing single-family homes have rebounded to nearly 400,000 units annually. Home prices continued to climb in 2013 and early 2014 reaching levels not seen in more than five years. The median price of existing, single-family homes sold in June 2014 was $457,160. However, this remains 23 percent below the pre-recession peak.

California issued 83,000 residential building permits in 2013, 42.6 percent more than were issued in 2012 but still only 39 percent of the 213,000 permits issued in 2004. Despite a large number of permits issued in April 2014, the average pace of permits issued in the first five months of 2014 was only 85,000 on an annualized basis. These remain mostly permits for multi-family structures.

California set a new record for merchandise exports in 2013. Export values totaled $168.13 billion, surpassing the $161.9 billion recorded in 2012. Exports of manufactured goods and non-manufactured goods (agricultural produce and raw materials) in 2013 were up 4.6 percent and 7.1 percent respectively, from 2012. Exports have continued to increase in early 2014, generally at a faster rate than for the U.S. as a whole. For the month of April, California exports totaled $14.1 billion, an increase of 7.5 percent from April 2013. Despite the drought, agricultural exports continue to increase as rising prices offset lower volumes of exports.

The California economy is expected to continue making steady progress. Industry employment is forecast to expand 2.5 percent in 2014 and 2015, respectively, and 2.4 percent growth is projected for 2016. Personal income is projected to grow 4.6 percent in 2014, 5.1 percent in 2015, and 5.4 percent in 2016.

Despite moderate growth in the past year which appears to be continuing into the first half of 2014, there are still risks to the economy. First, the persistence of unemployment has meant slow income growth for a broad section of the population, and slow wage growth. This impacts the ability of people to save and invest, and makes it difficult for consumption growth to support broader economic growth. Second, economic expansions do not last forever. In the post-war period, the average expansion length is almost five years and the longest expansion was ten years. As of June 2014, the current expansion has lasted five years. 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.

Economic Assumptions Underlying the 2014 Budget Act

The revenue forecast and expenditure projections developed in connection with the 2014-15 May Revision were incorporated into the 2014 Budget Act and were based upon certain assumptions concerning the performance of the United States and California economies in calendar years 2014 and 2015. These economic assumptions are set forth below.

TABLE 2
Selected National and California Economic Data

	2013	2014 (Projected)	2015 (Projected)
United States			
Real gross domestic product (2009 CW $, percent change)	1.9	2.4	3.0
Personal income (percent change)	2.8	3.6	5.1
Nonfarm wage and salary employment (millions)	136.4	138.5	141.1
(percent change)	1.7	1.6	1.9
California			
Personal Income ($ billions)	1,817.0	1,900.7	1,996.9
(percent change)	2.8	4.6	5.1
Nonfarm wage and salary employment (thousands)	15,144.1	15,524.4	15,909.9
(percent change)	3.0	2.5	2.5
Unemployment rate (percent)	8.9	7.6	6.9
Housing units authorized (thousands)	83.9	106.4	122.9
(percent change)	45.1	26.9	15.5
New auto registrations (thousands)	1,608.0	1,690.3	1,779.4
(percent change)	18.9	5.1	5.3
Total taxable sales ($ billions)	587.5	625.1	666.1
(percent change)	5.8	6.4	6.6

CW: Chain Weighted

Note: Percentage changes calculated from unrounded data.

Source: State of California, Department of Finance, 2014-15 May Revision Forecast.

Multi-Year Budget Projections

In connection with the enactment of the 2014-15 Budget, the Department of Finance prepared high level multi-year budget projections, as set forth below. The projections are based on a variety of assumptions, including assumptions concerning economic conditions, and state revenues and expenditures.

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 in 2013, capital gains are expected to be above normal levels for 2013 and 2014. As such, growth in tax receipts is expected to be higher than normal through 2014-15. Tax revenue is expected to grow by 5.7 percent from fiscal year 2013-14 to fiscal year 2014-15, and by 6.5 percent from fiscal year 2014-15 to fiscal year 2015-16. The growth rate for 2014-15 reflects the reduction of fiscal year 2013-14 personal income tax revenue due to the acceleration of income into 2012 as a result of the federal tax landscape in late 2012 and early 2013.

For the following two fiscal years, underlying tax revenue is projected to grow at just slightly over 4 percent a year. The other main factor explaining the year-to-year growth is the change in the amounts of loan repayments made each year consistent with the projections shown in Table 7 (Deferred Obligations). As indicated above, these projections show that, under the assumptions made, the state would be able to achieve a structural balance (positive "operating surplus") for the next several years, while continuing to reduce Deferred Obligations (as described in "DEFERRED OBLIGATIONS"). The reductions in this table are included as increases in expenditures. In the case of loan repayments, they are reductions in revenues and transfers. Actual conditions may differ materially from the assumptions, and there can be no assurances the projections will be achieved.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

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

	Fiscal Year 2013-14	2014-15	2015-16	2016-17	2017-18
Prior Year Balance	$ 2,429	$ 3,903	$ 1,404	$ 1,406	$ 1,407
Revenues and Transfers[a]	102,185	107,094	113,265	118,129	123,379
Transfer to BSA		(1606)[b]	(937)[b]	(1,002)[b]	(1,096)[b]
Total Resources Available	**$104,614**	**$109,391**	**$113,732**	**$118,533**	**$123,690**
Non-Proposition 98 Expenditures	57,980	61,919	65,928	70,604	74,371
Proposition 98 Expenditures	42,731	44,462	46,398	46,522	47,911
Prop 58 Transfer to BSA		1,606			
Total Expenditures	**$100,711**	**$107,987**	**$112,326**	**$117,126**	**$122,282**
Fund Balance	3,903	1,404	1,406	1,407	1,408
Reserve for Encumbrances	955	955	955	955	955
Special Fund for Economic Uncertainties	2,948	449	451	452	453
Budget Stabilization Account (BSA)/Rainy Day Fund		1,606	2,543	3,545	4,641
Operating Surplus/Deficit with BSA Transfer	**$1,474**	**($2,499)**[c]	**$2**	**$1**	**$1**

Source: State of California, Department of Finance

[a] The personal income tax portion of Proposition 30 expires after tax year 2018. Roughly one-half of the impact of Proposition 30 is expected to be lost in 2018-19, and beginning with 2019-20, there will be no remaining impact from the Proposition. The sales tax portion of Proposition 30 will expire after December 31, 2016. Information showing the projected Proposition 30 amounts is shown below:

	2013-14	2014-15	2015-16	2016-17	2017-18
Prop 30 – Income Tax	$5,705	$5,965	$6,131	$6,511	$6,878
Prop 30 – Sales Tax	1,371	1,440	1,554	827	0

[b] The 2014-15 transfer to the Budget Stabilization Account is pursuant to Proposition 58. The 2015-16 through 2017-18 transfers assume passage of the new rainy day constitutional amendment (ACAX2-1) placed on the November 2014 ballot. See "STATE FINANCES – Budget Reserves".

[c] The 2014-15 operating deficit is largely the result of using the ending fund balance carried over from 2013-14 of $3.9 billion to pay down "wall of debt" liabilities. See "DEFERRED OBLIGATIONS—Table 7."

Budget Risks

The 2014-15 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 2014-15 and beyond.

Budget risks with potential significant General Fund impact include, but may not be limited to, the following:

- <u>Threat of Recession</u> — The economic forecast used in connection with the 2014-15 Budget assumes continuation of the modest economic expansion of the past couple of years. Yet, economic expansions do not last forever. In the post-World War II period, the average expansion has been about five years; the longest expansion was ten years. As of June 2014, the current expansion has lasted five years. While there are few signs of an immediate contraction, the Administration understands that another recession is inevitable. In the past, a recession has resulted in significant reductions in major state revenue sources.

- Federal Fiscal Challenges — The latest federal budget agreement provides greater stability to the federal government's fiscal situation; however, the federal government still faces both short- and long-term fiscal issues. In February 2014, Congress approved an increase in the federal debt limit, without any policy provisions attached. The increase is effective through March 15, 2015. As it has in the past, the federal government could shift costs to the state to address its own fiscal challenges.

- Capital Gains Volatility — Capital gains are the state's most volatile revenue source. With a projected 9.8 percent of the General Fund revenues and transfers relying on capital gains in 2014-15, the forecast is heavily dependent on the continued performance of the stock market and, to a lesser extent, the real estate market.

- Redevelopment Dissolution — Between 2011-12 and 2014-15, cities, counties, special districts, and schools are estimated to receive over $7 billion in property tax revenues that previously would have been spent by redevelopment agencies. These dollars are invested in core local public services such as police and fire protection, and are critical to the state balancing its budget. While the 2014-15 Governor's Budget was being prepared, a Superior Court issued two tentative rulings which could have put at risk approximately $3 billion that accrued to the affected taxing entities (of which approximately $2 billion went to K-14 schools resulting in corresponding savings for the state's General Fund). However, the Superior Court later reversed its initial rulings and upheld the state's legal position. One of the rulings is being appealed, and several other pending lawsuits involve the same issue. See "LITIGATION - Budget-Related Litigation - Actions Challenging Statutes Which Reformed California Redevelopment Law."

- Health Care Costs — Medi-Cal is the budget's second largest program. 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.

- Debts and Liabilities — The state's budget challenges have been exacerbated by the "wall of debt" — an unprecedented level of debts, deferrals, and budgetary obligations accumulated over the prior decade. Recent state budgets have reduced this debt from $34.7 billion to a projected $15.5 billion as of the end of 2014-15 (as projected at the enactment of the 2014-15 Budget). In addition, the state faces hundreds of billions of dollars in other long-term cost pressures, debts, and liabilities.

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 2010-11, 2011-12 and 2012-13, and the estimated results for fiscal years 2013-14 and 2014-15. In addition to the Special Fund for Economic Uncertainties, part of the fund balance of the General Fund, the 2014-15 Budget projects there will be $1.606 billion in the BSA at June 30, 2015. Consistent with historical practice, the projected beginning balance of any given fiscal year can be updated from time to time subsequent to initial projection to reflect changes attributable to preceding fiscal years. Changes affecting the beginning balance include both revenues and expenditures.

TABLE 4
Statement of Estimated Revenues, Expenditures, and Changes in Fund Balance – General Fund (Budgetary Basis)[(a)]
Fiscal Years 2010-11 through 2014-15

(Dollars in Millions)

	2010-11	2011-12	2012-13	Estimated[(b)] 2013-14	Estimated[(b)] 2014-15
Fund Balance–Beginning of Period	$(4,481.4)	$(2,326.5)	$(1,608.6)	$4,285.1	$3,903.0
Restatements					
Prior Year Adjustment	1,610.0	1,071.7	1,288.4	(1,856.1)	–
Fund Balance–Beginning of Period, as Restated	**$(2,871.4)**	**$(1,254.8)**	**$ (320.2)**	**$2,429.0**	**$3,903.0**
Revenues	$92,122.5	$85,568.5	$98,417.8	$101,838.4	$107,752.8
Other Financing Sources					
Transfers from Other Funds	1,661.5	1,998.6	2,047.3	346.7	(2,264.5)[(c)]
Other Additions	53.2	261.5	392.8	–	–
Total Revenues and Other Sources	**$93,837.2**	**$87,828.6**	**$100,857.9**	**$102,185.1**	**$105,488.3**
Expenditures					
State Operations[(e)]	$26,533.6[(d)]	$23,682.8	$25,960.1	$26,373.6	$28,221.5
Local Assistance	65,173.1[(f)]	63,845.2[(f)]	69,828.4[(f)]	74,144.6	77,990.4
Capital Outlay	139.5	103.1	119.5	111.5	85.7
Unclassified	–	–	–	81.4	1,689.4[(g)]
Other Uses	–	–	–	–	–
Transfer to Other Funds	401.6	551.3	344.6	–[(h)]	–[(h)]
Total Expenditures and Other Uses	**$92,247.8**	**$88,182.4**	**$96,252.6**	**$100,711.1**	**$107,987.0**
Revenues and Other Sources Over or (Under)					
Expenditures and Other Uses	$1,589.4	$(353.8)	4,605.3	$1,474.0	$(2,498.7)
Fund Balance					
Deferred Payroll[(i)]	772.6	752.9	731.9	–	–
Reserved for Encumbrances	846.6	617.9	732.2	954.6	954.6
Reserved for Unencumbered Balances of Continuing Appropriations[(j)]	1,009.0	1,685.4	1,057.7	–	–
Unreserved–Undesignated [(k)]	(4,954.7)	(4,664.8)	1,763.3	2,948.4	449.7
Fund Balance–End of Period	**$(2,326.5)**	**$(1,608.6)**	**$4,285.1**	**$3,903.0**	**$1,404.3**

(Footnotes on Following Page)

[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, 2013, attached as APPENDIX E 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, 2013 fund balance between the two methods. See "FINANCIAL STATEMENTS."

[b] Source: Department of Finance, as of the 2014 Budget Act.

[c] Includes a $1,606 million transfer to the Budget Stabilization Account (BSA) for rainy day purposes.

[d] 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 cash balances, plus accruals, derived from actual activity reported through December 5, 2011 for fiscal year 2010-11.

[e] Includes debt service on general obligation bonds. The estimated amount of debt service is $4.8 billion and $5.2 billion for fiscal years 2013-14 and 2014-15, respectively. These amounts are net of the federal Build America Bonds subsidy and various reimbursements to the General Fund from other funds, totaling approximately $1.4 billion in fiscal year 2013-14 and $1.5 billion in fiscal year 2014-15, to offset debt service costs of certain bonds. (See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – Build America Bonds.") The 2013-14 estimated debt service includes $201 million funded out of the UC's budget to pay debt service costs. The 2014-15 estimated debt service includes $193 million funded out of the UC's budget and $189 million funded out of the CSU's budget to pay debt service. Debt service amounts for earlier years are set forth in the table titled "Outstanding State Debt Fiscal Years 2007-08 through 2012-13" under "STATE DEBT TABLES."

[f] In fiscal year 2009-10, Proposition 1A of 2004 was suspended when the Governor 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. Local property tax revenues of $1.7 billion, $350 million, and $43 million were shifted to offset state General Fund costs in fiscal years 2009-10, 2010-11, and 2011-12 respectively. The state was required to repay the obligation, plus interest, by June 30, 2013 and did so.

[g] Includes expenditure of $1,606 million for early repayment of the Economic Recovery Bonds.

[h] "Transfer to Other Funds" is included in "Transfers from Other Funds."

[i] 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. Deferral amounts for fiscal years 2013-14 and 2014-15 are not yet available.

[j] For purposes of determining whether the General Fund budget, in any given fiscal year, is in a surplus or deficit condition, see Chapter 1238, Statutes of 1990, amending Government Code Section 13307. As part of the amendment, 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 BLBAR reflects a specific reserve for the encumbered balance for continuing appropriations.

[k] Both actual and estimated amounts include SFEU. The Department of Finance generally includes in its estimates of the SFEU and set aside reserves, if any, the items reported in the table under "Reserved for Unencumbered Balances of Continuing Appropriations," and "Unreserved – Undesignated."

Source: Actual amounts for fiscal years 2010-11 to 2012-13: State of California, Office of the State Controller. Amounts for fiscal years 2013-14 and 2014-15: State of California, Department of Finance.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

The following table contains certain summary information concerning major General Fund revenue sources for an eight-year period:

TABLE 5
General Fund Revenues and Transfers

(Dollars in Thousands)

Fiscal Year	Sales & Use Tax	Personal Income Tax	Corporate Income Tax	Other Revenues and Transfers	Total
2007-08	$26,613,264	$54,181,857	$11,849,097	$9,877,663	$102,521,881
2008-09	23,753,364	43,375,959	9,535,679	6,107,110	82,772,112
2009-10	26,740,781	44,852,331	9,114,589	6,337,891	87,045,592
2010-11	26,983,000	49,445,469	9,613,594	7,401,213	93,443,276
2011-12	18,658,000[a]	54,261,266[b][d]	7,233,000	6,633,378[c]	86,785,644
2012-13	20,482,000[d]	64,484,000[d]	7,783,000[f]	6,652,578	99,401,578
2013-14[e]	22,759,000[d]	66,522,000[d][g]	8,107,000[f][g]	4,797,128	102,185,128
2014-15[e]	23,823,000[d][g]	70,238,000[d][g]	8,910,000[f][g]	2,517,339[h]	105,488,339

(a) Reflects a decrease in the Sales & Use Tax rate from 6 percent to 5 percent (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 & Use Tax rate to the Local Revenue Fund 2011. These two changes decrease General Fund revenues by roughly $10 billion annually.

(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 expiration of a temporary 0.5 percent increase in the vehicle license fee rate (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 $1.330 billion in fiscal year 2011-12.

(d) Reflects the passage of Proposition 30, The Schools and Local Public Safety Protection Act of 2012, which temporarily increases tax rates on the highest income Californians, and temporarily increases the sales and use tax rate by 0.25 percent. 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.

(e) Estimated.

(f) Reflects the passage of Proposition 39, which requires single sales factor apportionment for most multi-state businesses. See "STATE FINANCES – Sources of Tax Revenue – Corporation Tax" for a discussion of recent difficulties in projecting corporation tax receipts.

(g) Reflects the enactment of the Economic Development Initiative pursuant to Chapters 69 and 70, Statutes of 2013, which reformed California's economic development programs by replacing them with three tax incentive programs: (1) a new hiring credit, (2) a sales tax exemption for manufacturing or biotech research and development equipment purchases, and (3) a business tax credit in exchange for investment and employment expansion in California.

(h) Includes transfer of $1.606 billion from the General Fund to the Budget Stabilization Account for rainy day purposes.

Source: State of California, Department of Finance.

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 2013-14 and 2014-15, as set forth in the 2013-14 and 2014-15 state budgets at the respective times they were enacted. The tables also include updates to the 2013-14 fiscal year as of the 2014-15 Budget.

TABLE 6
General Fund Revenue by Sources and Expenditures
Fiscal Years 2013-14 and 2014-15

(Dollars in Millions)

Revenues **Source**	**2013-14 Enacted (as of June 2013)**	**2013-14 Revised (as of June 2014)**	**2014-15 Enacted (as of June 2014)**
Personal Income Tax	$ 60,827	$ 66,522	$ 70,238
Sales and Use Tax	22,983	22,759	23,823
Corporation Tax	8,508	8,107	8,910
Insurance Tax	2,200	2,287	2,382
Alcoholic Beverage Taxes and Fees	332	351	359
Cigarette Tax	89	86	84
Motor Vehicle Fees	23	19	20
Other[(a)]	2,136	2,054	1,278
Subtotal	$ 97,098	$ 102,185	$ 107,094
Transfer to the Budget Stabilization Account/Rainy Day Fund	0	0	-1,606
Total	$ 97,098	$ 102,185	$ 105,488

Expenditures **Function**	**2013-14 Enacted**	**2013-14 Revised**	**2014-15 Enacted**
Legislative, Judicial and Executive	$ 2,778	$ 2,696	$ 2,968
Business, Consumer Services & Housing	646	643	850
Transportation	206	73	216
Natural Resources	2,124	2,234	2,260
Environmental Protection	46	51	63
Health and Human Services	28,084	28,858	29,652
Corrections and Rehabilitation	8,911	9,332	9,590
K-12 Education	39,661	42,893	44,980
Higher Education	10,923	11,373	12,562
Labor and Workforce Development	299	300	303
Government Operations[(c)]	742	754	692
General Government			
Non-Agency Departments	523	504	715
Tax Relief/Local Government	421	420	442
Statewide Expenditures	917	580	1,088
Supplemental Payment to the Economic Recovery Bonds	0	0	1,606
Total Expenditures	$ 96,281	$ 100,711	$ 107,987

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

Source: State of California, Department of Finance. Figures in this table may differ from the figures in Table 16; see "Note" to Table 16.

Cap and Trade Program

The Cap and Trade program is a key element in the state's climate plan. It sets a statewide limit on the sources of greenhouse gases ("GHG") responsible for 85 percent of California GHG emissions. In fiscal year 2012-13, the California Air Resources Board ("CARB") began auctioning GHG emission allowances as a market-based compliance mechanism authorized by the California Global Warming Solutions Act, Chapter 488, Statutes of 2006 ("AB 32").

CARB has held seven auctions through May, 2014, which generated $734 million in allowance proceeds to the Greenhouse Gas Reduction Fund. Currently, GHG emissions from electricity and large industrial sources are subject to the cap.

The 2013 Budget Act included a one-time General Fund loan of $500 million from Cap and Trade auction proceeds (which loan is included as part of the "wall of debt"). Emergency drought legislation (Chapter 2, Statutes of 2014) and the 2014 Budget Act provide a total of $881 million of expenditures from the Greenhouse Gas Reduction Fund for programs that reduce GHG emissions. This amount of resources includes repayment of $100 million of the 2013 Budget Act loan, with the remaining balance being repaid with interest immediately when needed to meet the future needs of the high-speed rail project.

Legal challenges to the authority of CARB to conduct auctions under the state's cap and trade program allege the auction revenues are an unconstitutional tax under the state Constitution. Auctions are proceeding during the pendency of the legal challenges. See "LITIGATION – Action Challenging Cap and Trade Program Auctions."

DEFERRED OBLIGATIONS

Despite eliminating the structural deficit and maintaining a balanced budget over the last three budgets, the state continues to face major long-term challenges and must continue to address the consequences of budget-balancing actions taken in the past. As part of the 2014-15 Budget projection, the Administration prepared a table showing the amount and types of existing "budgetary borrowing" or "deferred obligations" as of June 30, 2014 based on the 2014 Budget Act. These balances resulted from budget "solutions" adopted over the prior decade which had the effect of pushing costs into the future. (These obligations outstanding as of the end of fiscal year 2013-14 are presented in the second column of Table 7 below.) Table 7 represents a point-in-time estimate of what budgetary borrowings were at the end of fiscal year 2010-11, a subsequent projection at the end of fiscal year 2013-14 (showing progress made thus far), and a plan to pay off the remaining amounts of the deferred obligations by the end of fiscal year 2017-18. The projections are based on a variety of assumptions, including assumptions concerning economic conditions, and state revenues and expenditures, as well as the assumed approval by the voters of a constitutional amendment on the November 2014 ballot that requires both paying down liabilities and building up a reserve fund in the Budget Stabilization Account. See "CURRENT STATE BUDGET" and "STATE FINANCES Budget Reserves." Actual conditions may differ materially from the assumptions, and there can be no assurances the projections will be achieved.

Items listed in Table 7 as "deferrals" or "deferred payments" represent actions taken to move required payments from one fiscal year into the next fiscal year for budgetary savings. These deferrals end up being repeated year after year to avoid having to make a double payment within a fiscal year until they are repaid. The deferred obligations shown in Table 7 are a portion of Proposition 98 payments to schools and community colleges, certain Medi-Cal reimbursements, one month's state payroll, and the final quarterly payment to the state pension fund. Other budgetary borrowings shown in Table 7 are repayment of the ERBs which financed budget deficits from prior to fiscal year 2003-04, repayment of certain legislatively approved interfund borrowings, reimbursement of borrowings from state funds and local governments, reimbursements to local governments and school districts for the costs of state mandates placed on those entities under state laws, and repayments to school and community college districts of amounts owed under Proposition 98 from recalculation of the guarantee after the end of a fiscal year, referred to in Table 7 as "underfunding of Proposition 98" and referred to elsewhere in this APPENDIX A as "settle-up payments."

The 2014-15 Budget includes triggers that would make additional payments to reduce the "wall of debt." If state revenues rise higher than anticipated in the 2014-15 Budget, the first use of up to $1.792 billion of the additional funds would be eliminating the remaining school deferrals and paying down local government mandate claims (see Table 7). Table 7 assumes for presentation purposes that actual revenues will be higher than projected in the 2014-15 Budget, and the trigger payments will occur. If the additional revenues are not available and the trigger payments do not occur, the obligations are expected to be repaid in subsequent years.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

All of the outstanding budgetary borrowing and deferrals shown in Table 7 are projected to be repaid by the end of fiscal year 2017-18.

TABLE 7
Deferred Obligations
2014 Budget Act

(Dollars in Millions)

	Outstanding (as of end of 2010-11)	Outstanding (as of end of 2013-14 based upon 2014 Budget Act)[c]	Supplemental Payments to 2013-14 and Earlier	Projected Repayments 2014-15	Potential 2014-15 Trigger Payments	2015-16	2016-17	2017-18	Remaining Amount at June 30, 2018
Deferred Payments to Schools and Community Colleges	$10,430	$6,164	$4,510	$662	$992	$0	$0	$0	$0
Economic Recovery Bonds[a]	7,100	3,943	0	3,144	0	0	0	0	0
Loans from Special Funds	5,100	3,879	0	801	0	1,322	1,071	685	0
Unpaid Costs to Local Governments, Schools and Community Colleges for State Mandates	4,300	6,682	0	515	800	1,245	2,061	2,061	0
Underfunding of Proposition 98	3,000	2,391[b]	598	0	0	1,793	0	0	0
Borrowing from local government (Proposition 1A of 2004)	1,900	0	0	0	0	0	0	0	0
Deferred Medi-Cal Costs	1,200	2,324	0	97	0	579	660	988	0
Deferral of State Payroll Costs from June to July	759	783	0	0	0	0	783	0	0
Deferred Payments to CalPERS	524	411	0	0	0	0	0	411	0
Borrowing from Transportation Funds (Proposition 42)	417	168	0	83	0	85	0	0	0
Total Repayments	**-**	**-**	**$5,108**	**$5,302**	**$1,792[d]**	**$5,024**	**$4,575**	**$4,145**	**-**
Total Outstanding	**$34,730**	**$26,745**	**$21,637**	**$15,536**	**$13,744**	**$8,720**	**$4,145**	**$0**	**$0**

(a) The annual values reflect the amounts needed to backfill the Proposition 98 budget (rather than the reduction in the outstanding principal amount of Economic Recovery Bonds). The Economic Recovery Bonds are expected to be effectively paid off by June 30, 2015, including use of $1.6 billion transferred from the BSA as a supplemental payment towards the Economic Recovery Bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Economic Recovery Bonds."

(b) The amount reflects the Proposition 98 settle-up obligations detailed in Table 20, plus the $274 million balance of the settlement agreement in *Williams, et al.,* v. *State of California, et al.*

(c) All balances are as of the end of 2013-14 except Deferred Medi-Cal Costs, which is $1.773 billion at the end of 2013-14. It increases to $2.324 billion at the end of 2014-15 absent repayments.

(d) If trigger payments are not made in 2014-15, these amounts will be repaid in subsequent years so that all borrowings and deferrals are expected to be retired by 2017-18.

Source: Department of Finance

In some instances, such as the ERBs, the repayment mechanism over time is included in annual budgets. In other cases, such as the loans from special funds, the repayment mechanism remains within the discretion of the Legislature. The Administration's plan is to completely pay off the "wall of debt" before the termination of the temporary additional personal income tax rates under Proposition 30 on December 31, 2018. Assuming continued economic growth and responsible fiscal policies, the Administration believes the state will be able to maintain positive structural fiscal balances past the period the Proposition 30 temporary taxes are in effect.

As stated earlier in this APPENDIX A, the Department of Finance estimates that over $10 billion of these outstanding Deferred Obligations will be repaid by the end of 2014-15 pursuant to the Budget plan as compared to the 2013-14 Budget, prior to any trigger payments. This consists of the following items:

- $5.2 billion repayment of deferrals from schools and community colleges
- $3.2 billion from repayments or creation of escrow accounts to repay Economic Recovery Bonds
- $0.8 billion in Special Fund loan repayments
- $0.5 billion in repayments of unpaid costs for state mandates
- $0.6 billion in repayments of Underfunding of Proposition 98
- $83 million in repayment of borrowing from Transportation Funds
- $97 million in repayment of deferred Medi-Cal costs

In addition to the budgetary borrowing shown in Table 7, the state faces future obligations to employees for compensated absences, costs for self-insurance, and future payment of interest owed on borrowings from the federal government for unemployment insurance payments. See "STATE FINANCES – Unemployment Insurance" below. Further, in addition to the Proposition 98 deferred payment and underfunding shown in Table 7, there is another obligation owed under Proposition 98 which arises when under the terms of Proposition 98 there is an underfunding, such as a suspension of the guarantee, which is called a "maintenance factor." The Department of Finance estimates that the total outstanding balance of Proposition 98 maintenance factor payments was $6.6 billion at the end of fiscal year 2013-14. The outstanding balance projected at the end of fiscal year 2014-15 is $4.0 billion, reflecting a year-over-year decrease in the Proposition 98 maintenance factor balance due to the inclusion of a maintenance factor repayment in the calculation of the Proposition 98 funding level in fiscal year 2014-15. The Proposition 98 maintenance factor is repaid pursuant to the constitutional repayment formula in years when growth in per capita General Fund outpaces growth in per capita income. See "STATE FINANCES – Proposition 98 and K-14 Funding."

The state has additional long term obligations which are not shown in the Table 7. The two main retirement systems managed by state entities, CalPERS and CalSTRS, each have substantial unfunded liabilities. See "PENSION TRUSTS." The state also has a substantial unfunded liability relating to postemployment healthcare benefits for state employee retirees. See "STATE FINANCES – Retiree Health Care Costs." In addition, the state has $30 billion of authorized and unissued long-term bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS."

THE 2013 BUDGET ACT

The 2013 Budget Act

The 2013-14 Budget, including the 2013 Budget Act which was enacted on June 27, 2013, provided a multi-year General Fund plan that was balanced. For the then current fiscal year, at the time of budget enactment, it projected a $1.1 billion reserve by year end, and continued to pay down budgetary debt from past years. General Fund revenues and transfers for fiscal year 2013-14 were projected at $97.1 billion, a decrease of $1.1 billion or 1.1 percent compared with revised estimates for fiscal year 2012-13. General Fund expenditures for fiscal year 2013-14 were projected at $96.3 billion, an increase of $0.6 billion or 0.6 percent compared with revised estimates for fiscal year 2012-13. See Table 1 above for summary information concerning the estimated fund balance for fiscal year 2013-14 as revised in the 2014-15 Budget.

As enacted, the 2013-14 Budget contained the major General Fund components and budget solutions described below. For a discussion of updated information for fiscal year 2013-14 as of the 2014 Budget Act, see "- Fiscal Year 2013-14 Revised General Fund Estimates in the 2014 Budget Act" for revised estimates as of the 2014 Budget Act.

- <u>Proposition 98</u> – The 2013-14 Budget provided Proposition 98 funding of $55.3 billion for fiscal year 2013-14, of which $39.1 billion was funded from the General Fund. Proposition 30 was premised on the need to reinvest in education. For the first time since the recession began in 2008, with the passage of Proposition 30, the 2013 Budget Act reinvested in, rather than cuts, education funding. The 2013-14 Budget repaid approximately $272 million in deferred payments to fund education programs and increased budget transparency.

In addition to revenues provided by Proposition 30, public schools and community colleges also benefited from the passage of Proposition 39. For fiscal year 2013-14, Proposition 39 raised approximately $928 million in General Fund revenues, which increased the Proposition 98 guarantee level by an estimated $558 million. Of this additional guarantee amount, $456 million was being used to fund energy efficiency related activities in public schools and community colleges. See "STATE FINANCES – Proposition 98 and K-14 Funding."

- <u>Higher Education</u> – The 2013-14 Budget included total funding of $25.4 billion for all major segments of Higher Education, including $13.1 billion from the General Fund and local property taxes for the California Community Colleges. The remaining funding was provided from state special and bond funds, student tuition and fee revenue, and other sources of income at the University of California, California State University, and the California Community Colleges. The 2013-14 Budget established the first-year investment in a multiyear stable funding plan for higher education.

Prior to fiscal year 2013-14, the state separately funded general obligation and lease revenue bond debt service for the University of California's ("UC") capital improvement projects. The 2013-14 Budget included a permanent shift of these appropriations into UC's budget, and authorized UC to pledge its General Fund appropriation, within limits, in addition to its other revenue sources, towards the issuance of its revenue bonds to finance its infrastructure needs instead of using proceeds of state general obligation bonds or State Public Works Board ("SPWB") lease revenue bonds. Any new capital expenditures were still subject to approval by the Administration and the Legislature, with limits on the amount that could be spent on capital expenditures from its General Fund appropriation.

- Health and Human Services – The 2013-14 Budget provided for total state funding for these programs of $46 billion, including $28.1 billion from the General Fund. The remaining funding was provided from special and bond funds.

As of the 2013 Budget Act, Medi-Cal, the state's Medicaid health care program for low-income families, served one out of every five Californians, and received 16 percent of the General Fund budget. As the state implements its commitment to federal health care reform, these amounts will increase. The 2013 Budget Act included $195.6 million from the General Fund to begin to pay for the federally required and optional expansion of coverage. See "– Health Care Reform" below.

- Prison Funding – The 2013 Budget Act provided for total state funding of $11.2 billion, including $8.9 billion from the General Fund, for the California Department of Corrections and Rehabilitation ("CDCR"). The CDCR total state operations costs were $9.1 billion and the remaining $2.1 billion support prison and jail infrastructure. SB 105, signed into law on September 12, 2013, appropriated an additional $315 million from the General Fund to CDCR in fiscal year 2013-14 for purposes of complying with the court-ordered reduction in prison population. See "STATE FINANCES – California Department of Corrections and Rehabilitation."

- Redevelopment Agencies – As described in "STATE FINANCES – Local Governments," legislation enacted in 2011 eliminated redevelopment agencies ("RDAs") and replaced them with locally organized successor agencies tasked with retiring the former RDAs' outstanding debts and other legal obligations. Elimination of RDAs will provide additional property tax funding for education, by capturing the RDA tax increment over and above the amounts needed to service existing debts of the RDAs. As of the 2013 Budget Act, the elimination of RDAs was projected to offset $1.5 billion of Proposition 98 costs in fiscal year 2013-14, of which $824 million was from property taxes which were distributed to local school districts, and $707 million was from distribution of excess RDA cash.

- Other Revenues and Transfers – The Administration regularly monitors the needs of special funds to ensure that their purposes are not hindered by loans to the General Fund, and may defer (or accelerate) the repayments of such loans based on its review of the needs of the special funds. The 2013-14 Budget reflected a delay in repayment of approximately $1 billion of loans scheduled for repayment in fiscal year 2013-14 (as projected in the 2012 Budget Act). Additionally, the 2013 Budget Act authorized a $500 million loan to the General Fund from the Greenhouse Gas Reduction Fund (Cap and Trade). Both of these actions were reflected in the calculation of Deferred Obligations during fiscal year 2013-14. See "CURRENT STATE BUDGET – Cap and Trade Program."

- Health Care Reform – With the coming implementation of the federal Affordable Care Act ("ACA"), health care costs will be an increasingly important element of the state budget. The 2013-14 Budget included $195.6 million for costs relating to implementation of the ACA. General Fund net costs of expanded eligibility and enhanced benefits under health care reform are estimated to increase to approximately $700 million in fiscal years 2014-15 and 2015-16 and they are included in the multi-year projection. Actual costs could be materially higher, as the program is implemented. For more detailed information about the state's plans for implementation of the ACA. See "STATE FINANCES – Health and Human Services - Health Programs – Health Care Reform."

• Unemployment Insurance Interest Repayment – For the last two fiscal years, the state had internally loaned money from special funds to pay the interest on money borrowed from the federal government to fund unemployment insurance payments. In fiscal year 2013-14, the interest payment of $261.5 million was paid from the General Fund. (The General Fund is not liable for repayment of the principal of the federal loan.) See "STATE FINANCES – Unemployment Insurance."

Fiscal Year 2013-14 Revised General Fund Estimates in the 2014-15 Budget

The 2014-15 Budget revised various General Fund estimates involving the beginning balance, revenues, and expenditures for fiscal year 2013-14. The 2014-15 Budget projects, based on the various assumptions and proposals it contains, a positive General Fund reserve balance of $2.948 billion at the end of fiscal year 2013-14, compared to the positive balance of $1.071 billion estimated at the end of the 2013-14 fiscal year when the 2013-14 Budget was enacted.

This increase of $1.9 billion in the General Fund reserve for fiscal year 2013-14 is based on the following (note that totals may not add because of rounding and that these figures are preliminary estimates subject to adjustment after receipt of additional information concerning revenues and expenditures for the year):

1. Net gain of $1.6 billion in beginning fund balance for fiscal year 2013-14 related to activities in prior fiscal years. This net gain in the starting balance for fiscal year 2013-14 is primarily due to the following components:

• $1.4 billion increase in beginning balance due to higher than forecasted major revenues fiscal year 2012-13;

• $1.2 billion decrease in beginning balance due to higher than expected Proposition 98 spending related to the higher revenues mentioned above;

• $0.3 billion increase in beginning fund balance due to increase in fiscal year 2012-13 encumbrances (resulting in lower spending). This is offset by a higher reserve for encumbrances, resulting in a net zero to the reserve.

• $0.2 billion decrease in the beginning fund balance due to an increased General Fund transfer to the Mental Health Services Fund (for the millionaire tax settle-up) for the 2012-13 fiscal year;

- $0.5 billion net increase in beginning fund balance due to a net gain in overall revenues from prior years before 2012-13;

- $0.4 billion decrease in beginning fund balance due to a Quality Education Investment Act payment for prior years to be appropriated in 2014-15;

- $0.4 billion increase in the beginning fund balance due to Health and Human Services savings in 2011-12 and prior fiscal years; and

- $0.9 billion increase in beginning fund balance due to various other past year and prior year adjustments.

2. General Fund revenues and transfers for fiscal year 2013-14 are projected at a revised $102.2 billion, which is $5.1 billion higher than the estimate of $97.1 billion when the 2013-14 Budget was enacted. The increase is based on the following major factors:

- $5.7 billion increase in personal income tax revenue,

- $0.4 billion decrease in corporation tax revenue; and,

- $0.2 billion decrease in sales and use tax revenue.

3. General Fund expenditures for fiscal year 2013-14 are projected at $100.7 billion, an increase of $4.4 billion compared with the estimate of $96.3 billion when the 2013-14 Budget was enacted. The net increase in expenditures is mainly attributable to the following:

- $3.7 billion increase in Proposition 98 expenditures; and

- $0.8 billion increase in Non-Proposition 98 expenditures, mainly because of $0.8 billion increased spending in the Health and Human Services area ($0.6 billion related to Medi-Cal growth), $0.4 billion increased spending in the Department of Corrections and Rehabilitation (prison population), and $0.4 billion spending decreases in various other areas.

4. The reserve for encumbrance increased by $0.3 billion since the enactment of the 2013-14 Budget.

CASH MANAGEMENT

Normal Cash Management Tools

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 (see "– 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. RANs have been issued in all but one fiscal year since the mid-1980s and have always been paid at maturity. 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 1992, 1993, 1994, 2002 and 2003. See "STATE FINANCES – State Warrants – Reimbursement Warrants" for more information on RAWs.

RANs and RAWs are both payable from any "Unapplied Money" in the General Fund of the state 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) 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 California Government Code Sections 16310 or 16418; and (iv) 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 FINANCES – State Warrants."

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"). Total borrowing from Special Funds must be approved 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. On February 3, 2012, the Governor signed SB 95 (Chapter 1, Statutes of 2012, "SB 95"), a statute which clarified that certain transportation funds and other funds were available for short-term cash management borrowing, which provided an estimated $865 million of additional capacity at certain times of the year. The state has historically made extensive use of its internal borrowing capability to provide cash resources to the General Fund. The PMIB has authorized the internal borrowing of up to $24.434 billion for the period ending September 30, 2014. This authorization is renewed quarterly.

One fund from which moneys may be borrowed to provide additional cash resources to the General Fund is the BSA, a reserve fund established in 2004 by Proposition 58. However, during fiscal years 2008-09 to 2013-14, there were no funds available in the BSA. The BSA will be funded at an estimated $1.606 billion in fiscal year 2014-15. See "STATE FINANCES – Budget Reserves – Budget Stabilization Account." The state also may transfer funds into the General Fund from the state's SFEU, which is not a Special Fund. See "STATE FINANCES – Inter-Fund Borrowings" for a further description of this process.

External Borrowing. As noted above, issuance of RANs is a normal part of the state's annual cash management program, which have always been repaid when due. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Cash Management Borrowings."

Cash Management in Fiscal Year 2013-14

The state's cash management plan in fiscal year 2013-14 consisted primarily of internal borrowing from special funds and issuance of RANs in the amount of $5.5 billion. In addition, pursuant to legislation enacted in fiscal year 2012-13, within fiscal year 2013-14 a payment of $250 million to CSU and a payment of $500 million to UC were planned to be deferred. Such deferrals were at the discretion of the Director of Finance and were to be repaid in May or June of 2014. The CSU agreed that in lieu of a payment deferral it would deposit a like amount into a fund in the State Treasury which could be borrowed by the General Fund. The deferral to the UC was repaid as scheduled. The state's 2013-14 RANs were repaid as scheduled in May and June of 2014.

Cash Management in Fiscal Year 2014-15

The state entered the 2014-15 fiscal year in the strongest cash position since the start of the recession in 2008. For the first time since 2007-08, the state began the current fiscal year without any internal borrowings, and a positive cash balance in the General Fund of $1.922 billion. The state currently expects to manage its cash flow needs for 2014-15 entirely through the use of internal borrowing and an external RANs borrowing of $2.8 billion. This is the smallest RAN since 2006-07, and compares with RANs of $10 billion in 2012-13 and $5.5 billion in 2013-14.

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 in 2014-15.

- 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 "STATE FINANCES – 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 FINANCES – State Warrants" for an explanation of registered warrants.)

- Legislation was enacted in fiscal year 2011-12 to increase borrowable resources through creation of the State Agency Investment Fund ("SAIF") to allow state entities whose monies are not required by law to be deposited in the Pooled Money Investment Account ("PMIA"), to make deposits of at least $500 million into this new borrowable fund within the PMIA. The California State University and University of California systems deposited a total of $1.7 billion into the SAIF on September 26, 2011, which remained on deposit until April 2013.

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 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

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 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 and interest on such bonds have been paid. See "STATE FINANCES – 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 bond programs are the ERBs, supported by a special sales tax, and veterans general obligation bonds, supported by mortgage repayments from housing loans made to military veterans. See "– Economic Recovery Bonds."

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 (except as already authorized by ERBs, as described below).

As of July 1, 2014, the state had outstanding $79,802,420,000 aggregate principal amount of long-term general obligation bonds, of which $75,714,125,000 were payable primarily from the state's General Fund, and $4,088,295,000 were "self-liquidating" bonds payable first from other special revenue funds. As of July 1, 2014, there were unused voter authorizations for the future issuance of $27,061,831,000 of long-term general obligation bonds, some of which may first be issued as commercial paper notes (see "General Obligation Commercial Paper Program" below). Of this unissued amount, $706,210,000 is for general obligation bonds payable first from other revenue sources. See the table "Authorized and Outstanding General Obligation Bonds" following the caption "STATE DEBT TABLES."

On June 3, 2014, voters of the state approved a ballot measure which, together with its authorizing legislation, cancelled $600 million of authorization for general obligation bonds to finance home mortgages for military veterans, and replaced it with $600 million of authorization for general obligation bonds to finance rental housing programs for veterans. Unlike the home mortgage bonds, which were expected to be repaid from mortgage repayments, with the state General Fund making up any short-fall if the mortgage payments were insufficient, the rental housing bonds are payable directly and solely from the state General Fund.

A ballot measure will be submitted to the voters at the statewide election in November 2014 to approve the issuance of a total of $7.545 billion in general obligation bonds for a wide variety of purposes relating to California's water supply systems, water quality and water infrastructure improvements. Of this amount, $7.120 billion would be new bond authorization, and the balance of $425 million would be a reallocation of unused authority from previously-approved bond measures. Additional bond measures may be included on future election ballots, but any proposed bond measure must first be approved by a 2/3 vote of the Legislature or placed on the ballot through the initiative process.

Variable Rate General Obligation Bonds

The general obligation bond law permits the state to issue as variable rate indebtedness up to 20 percent of the aggregate amount of long-term general obligation bonds outstanding. These bonds are described generally in the following table and represent about 4.4 percent of the state's total outstanding general obligation bonds. With respect to the $850,000,000 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, ultimately reaching either 11 percent on the 181st day or 10 percent on the 180th day, as applicable. Furthermore, with respect to the $100,000,000 of these bonds with a mandatory tender date of May 1, 2015, until such bonds are remarketed or refunded, they will be subject to quarterly mandatory redemptions of $5 million each over a period of five years commencing six months after the initial unsuccessful remarketing.

Type of Bonds	Outstanding Principal Amount ($000) as of July 1, 2014	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 May 1, 2015, December 1, 2016, December 1, 2017, 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	450,000	Fixed Term Rate to Respective Mandatory Tender Dates	None	Mandatory Tenders on December 1,2016 and December 1, 2017
ERBs	110,370	Daily VRDO	Letter of Credit	Letter of Credit expires December 12, 2014
TOTAL	$3,532,160			

(a) See "Bank Arrangements."
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. The state has no auction rate bonds outstanding.

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 issues, as commercial paper notes. Commercial paper notes may be renewed or may be refunded by the issuance of long-term 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 of 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" and are not included in the figures provided above in the section "General Obligation Bonds." A total of $1.725 billion in principal amount of commercial paper notes is now authorized under agreements with various banks. See the "BANK ARRANGEMENTS" table for a list of the credit agreements supporting the commercial paper program. In addition, the state expects to enter into an agreement providing for the private purchase by a bank from time to time of commercial paper notes in an aggregate principal amount outstanding at any one time of not to exceed $500 million, which would increase the authorized principal amount of commercial paper notes that can be outstanding at any one time to $2.225 billion. As of July 1, 2014, there was $577,690,000 principal amount of commercial paper notes outstanding.

Enhanced Transportation Bonds

"Self-liquidating" general obligation bonds have a dedicated revenue source which is expected to pay all of the debt service, but if the revenue source is for some reason insufficient, the General Fund pays the debt service on the same priority level as all other general obligation bonds. In 2013 the Legislature enacted a bill (Chapter 35, Statutes of 2013, "SB 85") which authorized an additional "self-liquidating" general obligation bond, similar to Veterans Bonds (which use mortgage repayments) and ERBs (dedicated sales tax). The new program, called "Enhanced Transportation Bonds," would use Vehicle Weight Fees ("VWF") charged on commercial trucks and vans to pay the debt service on certain general obligation bonds for transportation purposes previously approved by voters in 2006, with the state's general obligation pledge as a secondary source of payment. VWF are an excise tax, not part of the General Fund, and have totaled about $900 million to $1 billion per year in the recent past, although there can be no assurance of future VWF amounts. VWF moneys are currently transferred to the General Fund to offset the debt service costs of transportation bonds; SB 85 would authorize the reversal of the order in which funds are used. The new program authorized under SB 85 would not have any effect on any general obligation transportation bonds already issued. The State Treasurer currently has no plans to issue Enhanced Transportation Bonds.

Bank Arrangements

In connection with the letters of credit obtained by the state 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 the table titled "BANK ARRANGEMENTS" which immediately follows the end of the text of this APPENDIX A, prior to "STATE DEBT TABLES." 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 repay any drawings (including drawings resulting from any failed remarketings) on the respective letters of credit or other credit enhancement to which such credit agreements relate. To the extent that VRDOs or CP cannot be remarketed over an extended period (whether due to reductions in 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 the principal repayment period would generally be shorter (typically less than five years) than the repayment period otherwise applicable to the VRDOs or CP. In addition, after the occurrence of certain events of default as specified in a credit agreement, payment of the related VRDOs or CP may be further accelerated.

Lease-Revenue Obligations

In addition to general obligation bonds, the state acquires and constructs capital facilities through the use of lease-revenue borrowing (also referred to as lease-purchase borrowing). Such borrowing must be authorized by the Legislature in a separate act or appropriation. Under these arrangements, the 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 California State University or the Judicial Council under a long-term lease that provides the source of payment of the debt service on the lease-revenue bonds. In some cases, there was not a separate bond issue, but a trustee directly created certificates of participation in the state's lease obligation, which were then marketed to investors. 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 this 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. The state had $11,266,240,000 in lease-revenue obligations outstanding as of July 1, 2014. 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 SPWB, which is authorized to sell lease-revenue bonds, had approximately $4.1 billion of authorized and unissued bonds as of July 1, 2014.

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, 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 California State University and University of California systems), housing, health facilities and pollution control facilities. State agencies and authorities had approximately $58.5 billion aggregate principal amount of revenue bonds and notes which are non-recourse to the General Fund outstanding as of June 30, 2014, as further described in the table "State Agency Revenue Bonds and Conduit Financing" under "STATE DEBT TABLES."

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 SPWB 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 ("IRS") 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 $13.54 billion of BAB general obligation ("GO") bonds and the SPWB issued $551 million of BAB lease-revenue bonds. $149.62 million of the SPWB BABs were redeemed in November 2013. The aggregate amount of the subsidy payments to be received from fiscal year 2014-15 through the maturity of these bonds (mostly 20 to 30 years) based on the 35% rate is approximately $7.9 billion for the general obligation BABs and $209 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 reduction of the BAB subsidy payment is presently scheduled to continue until 2024, although Congress can terminate or modify it sooner, or extend it. Each BAB subsidy payment was reduced by 8.7 percent for the federal 2013 fiscal year (ended September 30, 2013) and 7.2 percent for federal 2014 fiscal year (starting October 1, 2013). This will result in a reduction of approximately $26.15 million in subsidies from a total of $363.25 million expected to be received during Federal Fiscal Year 2014-15. (The sequestration percentage is recalculated for each fiscal year.) None of the BAB subsidy payments are pledged to pay debt service, so this reduction will not affect the state's ability to pay all of its GO and SPWB BABs on time, nor have any material impact on the state's General Fund.

Future Issuance Plans; General Fund Debt Ratio

Since 2006, a significant amount of new general obligation bonds and lease revenue bonds have been authorized by voters and/or the Legislature. These authorizations led to a substantial increase in the amount of General Fund supported debt outstanding, from $44.85 billion as of July 1, 2006 to $86.98 billion as of July 1, 2014, while still leaving current authorized and unissued bonds of about $30.46 billion.

In calendar years 2009 and 2010, over $35.07 billion of new money general obligation bonds, lease-revenue bonds and Proposition 1A bonds were sold. Following the record bond issuance levels in these years, bond issuance for new money general obligation bonds has substantially decreased as funding needs have declined and departments work to manage their existing bond cash balances. In the first half of calendar year 2014, $2.96 billion of new money general obligation and lease revenue bonds were sold, and $795 million of refunding general obligation and lease revenue bonds were sold.

Based on estimates from the State Treasurer's Office, approximately $5.19 billion of new money general obligation bonds (some of which may initially be in the form of commercial paper notes) and approximately $488.6 million of lease-revenue bonds will be issued in fiscal year 2014-15. 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 2014 Budget Act and bond issuance estimates referred to in the preceding paragraph, the General Fund Debt Ratio is estimated to equal approximately 7.19 percent in fiscal year 2014-15 and 7.08 percent in fiscal year 2015-16.

The General Fund Debt Ratio is calculated based on actual gross debt service, 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 $1.48 billion for fiscal year 2014-15 and $1.57 billion for fiscal year 2015-16. Including the estimated offsets reduces the General Fund Debt Ratio to 5.81 percent in fiscal year 2014-15 and 5.69 percent in fiscal year 2015-16. 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 2009-10 THROUGH 2013-14" under "STATE DEBT TABLES" for certain historical ratios of debt service to General Fund receipts.

Economic Recovery Bonds

The California Economic Recovery Bond Act ("Proposition 57") was approved by the voters on March 2, 2004. Proposition 57 authorized the issuance of up to $15 billion in Economic Recovery Bonds (ERBs) to finance the negative General Fund reserve balance as of June 30, 2004, and other General Fund obligations undertaken prior to June 30, 2004. Repayment of the ERBs is secured by a pledge of revenues from a one-quarter cent increase in the state's sales and use tax (the "special sales tax") that became effective July 1, 2004. In addition, as voter-approved general obligation bonds, the ERBs are secured by the state's full faith and credit and payable from the General Fund in the event the dedicated sales and use tax revenue is insufficient to repay the bonds.

The entire authorized amount of ERBs was issued in three sales, in May and June 2004, and in February 2008. No further ERBs can be issued under Proposition 57, except for refunding bonds. The state issued refunding ERBs in 2009 to restructure the program in response to a drop in taxable sales caused by the recession, and in 2011 for debt service savings.

Three different sources of funds are required to be applied to the early retirement (generally by purchase or redemption) of ERBs: (i) all proceeds from the dedicated special sales tax in excess of the amounts needed, on a semi-annual basis, to pay debt service and other required costs of the bonds, (ii) all proceeds from the sale of specified surplus state property, and (iii) fifty percent of each annual deposit, up to $5 billion in the aggregate, of deposits in the BSA (see "THE BUDGET PROCESS – Constraints on the Budget Process – Balanced Budget Amendment (Proposition 58)"). As of June 30, 2014, funds from these sources have been used for early retirement of approximately $5.36 billion of bonds during fiscal years 2005-06 through 2013-14, including $472 million which was transferred from the BSA in fiscal year 2006-07 and $1.023 billion transferred from the BSA in fiscal year 2007-08.

The state accumulated approximately $408 million in excess special sales tax from January 2 through July 1, 2014. The state also collected approximately $58 million in proceeds from the sale of state surplus property in July 2014. The state used these moneys to retire ERBs in August and September 2014.

The Governor suspended the BSA transfers in each of the fiscal years 2008-09 through 2013-14 due to the condition of the General Fund. The 2014-15 Budget resumes the BSA transfer in the 2014-15 fiscal year and provides $1.606 billion of additional funds towards the early retirement of ERBs. The Administration estimates that all outstanding ERBs will be effectively retired by May 2015.

Tobacco Settlement Revenue Bonds

In 1998, the state signed a settlement agreement (the "Master Settlement Agreement" or "MSA") with the four major cigarette manufacturers (the "participating manufacturers" or "PMs"). Under the MSA, the PMs agreed to make payments to the state in perpetuity, which at the time were predicted to total approximately $25 billion (subject to adjustments) over the first 25 years. 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. The specific amount to be received by the state and such local governments is subject to adjustment under the MSA, including reduction of the PMs' payments for decreases in cigarette shipment volumes by the PMs, payments owed to certain "Previously Settled States," and certain other types of offsets.

State law enacted in 2002 (the "Tobacco Securitization Law") authorized the establishment of a special purpose trust to purchase the tobacco assets and to issue revenue bonds secured by the tobacco settlement revenues received beginning in the 2003-04 fiscal year. Legislation in 2003 amended the Tobacco Securitization Law to authorize 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.

In 2003, two separate sales of these assets financed with revenue bonds (the "2003 Bonds") produced about $4.75 billion in proceeds which were transferred to the General Fund. In 2005 and 2007, the state refunded all of the original 2003 Bonds, generating additional proceeds of approximately $1.783 billion, which were also transferred to the General Fund. The credit enhancement mechanism was applied to only the second 2003 sale of bonds and was continued when those bonds were refunded in 2005 and in 2013 (the "2005 Bonds" and the "2013 Bonds"). This credit enhancement mechanism only applies to the outstanding principal amount of approximately $2.7 billion of 2005 and 2013 Bonds.

Tobacco settlement revenue bonds are neither general nor legal obligations of the state or any of its political subdivisions, and neither the faith and credit, nor the taxing power, nor any other assets or revenues of the state or of any political subdivision, shall be pledged to the payment of any such 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 2005 and 2013 Bonds, and certain other available amounts, including reserve funds, are depleted. Since the issuance of the 2005 Bonds, this appropriation has been requested and approved by the Legislature, to be utilized in the event tobacco settlement revenues and other available moneys are not sufficient to pay debt service. However, use of the appropriated moneys has never been required.

One of the reserve funds relating to the 2005 Bonds was used to make required debt service interest payments on the 2005 Bonds in 2011 and 2012 in part due to the withholding related to the declining tobacco consumption and disputes over declining PM market share. The total amount of the draws was approximately $7.94 million. In April 2013 the reserve fund was replenished in full following the disbursements of the non-participating manufacturer settlement funds and receipt of the scheduled tobacco settlement revenues. As of June 24, 2014, the amount of the two reserve funds relating to the 2005 Bonds was $246.4 million. If, in any future year tobacco settlement revenues are less than required debt service payments on the 2005 and 2013 Bonds in such year, additional draws on the reserve funds will be required. Future revenues in excess of debt service requirements, if any, will be used to replenish the reserve funds of the bonds. The state General Fund is not obligated to replenish the reserve funds, nor to request an appropriation to replenish the reserve funds.

Although the state cannot predict the amount of future tobacco settlement revenues, if declines in tobacco consumption continue, or if tobacco settlement revenues are unavailable in currently expected amounts due to future disputes with PMs or for other reasons, the amount of tobacco settlement revenues and other available moneys, including the reserve funds, may at some point in the future be insufficient to pay debt service on the 2005 and 2013 Bonds, and the Governor would be required to request an appropriation from the General Fund. However, the Legislature is not obligated to make an appropriation.

Cash Management Borrowings

As part of its cash management program, the state has regularly issued short-term obligations to meet cash management needs. See "CASH MANAGEMENT."

The following table shows the amount of RANs issued in the past five fiscal years and the current fiscal year.

TABLE 8
State of California Revenue Anticipation Notes Issued
Fiscal Years 2009-10 to 2014-15

(Dollars in Billions)

Fiscal Year	Type	Principal Amount	Date of Issue	Maturity or Redemption Date
2009-10	Interim Notes	$1.5	August 27, 2009	September 29, 2009*
	Notes Series A-1	2.825	September 29, 2009	May 25, 2010
	Notes Series A-2	5.975	September 29, 2009	June 23, 2010
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

Indirect, Nonpublic or Contingent Obligations

Flood Litigation Judgment. In 2005, the state settled a lawsuit arising from liability for past flood damages through a stipulated judgment in the amount of $428 million, which provided for the state to make annual payments of $42.8 million, plus interest, for 10 years; the payments are subject to annual appropriation by the Legislature. The Legislature has included the required annual installment in each budget act since the settlement was approved. This matter is not treated as a "debt" of the state for any legal or constitutional purposes. The state understands that its annual installment payments have been pledged to secure certain debt instruments. The 2014 Budget Act includes $45 million for the required annual installment and concludes the fulfillment of the state's obligation under the 2005 settlement.

Unemployment Insurance Fund Borrowing. As described in "STATE FINANCES – Unemployment Insurance," commencing in fiscal year 2011-12, the state has been required to pay interest on loans made by the federal government to the state Unemployment Insurance ("UI") Fund. The principal amount of these loans was about $9.7 billion at the end of 2013, and is projected to be about $8.8 billion at the end of 2014. The September 2013 interest payment of $259 million was paid by the General Fund. The 2014 Budget Act provides $218.5 million from the General Fund to make the 2014 interest payment.

Office of Statewide Health Planning and Development Guarantees. Pursuant to a law created in 1969, the Office of Statewide Health Planning and Development of the State of California ("OSHPD") insures loans and bond issues for financing and refinancing of construction and renovation projects for nonprofit and publicly-owned healthcare facilities. This program (commonly called "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. All claims on insured loans to date have been paid from the Fund.

As of April 30, 2014, OSHPD insured 110 loans to nonprofit or publicly owned health facilities throughout California with an aggregate par amount of approximately $1.570 billion. The cash balance of the Fund was approximately $168.1 million as of April 30, 2014. OSHPD engaged Oliver Wyman Actuarial Consulting, Inc. to perform the biennial actuarial study of the Fund as of June 30, 2010, and the study was completed in August 2011 (the "2010 actuarial study"). Based upon a number of assumptions, the 2010 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 2039-40. Even under the "most pessimistic scenario," the 2010 actuarial study found that there was a 70 percent likelihood that the Fund's reserves as of June 30, 2010 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, 2010 would protect against any General Fund losses until at least fiscal year 2016-17. An updated actuarial study for the period ended June 30, 2012 is in process. There can be no assurances that the financial condition of the Fund has not materially declined since the 2010 actuarial study. More information on the program can be obtained from OSHPD's website.

Equipment Lease/Purchase Program. The state Department of General Services operates a centralized program which allows state departments to acquire equipment, software or services under financing programs with approved vendors. The state departments make annual payments for the equipment from their support budgets, which are subject to annual appropriation by the Legislature. If for any reason the annual payments are not appropriated, the state department is obligated to return the equipment to the vendor. These contracts are represented as capital leases in the state's financial statements. As of July 1, 2014, the aggregate total under this program was approximately $127.9 million.

STATE FINANCES

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 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 revenue sources of the state. For additional financial data relating to the General Fund, see the financial statements incorporated in or attached to this APPENDIX A. See also "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.

Budget Reserves

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.

The legislation creating the SFEU (Government Code Section 16418) also contains a continuous appropriation authorizing the State Controller to transfer the unencumbered balance in the General Fund to the SFEU, as of the end of each fiscal year. However, if, at the end of any fiscal year in which it has been determined that there are revenues in excess of the amount that may be appropriated, as defined in subdivision (a) of Section 2 of Article XIII B of the state Constitution, this 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. For a further description of Article XIII B, see "– 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 appropriations contained in Government Code Section 16418, 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 (k) in Table 4 for information concerning the recent balances in the SFEU and projections of the balances for the previous and current fiscal years. As in any year, the Budget Act and related trailer bills are not the only pieces of legislation which appropriate funds. Other factors, including re-estimates of revenues and expenditures, existing statutory requirements and additional legislation introduced and passed by the Legislature may impact the fiscal year-end balance in the SFEU.

Budget Stabilization Account

Proposition 58, approved in March 2004, created the BSA as a second budgetary reserve. Beginning with fiscal year 2006-07, a specified portion of estimated annual General Fund revenues (reaching a ceiling of 3 percent by fiscal year 2008-09) will be transferred by the State Controller into the BSA no later than September 30 of each fiscal year unless the transfer is suspended or reduced as described below. These transfers will continue until the balance in the BSA reaches $8 billion or 5 percent of the estimated General Fund revenues for that fiscal year, whichever is greater. The annual transfer requirement will go back into effect whenever the balance falls below the $8 billion or the 5 percent target. The annual transfers can be suspended or reduced for a fiscal year by an executive order issued by the Governor no later than June 1 of the preceding fiscal year. Proposition 58 also provides that one-half of the annual transfers shall be used to retire ERBs, until a total of $5 billion has been used for that purpose. A total of $1.495 billion of the $5 billion amount has been applied to the retirement of ERBs. (See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Economic Recovery Bonds").

Since 2007, each Budget Act has provided the Director of Finance the authority to transfer moneys from the BSA back into the General Fund in an amount determined by the Director of Finance to be sufficient to ensure there is a prudent General Fund balance. Using this authority, the Director of Finance ordered the transfer of the entire balance of $1.495 billion from the BSA to the General Fund to address a fiscal emergency proclaimed by the Governor on January 10, 2008. Once moneys are transferred out of the BSA, pursuant to this authority, they will not be replenished by a future fiscal year's annual transfer unless the Legislature, by statute, directs additional funds to be transferred from the General Fund into the BSA. Separate from the foregoing process for a budgetary transfer, the BSA may be used to make temporary cash flow loans to the General Fund, which must be repaid when the General Fund has available cash, as described under "– Inter-Fund Borrowings."

Governor Brown suspended the General Fund transfer to the BSA in fiscal years 2011-12, 2012-13, and 2013-14. In addition, the previous Governor suspended the General Fund transfer to the BSA for fiscal years 2008-09 through 2010-11.

The 2014 Budget Act provides for a transfer of $3.213 billion to the Budget Stabilization Account, half of which ($1.606 billion) to be used to retire Economic Recovery Bonds, with the other half remaining in the BSA as a "rainy day" budgetary reserve.

The Legislature placed a constitutional amendment on the November 2014 ballot ("Proposition 2") for a rainy day fund that requires both paying down liabilities and saving for a rainy day by making specified deposits into the BSA (this replaces the previous "rainy day" constitutional amendment proposal, Assembly Constitutional Amendment 4, Statutes of 2010). In response to the volatility of capital gains revenues and the resulting boom-and-bust budget cycles, the Proposition 2 takes into account the state's heavy dependence on the performance of the stock market and the resulting capital gains. Upon voter approval, Proposition 2 would, beginning with the 2015-16 fiscal year:

- Require deposits into the BSA whenever capital gains revenues rise to more than 8 percent of General Fund tax revenues. In addition, 1.5 percent of annual General Fund revenues will be set aside each year.

- Require half of each year's deposit for the next 15 years be used for supplemental payments to the "wall of debt" or other long-term liabilities. After that time, at least half of each year's deposit would be saved, with the remainder used for supplemental debt payments or savings.

- Set the maximum size to be reserved in the BSA at 10 percent of General Fund revenues.

- Allow the withdrawal of funds 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 could be withdrawn in the first year of a recession would be limited to half of the fund's balance.

- Require that the state provide a multiyear budget forecast to help better manage the state's longer term finances.

- Create a Proposition 98 reserve, whereby spikes in funding would be saved for future years. This would smooth school spending and thereby minimize future cuts. This reserve would make no changes to the Proposition 98 calculations, and it would not begin to operate until the existing maintenance factor is fully paid off.

Under current projections, Proposition 2 would result in over $3 billion in savings and $3 billion in additional debt payments in its first three years of operation. If capital gains surge above normal levels during that period, even more money would go into the BSA.

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. In general, when moneys transferred to the General Fund in any fiscal year from any special fund pursuant to the inter-fund borrowing mechanism exceed 10 percent of the total additions to such special fund as shown in the statement of operations of the preceding fiscal year as set forth in the Budgetary/Legal Basis Annual Report of the State Controller, interest must be paid on such excess at a rate determined by the PMIB to be the current earning rate of the PMIA. This provision does not apply to temporary borrowings from the BSA or other accounts within the General Fund.

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 1 and EXHIBIT 2 to APPENDIX A.

Any determination of whether a proposed borrowing from one of the special funds is permissible must be made with regard to the facts and circumstances existing at the time of the proposed borrowing. The Attorney General has identified certain criteria relevant to such a determination. For instance, amounts in the special funds eligible for inter-fund borrowings are legally available to be transferred to the General Fund if a reasonable estimate of expected General Fund revenues, based upon legislation already enacted, indicates that such transfers can be paid from the General Fund promptly if needed by the special funds or within a short period of time if not needed. In determining whether this requirement has been met, the Attorney

General has stated that consideration may be given to the fact that General Fund revenues are projected to exceed expenditures entitled to a higher priority than payment of internal transfers, i.e., expenditures for the support of the public school system and public institutions of higher education.

Enactment of Proposition 22 on November 2, 2010 prohibited future inter-fund borrowing from certain transportation funds. However, legislation (Chapter 1, Statutes of 2012 – "SB 95") 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 2010-11 through 2013-14 and estimates the amount currently available based on the 2014-15 Budget. See EXHIBIT 1 and EXHIBIT 2 to APPENDIX A. The amount of internal borrowable resources fluctuates throughout the year.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

TABLE 9
Internal Borrowable Resources
(Cash Basis)

(Dollars in Millions)

	June 30					
	2010	**2011**	**2012[(a)]**	**2013**	**2014**	**2015[(b)]**
Available Internal Borrowable Resources	$18,680.5	$18,193.3	$20,824.3	$21,215.3	$23,761.5	$24,801.9
Outstanding Loans						
From Special Fund for Economic Uncertainties	435.9	1,190.8	474.9	948.2	0	449.7
Budget Stabilization Account						1,606.4
From Special Funds and Accounts	9,486.2	6,973.7	9,118.4	1,486.7	0	3,593.4
Total Outstanding Internal Loans	(9,922.1)	(8,164.5)	(9,593.3)	(2,434.9)	0	(5,649.5)
Unused Internal Borrowable Resources	$8,758.4	$10,028.8	$11,231.0	$18,780.4	$23,761.5	$19,152.4

(a) Increase in internal borrowable resources at June 30, 2012 is largely a result of the SAIF program, which was in effect from September 2011 to April 2013. See "CASH MANAGEMENT – Cash Management Tools."

(b) Projected as of 2014 Budget Act.

Source: Years ended June 30, 2010 through June 30, 2014: State of California, Office of the State Controller.
Year ending June 30, 2015: State of California, Department of Finance.

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 below, 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 "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Cash Management Borrowings." 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 "STATE FINANCES – Budget Reserves – Special Fund for Economic Uncertainties" and "Inter-Fund Borrowings."

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 techniques that could provide Unapplied Money to the General Fund. See "CASH MANAGEMENT."

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 issued approximately $2.6 billion of registered warrants to pay certain obligations of the state not having payment priority under law commencing on July 2, 2009, all of which were called for early redemption on September 4, 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 in July and August 2009.) The issuance of the registered warrants permitted the state to pay Priority Payments with regular warrants which could be cashed.

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 warrants (see "– Refunding 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 an economic recession, and the state incurred budget deficits. The state last issued reimbursement warrants in June 2002 and in June 2003.

Refunding 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 warrants to refund the prior, maturing reimbursement warrants. Proceeds of such refunding warrants must be used exclusively to repay the maturing warrants. In all other respects, refunding warrants are treated like reimbursement warrants, as described above.

Sources of Tax Revenue

The following is a summary of the state's major tax revenues and tax laws. Further information on state revenues is contained under "CURRENT STATE BUDGET," and "STATE FINANCES – Recent Tax Receipts." In fiscal year 2012-13, approximately 93 percent of the state's General Fund revenues and transfers were derived from personal income taxes, corporation taxes, and sales and use taxes. See Table 16 titled "Comparative Yield of State Taxes – All Funds, Fiscal Years 2008-09 through 2013-14" for a summary of the actual and projected sources of the state's tax revenue for those fiscal years.

Personal Income Tax

The California personal income tax is closely modeled after the federal income tax law. 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 proceeds from such tax are dedicated to the Mental Health Services Fund. The personal income tax is 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 much like the federal AMT. The personal income tax structure is considered to be highly progressive. For example, the Franchise Tax Board indicates that the top 1 percent of taxpayers paid 50.6 percent of the total personal income tax in tax year 2012.

The 2014-15 Budget revenue projections include the revenue expected from Proposition 30 (The Schools and Local Public Safety Protection Act of 2012) passed by the voters on November 6, 2012. This measure provides for an increase in the personal income tax rate of one percent for joint filing taxpayers with income above $500,000 and equal to or below $600,000; two percent increase for incomes above $600,000 and equal to or below $1,000,000; and three percent increase for incomes above $1,000,000. Tax rates for single filers will start at incomes one-half those for joint filers. These additional rates will remain in effect for seven years, commencing for calendar year 2012. The Administration estimates that the additional revenue from the addition of the three new tax brackets was $3.4 billion in fiscal year 2011-12, $5.5 billion in fiscal year 2012-13, and will be $5.7 billion in fiscal year 2013-14, and $6 billion in 2014-15.

The 2014-15 Budget reflects assumptions regarding the behavioral impacts of federal tax law changes. The federal Economic Growth and Tax Relief Reconciliation Act of 2001 reduced taxes for dividend income, capital gains, and other income. These tax reductions were set to expire after 2010. However, late in 2010, they were extended through 2012. In addition, a 3.8 percent surtax on specified unearned income went into effect on January 1, 2013. For the 2014-15 Budget, the Department of Finance made assumptions that in 2012 some taxpayers would respond to the potential rate changes by accelerating approximately 25 percent of projected 2013 capital gains into 2012. It was also assumed that a portion of 2013 dividends and wages were accelerated to 2012, thereby increasing receipts in fiscal year 2012-13, but reducing income tax receipts for fiscal year 2013-14. While federal tax cuts expired for high income earners (married filers over $450,000) but were extended for other taxpayers, because Congress did not act until January 2013, it is expected that the income shifts that were assumed in the forecast actually occurred. See "RECENT DEVELOPMENTS – Recent Tax Receipts." There can be no assurance that acceleration of income into 2012 was not higher or lower than assumed, which could impact revenues in fiscal year 2013-14 negatively or positively.

TABLE 10
Personal Income Tax General Fund Revenues (PIT)
Fiscal Years 2008-09 through 2014-15

Fiscal Year	Dollars In Millions	Percent Total General Fund Revenues And Transfers
2008-09	$43,376	52.4%
2009-10	44,852	51.5
2010-11	49,445	52.9
2011-12[a]	54,261	62.5
2012-13[a]	64,484	64.9
2013-14[a][e]	66,522	65.1
2014-15[a][e]	70,238	66.6

[a] Includes revenue from the higher rates imposed by Proposition 30 that are dedicated to the Education Protection Account. See "Proposition 98 and K-14 Funding."

[e] Estimated.

Source: State of California, Department of Finance.

Taxes on capital gains realizations, which are linked to stock market and real estate performance, can add a significant dimension of volatility to personal income tax receipts. For example, capital gains tax receipts accounted for nearly 12 percent of General Fund revenues and transfers in 1999-00 and 2000-01 but dropped below 4 percent in 2002-03 and 2009-10. The 2014-15 Budget projects that capital gains will account for 8.8 percent of General Fund revenues and transfers in fiscal year 2013-14 and 9.8 percent in fiscal year 2014-15.

The following table shows actual and projected tax revenues related to capital gains (which are included in the table showing total personal income tax receipts above):

TABLE 11
Revenues from Capital Gains
Fiscal Years 2008-09 through 2014-15

Fiscal Year	Dollars In Millions	Percent Total General Fund Revenues And Transfers
2008-09	$3,863	4.7%
2009-10	2,983	3.4
2010-11	4,526	4.8
2011-12	6,020	6.9
2012-13	9,719	9.8
2013-14	8,976	8.8
2014-15[(a)]	10,380	9.8

(a) Revenues and Transfers include $1.6 billion transfer to the Budget Stabilization Account.

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 the forecasted realizations for 2013 and forward. Fiscal year totals 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.

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, 2014, 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 voted 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);
- 1.0 percent local tax imposed under the Uniform Local Sales and Use Tax Law, with 0.25 percent dedicated to county transportation purposes and 0.75 percent for city and county general-purpose use; and
- 0.25 percent deposited into the Fiscal Recovery Fund to repay the state's ERBs (the "special sales tax").

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 the 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 was expected to generate $5.8 billion in fiscal year 2013-14 and $6.2 billion in fiscal year 2014-15.

Legislation passed as part of the 2011 Budget Act imposes a use tax collection responsibility for certain out-of-state, and particularly internet, retailers who meet certain criteria. The new responsibility took effect in September 2012. In 2012-13, $130 million in General Fund revenue was received as a result of this legislation. Additional General Fund revenue from this source is estimated at $185 million in fiscal year 2013-14 and $185 million in fiscal year 2014-15.

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 2014. See "Proposed Fiscal Year 2014-15 Budget – Summary of State Revenues and Expenditures" for a projection of the fiscal years 2013-14 and 2014-15 General Fund Reserve.

Existing law provides that the special sales tax will be collected until the first day of the calendar quarter at least 90 days after the Director of Finance certifies that all ERBs and related obligations have been paid or retired or provision for their repayment has been made or enough sales taxes have been collected to pay all ERBs and related obligations to final maturity. At such time the special sales tax will terminate and the city and county portion of taxes under the uniform local sales and use tax will be automatically increased by 0.25 percent. The 2014-15 Budget anticipates that the ERBs will be repaid or funds to pay the outstanding ERBs will have been set aside in an irrevocable escrow fund by May 2015. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Economic Recovery Bonds."

The following table shows actual and projected sales and use tax revenue:

TABLE 12
Sales and Use Tax General Fund Revenues
Fiscal Years 2008-09 through 2014-15

Fiscal Year	Dollars In Millions	Percent Total General Fund Revenues And Transfers
2008-09	$23,753	28.7%
2009-10	26,741	30.7
2010-11	26,983	28.9
2011-12	18,658	21.5
2012-13[(a)]	20,482	20.6
2013-14[(a)(e)]	22,759	22.3
2014-15[(a)(e)]	23,823	22.6

(a) Includes revenue from the higher rates imposed by Proposition 30 that are dedicated to the Education Protection Account.

(e) Estimated.

Source: State of California, Department of Finance.

Corporation Tax

Corporation tax revenues are derived from the following taxes:

1. 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.

2. 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.

3. 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.

4. A minimum Franchise Tax of up to $800 is imposed on corporations subject to the franchise tax but not on those subject to the corporate income tax. New corporations are exempted from the minimum franchise tax for the first year of incorporation.

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

6. Fees paid by limited liability companies ("LLCs"), which account for 3.6 percent of corporation tax revenue, are considered "corporation taxes."

Six actions have been 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. Now consolidated in one matter and collectively referred to as *Gillette Company v. Franchise Tax Board ("Gillette")*, the plaintiffs contend that the single-weighted sales factor specified in Section 25128 prior to amendment was contained within the Multistate Tax Compact ("MTC") and therefore cannot be modified without repealing the legislation that enacted MTC. An adverse ruling in these cases would affect multiple taxpayers and create potential exposure to refund claims for past years of approximately $750 million. The trial court ruled for the state in each of these matters, but the California Court of Appeal ruled on October 2, 2012 in favor of the taxpayers. The Franchise Tax Board has requested and the California Supreme Court has accepted review of this case. If the *Gillette* taxpayers are ultimately successful in their suit for refund, the vast majority of the revenue loss may not occur for several years. See "LITIGATION – Tax Cases."

One significant revenue measure enacted as part of the 2012-13 Budget was repeal of the state's participation in MTC, as a response to the *Gillette* litigation. By repealing its participation in MTC, the state will ensure that most taxpayers will not be allowed to use the equal weighted sales formula for apportioning income for calendar year 2012 and later tax years. Nonetheless, the current ruling in the *Gillette* case could result in a revenue loss of up to $150 million in fiscal year 2012-13 (although these amounts could be recaptured if the state ultimately prevails in the case at the California Supreme Court).

Another portion of the legislation repealing the state's participation in MTC finds and declares that there is a common law doctrine stating that elections affecting the computation of tax must be made on original tax returns. This provision seeks to render ineffective most attempts by taxpayers to file amended returns and obtain retroactive refunds, in the event that the state ultimately loses the *Gillette* cases. However, the implementation of this provision is likely to engender further litigation and the outcome cannot be assured.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

The following table shows actual and projected corporate income tax revenues:

TABLE 13
Corporate Income Tax Revenues
Fiscal Years 2008-09 through 2014-15

Fiscal Year	Dollars In Millions	Percent Total General Fund Revenues And Transfers
2008-09	$9,536	11.5%
2009-10	9,115	10.5
2010-11	9,614	10.3
2011-12	7,233	8.3
2012-13	7,783	7.8
2013-14[(e)]	8,107	7.9
2014-15[(e)]	8,910	8.4

(e) Estimated, see paragraph following Table 14.

Source: State of California, Department of Finance.

Legislation enacted in the budget acts of 2008, 2009, and 2010 is expected to significantly reduce corporation tax revenues. The third column of Table 14 shows that, while that legislation added over $1 billion of revenue in fiscal years 2008-09 and 2009-10, by fiscal year 2011-12, that legislation is expected to generate, on a net basis, a revenue loss of almost $1 billion. Starting in fiscal year 2012-13, that legislation is expected to generate revenue losses of about $1.2 billion per year. However, the passage of Proposition 39 on November 6, 2012 reverses portions of these recent tax changes. Proposition 39 is expected to generate revenue gains of $613 million in fiscal year 2013-14 and over $705 million in fiscal year 2014-15 and subsequent years. The legislatively enacted law changes, together with Proposition 39, are expected to generate a net revenue loss of $745 million in fiscal year 2013-14 and $479 million in fiscal year 2014-15. Not all of the revenue generated by Proposition 39, however, benefits the General Fund, as the measure dedicates about half of the new revenues in fiscal years 2013-14 to 2017-18 to energy programs. See the table below for the impact of legislation since 2008 and Proposition 39 on prior fiscal years.

After the 2013-14 Budget, the Governor's new economic development program for the state was adopted by the Legislature. Key elements of this program included a new hiring credit, a sales tax exemption related to manufacturing and biotech research, and a new tax credit for businesses provided in exchange for investment and employment expansion in California. The new program is estimated to result in a revenue gain of $106 million in 2013-14, and a revenue loss of $112 million in 2014-15. The program results in revenue gains in personal income tax and corporate income tax revenues and revenue losses in sales and use tax revenue.

TABLE 14
Impact of Legislation and Proposition 39 on Corporate Income Tax Revenues
Fiscal Years 2008-09 through 2014-15

(Dollars in Millions)

Fiscal Year	Total	Impact of Enacted Legislation	Impact of Proposition 39	Net Impact of Law Changes Since 2008
2008-09	9,536	$1,093	$0	$1,093
2009-10	9,115	1,086	0	1,086
2010-11	9,614	132	0	132
2011-12	7,233	(759)	0	(759)
2012-13	7,783	(1,320)	293	(1,027)
2013-14	8,107[e]	(1,358)	613	(745)
2014-15	8,910[e]	(1,184)	705	(479)

[e] Estimated.

Source: State of California, Department of Finance.

As shown in the table above, state tax law changes made several years ago traded short-term revenue gains for reduced corporate taxes in later years, which are now being seen. Even with this factor, the state Department of Finance has noted that corporation tax revenues have lagged significantly behind projections for the past year or more. The Department of Finance cannot determine at this time why revenue has lagged. There are several factors, however, that may be contributing to this result, including (i) greater growth in the use of tax credits than was anticipated, (ii) inaccurate estimates of the liability impact of the recent tax law changes, (iii) law changes that have led to changes to the pattern of cash receipts have made it more difficult for tax analysts to interpret cash flows, and (iv) the possible ability of corporations to take advantage of new tax reduction techniques. There is a significant lag (as much as two years) between the time weakness in tax revenues appears and the availability of the final, detailed tax return data on which analysis can be made to explain the results, so the Department of Finance is uncertain at this time with respect to the causes of this revenue weakness, and whether it will persist in the future.

Insurance Tax

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

The Board of Equalization ruled in December 2006 that the premium tax that insurers pay should be calculated on the basis of cash receipts rather than the value of premiums written as had been required by the Department of Insurance. This ruling is expected to result in a total loss of about $100 million spread over several years, with the majority of the impact expected in fiscal year 2013-14 at $35 million and fiscal year 2014-15 at $35 million.

Other Taxes

Other General Fund taxes and licenses include: Cigarette Taxes; Alcoholic Beverage Taxes; Horse Racing License Fees; and Trailer Coach License Fees.

Special Fund Revenues

The state Constitution and statutes specify the uses of certain revenues. Such receipts are accounted for in various special funds. 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 26 percent of all special fund revenues in fiscal year 2014-15. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees and vehicle license fees. In fiscal year 2014-15, $11.8 billion is projected to come from the ownership or operation of motor vehicles. About $4.4 billion of this revenue is projected to be returned to local governments. The remainder will be available for various state programs related to transportation and services to vehicle owners. For a discussion of Proposition 1A of 2004, which replaced a portion of vehicle license fees with increased property tax revenues, see "STATE FINANCES – Local Governments."

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:

1. 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.

2. 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. These funds are appropriated for anti-tobacco education and research, indigent health services, and environmental and recreation programs.

3. Ten cents of the per-pack tax is allocated to the state's General Fund.

4. The remaining two cents of the per-pack tax is deposited into the Breast Cancer Fund.

Recent Tax Receipts

The following table shows the trend of major General Fund and total taxes per capita and per $100 of personal income for the past five fiscal years and, the current fiscal year.

TABLE 15
Recent Tax Receipts

	State Taxes Per Capita[a]		Taxes per $100 of Personal Income	
Fiscal Year	**General Fund**	**Total**	**General Fund**	**Total**
2009-10	$2,281.07	$2,679.27	$5.50	$6.47
2010-11	2,409.84	2,866.28	5.69	6.77
2011-12[b]	2,207.81	2,828.02	4.93	6.31
2012-13[b][c]	2,520.15	3,163.20	5.40	6.78
2013-14[b][c]	2,620.96	3,311.30	5.51	6.96
2014-15[b][c]	2,744.38	3,448.35	5.57	7.00

[a] Data through fiscal year 2009-10 reflects population figures based on the 2010 Census. Data after fiscal year 2009-10 reflects July 1 population estimates benchmarked to the 2010 Census.

[b] Includes revenues from Proposition 30.

[c] Includes revenues from Proposition 39.

Source: State of California, Department of Finance.

The following table displays the actual and estimated revenues by major source for the past five fiscal years and the current fiscal year. This table shows taxes that provide revenue both to the General Fund and state special funds.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

TABLE 16
Comparative Yield of State Taxes – All Funds
Fiscal Years 2009-10 through 2014-15
(Modified Accrual Basis)
(Dollars in Thousands)

Fiscal Year	Sales and Use [a]	Personal Income [b]	Corporation[c]	Tobacco	Inheritance, Estate and Gift [d]	Insurance[e]	Alcoholic Beverage	Horse Racing	Motor Vehicle Fuel [f]	Motor Vehicle Fees [g]
2009-10	33,527,230	45,625,240	9,114,589	922,965	252	2,238,872	311,242	12,740	3,149,143	6,786,009
2010-11	33,443,592	50,508,431	9,613,595	906,807	0	2,307,021	334,178	13,078	5,705,527	6,568,834
2011-12	31,245,211	54,635,590	7,962,603	897,355	0	2,415,781	346,241	15,838	5,544,530	5,908,046
2012-13	33,915,885	66,168,000	7,783,000	868,703	0	2,242,379	357,000	14,088	5,492,850	5,864,814
2013-14[h]	43,925,965	67,976,000	8,107,000	812,464	0	2,287,000	351,000	14,589	6,014,023	6,051,483
2014-15[h]	46,376,637	71,975,000	8,910,000	786,464	0	2,382,000	359,000	14,862	5,544,107	6,230,258

[a] These figures:

- Fiscal years 2009-10 through 2012-13 include allocations to the General Fund, Public Transportation Account, State Fiscal Recovery Fund, Local Public Safety Fund, and the Local Revenue Fund (Realignment 1991). The figures do not include the Bradley Burns tax, dedicated to city and county operations.
- Fiscal years 2013-14 through 2014-15 include allocations to the General Fund, Public Transportation Account, State Fiscal Recovery Fund, Local Public Safety Fund, and both Local Revenue Funds (Realignment 1991 and 2011), and the Bradley Burns tax, which is dedicated to city and county operations.
- For fiscal years 2009-10 through 2010-11, includes the impact of a temporary increase in the General Fund sales and use tax rate from 5 percent to 6 percent, effective April 1, 2009 through June 30, 2011.
- Beginning in fiscal year 2010-11, includes the impact of the fuel tax swap that eliminated the General Fund portion of sales and use tax on motor vehicle gasoline fuel sales.
- Beginning in fiscal year 2011-12, includes the impact of the 2011 Realignment which redirects revenue attributable to a rate of 1.0625 percent to the Local Revenue Fund 2011.
- Beginning in fiscal year 2012-13, includes the impact of Proposition 30 (The Schools and Local Public Safety Protection Act of 2012). Proposition 30 temporarily increases the state sales tax by 0.25 percent effective January 1, 2013 through December 31, 2016. See "STATE FINANCES–Sources of Tax Revenue – Sales and Use Tax."
- Beginning in fiscal year 2013-14, includes revenue for a tax on Medi-Cal managed care premiums, with the rate being equal to the state General Fund sales tax rate.

(Footnotes Continued on Following Page)

(Continued from Previous Page)

[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.

Starting in fiscal year 2011-12, the figures also include the impact of Proposition 30. Proposition 30 temporarily adds three tax brackets for taxable incomes beginning at $250,000 ($500,000 joint) with rates of 10.3 percent, 11.3 percent, and 12.3 percent effective retroactive to January 1, 2012 through December 31, 2018.

[c] These figures include impact of legislation on corporate tax revenues in the budget acts of 2008, 2009 and 2010, which accelerated corporate tax (CT) collections in fiscal years 2008-09 through 2010-11, and reduced CT collections starting in fiscal year 2011-12. See "STATE FINANCES – Sources of Tax Revenue – Corporation Tax" for a discussion of the impact of legislation on corporate income tax revenues.

Starting in fiscal year 2012-13, these figures include the impact of Proposition 39, effective for tax years beginning January 1, 2013.

Starting in fiscal year 2013-14, these figures include the impact of the economic development initiative, Chapters 69 and 70, Statutes of 2013 (AB 93 and SB 90).

[d] From fiscal years 2008-09 through 2011-12, the state estate tax is based on the state death tax credit allowed against the federal estate tax. As a result, the federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) progressively reduced the state estate tax in calendar years 2002 through 2004 and eliminated it beginning in calendar year 2005. The EGTRRA was scheduled to sunset after 2010, at which time the federal estate tax would have been reinstated along with the state estate tax. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, however, made changes to the estate tax for 2011 and 2012. One of those changes was an extension for 2011 and 2012 of the elimination of the state estate tax credit, which had been in effect since 2005.

The American Taxpayer Relief Act of 2012 permanently eliminated state death tax credit (and thus the state portion of estate tax) beginning January 1, 2013.

[e] Figures include insurance tax on Medi-Cal managed care plans from fiscal year 2009-10 through 2012-13. A Board of Equalization decision regarding the taxation of premiums on cash versus accrued basis has resulted in refunds of $15 million in fiscal year 2008-09, $0 million in fiscal year 2009-10, $2 million in fiscal year 2010-11, about $10 million in 2012-13, and estimated refunds of $35 million annually in fiscal years 2013-14 and 2014-15.

[f] These figures include motor vehicle fuel tax (gasoline), use fuel tax (diesel and other fuels), and jet fuel tax.

Starting in fiscal year 2010-11, the figures include the revenue impact of the fuel tax swap that eliminated the General Fund portion of sales and use tax on motor vehicle gasoline fuel sales beginning in 2010-11.

Excise Tax on Gasoline fuel: As part of the fuel tax swap implemented beginning July 1, 2010, the excise tax rate on gasoline fuel was increased from 18 cents to 35.3 cents in fiscal year 2010-11. It was set at 35.7 cents in fiscal year 2011-12, 36 cents in fiscal year 2012-13, 39.5 cents in fiscal year 2013-14, and 36 cents in fiscal year 2014-15. This rate will be adjusted each year to maintain revenue neutrality with the elimination of the General Fund portion of sales tax on gasoline fuel.

Excise Tax on Diesel fuel: Also as part of the fuel tax swap, the excise tax rate on diesel fuel was reduced from 18 cents to 13 cents in fiscal year 2011-12, 10 cents in fiscal year 2012-13 and 2013-14, and increased to 11 cents in fiscal year 2014-15. This rate will also be adjusted each year to maintain revenue neutrality with a sales tax increase on diesel fuel.

[g] Registration and weight fees, motor vehicle license fees and other fees. See "STATE FINANCES – Local Governments."

Starting in fiscal year 2008-09 through fiscal year 2010-11, the figures include the impact of a temporary increase in the vehicle license fee from 0.65 percent to 1.15 percent, effective May 19, 2009 through June 30, 2011. Starting in fiscal year 2011-12, the vehicle license fee decreased from 1.15 percent to 0.65 percent.

[h] Estimated for fiscal years 2013-14 and 2014-15.

Note: This table includes revenues accruing both to the General Fund and special funds. Some revenue sources are dedicated to local governments.

Source: Actual amounts for fiscal years 2009-10 through 2012-13: State of California, Office of the State Controller.

Estimated amounts for fiscal years 2013-14 and 2014-15: State of California, Department of Finance.

State Expenditures

The following table summarizes the major categories of state expenditures, including both General Fund and special fund programs for fiscal years 2008-09 through 2012-13.

TABLE 17
Governmental Cost Funds (Budgetary Basis)
Schedule of Expenditures by Function and Character
Fiscal Years 2008-09 to 2012-13

(Dollars in Thousands)

	Fiscal Year				
	2008-09	2009-10[d][e]	2010-11[d][e][f]	2011-12[d]	2012-13[d]
Function					
Legislative, Judicial, Executive					
Legislative	$ 330,594	$ 323,371	$ 325,244	$ 331,052	$ 329,903
Judicial	3,962,289	2,606,012	3,742,539	3,360,882	2,961,759
Executive	1,669,476	1,615,119	1,810,506	1,543,381	1,548,666
State and Consumer Services	1,248,522	1,079,608	1,173,185	1,249,034	1,275,754
Business, Transportation and Housing					
Business and Housing	228,408	215,295	227,899	239,838	211,466
Transportation[a]	7,331,284	7,178,962	7,109,753	5,452,535	5,950,645
Natural Resources	3,225,625	3,307,987	3,414,859	3,358,016	3,505,612
Environmental Protection	1,032,212	831,753	962,109	1,027,911	907,427
Health and Human Services	35,041,981	31,129,184	41,642,841	41,359,564	44,613,839
Corrections and Rehabilitation	9,566,474	7,860,690	9,514,121	7,892,864	8,530,717
Education					
Education – K through 12	34,354,841	33,850,883	33,193,396	32,755,642	39,789,023
Higher Education	9,486,317	9,735,095	10,623,763	9,256,322	9,055,279
Labor and Workforce Development	414,307	374,059	370,993	700,449	710,343
General Government					
General Administration	1,728,781	1,711,273	1,757,991	1,712,184	1,948,034
Debt Service	5,693,895	6,049,251	6,222,307	6,561,871	5,721,714
Tax Relief	480,312	438,725	438,082	434,385	427,285
Shared Revenues	1,976,050	2,151,407	2,231,710	1,997,607	3,660,110
Other Statewide Expenditures	1,168,937	54,058	1,330,757	1,453,787	1,365,657
Expenditure Adjustment for Encumbrances [b]	551,826	1,785,703	18,316	2,195,656	(136,097)
Credits for Overhead Services by General Fund	(507,543)	(362,614)	(417,786)	(485,301)	(592,314)
Statewide Indirect Cost Recoveries	(94,458)	(80,454)	(100,543)	(109,807)	(132,847)
Total	$ 118,890,130	$ 111,855,367	$ 125,592,042	$ 122,287,872	$ 131,651,975
Character					
State Operations	$ 38,101,282	$ 36,673,078	$ 40,451,395	$ 39,579,635	$ 39,122,859
Local Assistance [c]	78,795,864	72,795,422	84,254,039	81,820,212	91,890,033
Capital Outlay	1,992,984	2,386,867	886,608	888,025	639,083
Total	$ 118,890,130	$ 111,855,367	$ 125,592,042	$ 122,287,872	$ 131,651,975

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

(Footnotes Continued on Following Page)

(Continued from Previous Page)

(b) For fiscal year 2008-09 Expenditure Adjustments for Encumbrances has an abnormal balance due to prior year reversal of over encumbered expenditures. Subsequent Budget adjustments per Executive Order S-09-08 issued July 31st did not allow for full expenditure of anticipated encumbered expenses. Health and Human Services, Corrections and Rehabilitation, and Higher Education had the most significant reductions.

Fiscal years 2009-10, 2010-11 and 2011-12 have an abnormal balance 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 abnormal balance and the large variance between the two fiscal years.

(c) 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.

(d) Executive Orders 10/11-A, 11/12-A, 12/13-A and 13/14-A were issued by the Department of Finance, as authorized under Control Section 12.45 of the Budget Acts of 2009, 2010, 2011 and 2012, respectively, and pursuant to Government Code Sections 12472.5 and 13302, to defer the June 2010, June 2011, June 2012 and June 2013 payroll expenditures for various governmental and nongovernmental cost funds to July 2010, July 2011, July 2012 and July 2013. This affected all state departments paid through the uniform payroll system.

(e) The Department of Conservation ("DOC") did not submit the required year-end financial statements to the State Controller's Office for fiscal years 2009-10 and 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, 2010 and June 30, 2011 cash balances, plus accruals, derived from actual activity reported through November 30, 2010 and December 5, 2011, respectively.

(f) 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 ARB.

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

State Appropriations Limit

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

Article XIII B prohibits the state 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 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.

The Legislature has enacted legislation to implement Article XIII B which defines certain terms used in Article XIII B and sets forth the methods for determining the Appropriations Limit. California Government Code Section 7912 requires an estimate of the Appropriations Limit to be included in the Governor's Budget, and thereafter to be subject to the budget process and established in the Budget Act.

The following table shows the Appropriations Limit for fiscal years 2010-11 through 2014-15.

TABLE 18
State Appropriations Limit

(Dollars in Millions)

	Fiscal Year				
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**
State Appropriations Limit	$79,118	$81,726	$84,221	$89,716	$89,902
Appropriations Subject to Limit	-61,796	-61,952	-71,702	-75,373[(a)]	-78,100[(a)]
Amount (Over)/Under Limit	$17,322	$19,774	$12,519	$14,343[(a)]	$11,802[(a)]

(a) Estimated/projected.

Source: State of California, Department of Finance.

Proposition 98 and K-14 Funding

General. On November 8, 1988, the voters of the state approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act." Proposition 98 changed state funding of public education below the university level and the operation of the Appropriations Limit, primarily by guaranteeing K-14 education a minimum level of funding (the "Proposition 98 minimum guarantee"). Proposition 98 (as modified by Proposition 111, enacted on June 5, 1990) guarantees K-14 education the greater of: (a) in general, a fixed percentage of General Fund revenues ("Test 1"), or (b) the amount appropriated to K-14 education in the prior year, adjusted for changes in state per capita personal income and enrollment ("Test 2"). A third test replaces

Test 2 in any year that the percentage growth in per capita General Fund revenues from the prior year plus one-half of one percent is less than the percentage growth in state per capita personal income ("Test 3").

Legislation adopted prior to the end of the 1988-89 fiscal year implementing Proposition 98 determined the K-14 education's funding guarantee under Test 1 to be 40.7 percent of General Fund tax revenues based on fiscal year 1986-87 appropriations. This percentage has since been adjusted to approximately 39.5 percent of fiscal year 1986-87 appropriations to account for subsequent changes in the allocation of local property taxes since these changes altered the share of General Fund revenues received by schools and other General Fund changes. The Proposition 98 guarantee has historically been calculated under Test 2, although Tests 1 and 3 have become more common in recent years. If Test 3 is used in any year, the difference between Test 3 and Test 2 becomes a "credit" (called the "maintenance factor") to schools and is paid to them in future years when per capita General Fund revenue growth exceeds per capita personal income growth.

Proposition 98 permits the Legislature, by a two-thirds vote of both Houses (in a bill separate from the Budget Act) and with the Governor's concurrence, to suspend the K-14 education's minimum funding guarantee for a one-year period. The amount of the suspension is added to the maintenance factor, the repayment of which occurs according to a specified state constitutional formula, and eventually restores Proposition 98 funding to the level that would have been required in the absence of such a suspension. Suspending the minimum funding guarantee provides ongoing General Fund savings over multiple fiscal years until the Proposition 98 maintenance factor is fully repaid.

The Proposition 98 minimum guarantee has been funded historically from two sources: local property taxes and the General Fund. Any amount not funded by local property taxes is funded by the General Fund. Thus, local property tax collections represent an offset to General Fund costs in a Test 2 or Test 3 year. The passage of Proposition 30 has temporarily created a third source of funds. The newly created fund, the Education Protection Account ("EPA"), 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. See "Funding for Fiscal Years 2013-14 and 2014-15" below.

The process for calculating the Proposition 98 minimum guarantee involves recalculations for previous years based on revised estimates of state and local property taxes, average daily attendance ("ADA"), and civilian population. While some of these estimates are adjusted frequently, some may not be final for several years after the close of the fiscal year. Such changes in the estimates can result in significant adjustments to the guarantee, even if that year has ended. Therefore, additional appropriations may be required to fully satisfy the minimum guarantee for a prior year. These funds are referred to as "settle-up" funds, and often include statutory language designating the fiscal year for which the funds count. The factors used to calculate Proposition 98 and how much settle-up is owed are considered final when certified as required by the state Education Code. Settle-up payments are made in future years at the discretion of the Legislature and the Governor.

Proposition 98 also contains provisions for the transfer of certain state tax revenues in excess of the Appropriations Limit to K-14 education in Test 1 years when additional moneys are available. No such transfer occurred for the 2012-13 and 2013-14 fiscal years, and no such transfer is anticipated for fiscal year 2014-15. See "STATE FINANCES – State Appropriations Limit."

Funding for Fiscal Years 2013-14 and 2014-15. The 2014-15 Budget continues to include the additional tax revenues generated by the passage of Proposition 30 in November, 2012. Proposition 30 requires that the resulting temporary increases in personal income tax and sales and use tax rates be deposited into the EPA. Appropriations from the EPA must be used to fund education expenditures and count towards meeting the Proposition 98 minimum guarantee. The funds deposited into the EPA offset $7.5 billion in base Proposition 98 guarantee costs that would have otherwise been funded by the General Fund in fiscal year 2014-15. In addition, Proposition 39, the California Clean Energy Jobs Act, will provide $705 million in revenue that is included in the calculation of the Proposition 98 minimum guarantee. Of this amount, $352.5 million will be transferred to the Clean Energy Jobs Creation Fund in support of energy efficiency related activities in public schools and community colleges.

The 2014-15 Budget Proposition 98 minimum guarantee level includes changes in revenues and "rebenching" of the guarantee (i.e., a change in the minimum guarantee percentage of General Fund revenues). Over the past few fiscal years, the major changes in revenues have been the inclusion of the revenues generated from the passage of Proposition 30 and Proposition 39, the ongoing increase in local tax revenues resulting from the elimination of redevelopment agencies, and the distribution of cash assets previously held by redevelopment agencies. In addition to these major changes, an overall increase in personal income tax, sales and use tax, and base local property tax revenues, result in an increase in the Proposition 98 minimum guarantee over the 2013 Budget Act levels. In fiscal year 2013-14, the Proposition 98 minimum guarantee is estimated to be $58.3 billion, which is a $3.0 billion increase over the 2013 Budget Act level. Proposition 98 funding in fiscal year 2014-15 is proposed to be $60.9 billion, which is a $5.6 billion increase over the 2013 Budget Act level. Of this amount, the General Fund share in fiscal year 2014-15 is $44.5 billion, including $7.5 billion in EPA revenues. In fiscal year 2014-15, it is estimated that the state will be in a Test 1 year.

The Proposition 98 minimum guarantee is also rebenched when the law requires an adjustment of the Test 1 percentage to reflect a shift in revenue or movement of programs into or out of the Proposition 98 minimum guarantee. In fiscal year 2013-14, the Proposition 98 minimum guarantee was rebenched to reflect the fund shift impact of a $285 million increase (revised estimate) in offsetting local revenues as a result of the elimination of redevelopment agencies and the one-time distribution of cash assets held by redevelopment agencies. All rebenchings of the guarantee utilize a current value cost methodology, which results in a dollar for dollar change for each rebenching and provides a single and consistent methodology. Adjustments to the guarantee were made in fiscal year 2014-15 to reflect the one-time distribution of cash assets held by redevelopment agencies. The total impact of these rebenchings and the changes in revenues, in addition to other natural changes in Proposition 98 factors, result in the fiscal year 2014-15 Proposition 98 guarantee level of $60.9 billion.

The 2014-15 Budget reflects General Fund Proposition 98 expenditures in fiscal years 2012-13 through 2014-15, as outlined in the table below.

TABLE 19
Proposition 98 Funding

(Dollars in Millions)

	2012-13		Fiscal Year 2013-14		2014-15	Change From Revised 2013-14 to Proposed 2014-15	
	Enacted[a]	**Revised[c]**	**Enacted[b]**	**Revised [c]**	**Proposed[c]**	**Amount**	**Percent**
K-12 Proposition 98							
State General Fund	$26,467	$31,321	$29,741	$32,260	$33,534	$ 1,274	3.9%
Education Protection Account	6,922	6,509	5,572	6,284	6,635	351	5.6%
Local property tax revenue[d]	14,342	13,848	13,936	13,404	14,089	685	5.1%
Subtotals [e]	$47,731	$51,678	$49,249	$51,948	$54,258	$2,310	4.4%
CCC Proposition 98							
State General Fund	$ 2,560	$ 3,048	$ 3,053	$ 3,410	$ 3,473	$ 63	1.8%
Education Protection Account	855	805	689	777	820	43	5.5%
Local property tax revenue[d]	2,403	2,264	2,291	2,167	2,308	141	6.5%
Subtotals [e]	$ 5,818	$ 6,117	$ 6,033	$ 6,354	$ 6,601	$ 247	3.9%
Total Proposition 98							
State General Fund	$29,027	$34,369	$32,794	$35,670	$37,007	$ 1,337	3.7%
Education Protection Account	7,777	7,314	6,261	7,061	7,455	394	5.6%
Local property tax revenue[d]	16,745	16,112	16,227	15,571	16,397	826	5.3%
Totals[e]	$53,549	$57,795	$55,282	$58,302	$60,859	$ 2,557	4.4%

(a) As of the 2012 Budget Act, June 27, 2012.

(b) As of the 2013 Budget Act, June 27, 2013.

(c) As of the 2014 Budget Act, June 20, 2014.

(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 2012-13, 2013-14, and 2014-15 include the one-time distribution of cash assets held by redevelopment agencies.

(e) Totals may not add due to rounding.

Source: State of California, Department of Finance.

Future Obligations. As explained above under "General," there are two forms of future obligations for the state General Fund which may be created under Proposition 98: maintenance factor and settle-up payments. Both of these obligations have been implemented in years leading up to fiscal year 2014-15. The following table shows the estimated Proposition 98 future obligations as of the 2014 Budget Act:

TABLE 20
Proposition 98 Future Obligations Balances

(Dollars in Millions)

	Fiscal Year				
Year-End Balances:	**2010-11 Estimated[a]**	**2011-12 Estimated[a]**	**2012-13 Estimated[a]**	**2013-14 Estimated[a]**	**2014-15 Estimated[a]**
Maintenance Factor	$10,314	$10,606	$5,844	$6,622	$4,017
QEIA Settle-up[b]	1,531	410	410	410[c]	0
Other Settle-Up	1,422	1,519	1,519	1,519[c]	1,519

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

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

[c] Included in "Underfunding of Proposition 98" in Table 7. See footnote (b) to Table 7.

Note: Proposition 98 budgetary deferrals, which are part of the "wall of debt," are not included in this Table. A payment of $662 million is scheduled to be made in 2014-15 and additional payments of $4.5 billion are scheduled to be made in 2014-15 toward deferral balances in 2012-13 and 2013-14. These payments would reduce deferrals from $6.2 billion as of the 2013 Budget Act to $1.7 billion in 2013-14 (the amount deferred from fiscal year 2013-14 to 2014-15) and reduce the remaining deferral balance at the end of 2014-15 to $992 million. The 2014-15 Budget includes a trigger mechanism that will appropriate any additional Proposition 98 resources attributable to the 2013-14 and 2014-15 fiscal years subsequent to the enactment of the Budget Act for the purpose of retiring this remaining deferral balance if state revenues rise higher than anticipated in the 2014-15 Budget. See "DEFERRED OBLIGATIONS" and "Current State Budget."

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 2014 Budget Act. The maintenance factor is adjusted by average daily attendance and per capita personal income growth each year. Therefore, even if a payment is made in a year, the outstanding balance can increase. Payments, as required by statute, are built into the multi-year projection as of the 2014 Budget Act totaling $2.6 billion in fiscal year 2014-15, and $1.0 billion in fiscal year 2015-16.

No maintenance factor payment is required in 2013-14 or 2016-17.

Local Governments

The primary units of local government in California are the 58 counties, which range in population from approximately 1,100 in Alpine County to approximately 9.9 million in Los Angeles County.

Constitutional and Statutory Limitations on Local Government

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, which added Article XIII A to the state Constitution, 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. See "STATE FINANCES – Sources of Tax Revenue – Sales and Use Tax" for a discussion of the impact of the Economic Recovery Bond issuances on local sales taxes.

The 2004 Budget Act, related legislation and the enactment of Proposition 1A in 2004 and Proposition 22 in 2010 (described below) 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 2009-10 and 2011-12. This arrangement continues without change in the 2014-15 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. A detailed description of the provisions of this constitutional amendment is set forth below under the caption "THE BUDGET PROCESS – Constraints on the Budget Process – Local Government Finance (Proposition 1A of 2004)."

The 2009 Budget Act (as amended by the revisions enacted on July 28, 2009) authorized the state to exercise its authority under Proposition 1A of 2004 to borrow an amount equal to about 8 percent of local property tax revenues, or $1.9 billion, which was required to be repaid within three years. State law was also enacted to create a securitization mechanism for local governments to sell their right to receive the state's payment obligations to a local government operated joint powers agency ("JPA"). This JPA sold bonds in a principal amount of $1.895 billion in November 2009 to pay the participating local governments their full property tax allocations when they normally would receive such allocations. Pursuant to Proposition 1A of 2004, the state repaid the local government borrowing (which in turn repaid the bonds of the JPA) in June 2013, from the General Fund.

Proposition 22, adopted on November 2, 2010, supersedes Proposition 1A of 2004 and completely 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. The Proposition 1A borrowing done as part of the 2009 Budget Act (as amended by the revisions enacted on July 28, 2009) was not affected by Proposition 22.

Actions in recent budgets have sought to use moneys from redevelopment agencies ("RDAs") to offset General Fund costs for Proposition 98. In a lawsuit relating to certain of these actions in fiscal years 2009-10 and 2010-11, which could have resulted in a General Fund liability of up to $2.1 billion, the trial court denied the plaintiff's petition and the appellate court affirmed the trial court ruling. This lawsuit is not impacted by the California Supreme Court ruling in the *Matosantos* case described below.

Redevelopment Agency Funds

The 2011 Budget Act included legislation (ABx1 27, Chapter 6, Statutes of 2011) seeking additional funds from RDAs as an alternative to the elimination of such agencies pursuant to the terms of related legislation (ABx1 26, Chapter 5, Statutes of 2011).

On December 29, 2011, in the case *California Redevelopment Association et al. v. Matosantos et al.*, the California Supreme Court upheld ABx1 26, which reaffirmed the state's ability to eliminate RDAs, but also ruled that ABx1 27, which required RDAs to remit payments to schools in order to avoid elimination, was unconstitutional. In accordance with the Court's order, RDAs were dissolved on February 1, 2012 pursuant to ABx1 26, and their functions have been taken over by successor agencies. (See "LITIGATION – Budget-Related Litigation – Actions Challenging Statutes Which Reformed California Redevelopment Law" for further information regarding the *Matosantos* case and other litigation on this subject.) Revenues that would have been directed to the RDAs are distributed to make "pass through" payments to local agencies that they would have received under prior law, and to successor agencies for retirement of the RDAs' debts (also known as enforceable obligations) and for limited administrative costs. The remaining revenues are distributed as property taxes to cities, counties, school and community college districts, and special districts under existing law.

Accurately estimating the property tax revenue available for the affected taxing entities after the payment of enforceable obligations was initially a challenge. This is because comprehensive information concerning the amount of property tax expended by the former RDAs for purposes that qualify as enforceable obligations was not available prior to the enactment of ABx1 26. Now that information from six payment cycles is available, the Department of Finance can provide better estimates of future Proposition 98 General Fund savings stemming from the RDA dissolution process.

For the 2014-15 Budget, Proposition 98 General Fund savings are anticipated to be $1.1 billion in fiscal year 2013-14, Projected Proposition 98 General Fund savings in 2014-15 are $811 million, and $1.2 billion in 2015-16. On an ongoing basis, Proposition 98 General Fund savings are anticipated to be at least $1 billion per year beginning in 2016-17, 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.

The decline in the projected amount of property tax received by schools in fiscal years 2013-14 and 2014-15 is primarily due to two factors. These are (1) the future unavailability of RDA cash reserves that were used instead of property tax to pay prior enforceable obligations, and (2) the ability of cities and counties that have received a Finding of Completion to create enforceable obligations for the repayment of loans provided to their RDAs prior to the dissolution. As the debts of the former RDAs are gradually retired, however, the amount of property tax received by K-14 schools and the other affected taxing entities should show modest annual growth notwithstanding these factors.

Local governments have disputed the implementation of AB 1484 and litigation is pending and expected to be filed in the future on this subject.

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.

Assessed value growth is estimated based on statistical modeling and evaluations of real estate trends. The median sales price of new and existing homes rose by over 12 percent in 2012 and 24 percent in 2013 (with activity in the 2013 calendar year driving fiscal year 2014-15 assessed valuations for property tax purposes). While sales volumes declined by approximately 3 percent in 2013, the impact on 2014-15 property tax revenues will be moderated by the significant increase in 2013 median prices, coupled with the reassessment to current market value of homes whose assessed values were significantly reduced during the market downturn. This increase in property valuations, particularly at the higher end of the price spectrum, indicates the state's real estate market is in a period of rebound. Despite this overall increase, however, there are still areas where sales volumes and property values continue to stagnate.

Statewide property tax revenues are estimated to increase 4.05 percent in fiscal year 2013-14 and 7.02 percent in fiscal year 2014-15. See Table 19 (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, redevelopment agency payments, and Educational Revenue Augmentation Fund transfers.

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 (totaling $6.2 billion in fiscal year 2014-15) and (2) $497.1 million in vehicle license fees (for fiscal year 2014-15). As a result of the realignment, the state expects General Fund savings from the realigned programs to be about $2.6 billion annually beginning in fiscal year 2011-12. In fiscal year 2011-12, about $2.2 billion of these savings was achieved from a reduction in the Proposition 98 Guarantee, and that figure is currently estimated to grow to $2.4 billion in fiscal year 2013-14 and $2.7 billion in fiscal year 2014-15. A lawsuit was filed challenging this calculation of the Proposition 98 Guarantee and on June 1, 2012, the trial court ruled in favor of the state and denied the petition for writ of mandate for recalculation of the Guarantee; however, plaintiffs have appealed this decision. See "LITIGATION – Budget Related Litigation – Actions Challenging School Financing."

Economic Development and Job Creation

Chapter 69, Statutes of 2013 (AB 93) repealed provisions in current law related to economic development areas and created in its place a new program of job creation and economic development incentives. AB 93 was further amended by Chapter 70, Statutes of 2013 (SB 90). Currently, the state has two types of Economic Development Areas: Enterprise Zones and Local Agency Military Base Recovery Areas. Special tax incentives in the form of hiring credits, sales and use tax credits, business expense deductions, net operating loss deductions, net interest deductions, and employee wage credits are available to individuals and businesses that operate a business or invest in a business located within certain economically depressed areas in the state.

AB 93 ceases operation of the current economic development areas as of January 1, 2014. The sales tax credit provisions under the current program will be repealed effective January 1, 2014, and the hiring credit provisions will be repealed effective January 1, 2019. The hiring credit would continue to apply for qualified employees hired within the 60-month period prior to January 1, 2014, and the qualified wages paid would continue to qualify for the credit after January 1, 2014. Leftover credits from the current program may be carried forward to the succeeding 10 taxable years, if necessary.

AB 93 and SB 90 create a new program of job creation and economic development incentives by instituting a development program which includes the following elements:

- A sales exemption from the state portion of the sales and use tax on purchases of qualified tangible property for certain businesses primarily engaged in manufacturing, research and development;

- A hiring credit for qualifying full-time employees for businesses in certain designated census tract areas; and

- An incentive fund to provide a tax credit to certain businesses in exchange for investment and employment expansion in California.

Based on current projections, the provisions in AB 93 and SB 90 are expected to be revenue neutral over the next five fiscal years. In the long run, assuming the sunset dates for the new programs are not extended, substantial revenue increases would be expected.

Trial Courts

Prior to legislation enacted in 1997, local governments provided the majority of funding for the state's trial court system. The legislation consolidated the trial court funding at the state level in order to streamline the operation of the courts, provide a dedicated revenue source, and relieve fiscal pressure on the counties. In addition, legislation enacted in 2008 provides California's court system with increased fees and fines to expand and repair its infrastructure to address significant caseload increases and reduce delays. The fees raised by this legislation were intended to support debt service on lease revenue bonds and other appropriate evidences of indebtedness used to pay qualified infrastructure costs in an amount of up to $5 billion. The SPWB has issued $1.5 billion in lease revenue bonds to date to finance such costs. Additional legislative authorization is required prior to the issuance of any additional lease-revenue bonds for court construction. The 2014 Budget Act includes an appropriation of $54.2 million to pay an annual service fee to the private developer of the new Long Beach Courthouse. Service fees for the Long Beach Courthouse, which are subject to annual appropriation by the Legislature, are expected to be approximately $2 billion over a period of 35 years.

The state's trial court system received approximately $1.9 billion in state resources in fiscal year 2013-14 and will receive $2.1 billion in fiscal year 2014-15, as well as $499 million in resources from counties in each fiscal year. The 2014 Budget Act includes an ongoing General Fund augmentation of $129.1 million to support the state's trial court system and up to $30.9 million General Fund to backfill the anticipated loss of revenue in the Trial Court Trust Fund during fiscal year 2014-15. The 2014 Budget Act also includes $145.3 million for 17 court construction projects, including $101.7 million from lease revenue bonds, with debt service expected to be paid from future court construction revenues.

Welfare System

Under the CalWORKs (as such term is defined herein) program, counties are given flexibility to develop their own plans, consistent with state law, to implement the program and to administer many of its elements. Counties are required to provide "general assistance" aid to certain persons who cannot obtain welfare from other programs.

Health and Human Services

CalWORKs

The state provides welfare benefits to certain adults and children living in the state. Although some of these benefits are available to legal noncitizens, the majority of these benefits are available only to citizens.

These benefits generally take the form of cash payments to beneficiaries, or programs pursuant to which beneficiaries receive food or assistance in procuring employment. Many of these programs are administered by counties within the state, and paid with a combination of federal, state and local funds. Counties are given flexibility to develop their own plans, consistent with state law, to implement the program and to administer many of its elements.

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 in order 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. The primary federal law establishing funding and eligibility, and programmatic requirements is The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193, the "Law"). Significant elements of the Law include: (i) Temporary Assistance for Needy Families ("TANF"), a block grant program; and (ii) the Supplemental Nutrition Assistance Program at the federal level (referred to as "CalFresh" in California, and formerly known as "food stamps").

Chapter 270, Statutes of 1997, embodies California's response to the federal welfare systems, called California Work Opportunity and Responsibility to Kids ("CalWORKs"). 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.

CalWORKs became effective on January 1, 1998, replacing the former Aid to Families with Dependent Children (AFDC) program. Caseload under CalWORKs is projected to decrease in fiscal year 2014-15 as compared to revised fiscal year 2013-14 levels. CalWORKs caseload projections are 551,100 cases in fiscal year 2013-14 and 541,281 cases in fiscal year 2014-15. The fiscal year 2014-15 projected caseload represents a major decline from the early 1990s, when caseload peaked at 921,000 cases in fiscal year 1994-95 under the AFDC program. CalWORKs caseload from 1998 through fiscal year 2014-15 is estimated to have declined by approximately 15.6 percent.

The state's required expenditures in connection with the Law are referred to as "Maintenance of Effort" or "MOE." California's required MOE is generally equal to 75 percent of federal fiscal year ("FFY") 1994 historic expenditures. However, in order to qualify for that level of MOE, the state is required to demonstrate a 50 percent work participation rate (WPR) among all families. The federal government determined that the state failed to meet this requirement for FFYs 2007 through 2010, and the state is therefore subject to a penalty. The federal government waived the penalty for FFY 2007, but required the state to increase the required MOE to 80 percent of FFY 1994 historic expenditures. As a result, the state was required to increase its MOE expenditure by approximately $180 million. The 2014 Budget Act continues to reflect this increase in MOE spending. Currently, the state is seeking relief from the FFYs 2008, 2009, 2010, and 2011 penalties, estimated to be approximately $47.7 million, $113.6 million, $179.7 million, and $246.1 million, respectively. (Any penalties from failing to meet federal WPR requirements would be in addition to the approximately $180 million increased MOE requirement.) In April 2014, the state submitted a corrective compliance plan to the federal government. On June 24, 2014, the federal government approved the state's plan which requires California to meet or exceed federal WPR requirements by September 30, 2015, to avoid incurring fiscal penalties.

In fiscal year 2013-14, $541.7 million in federal TANF was transferred to the California Student Aid Commission to offset General Fund costs in Cal Grants. For fiscal year 2014-15, $377.4 million in federal TANF will be transferred to the California Student Aid Commission for this purpose.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

The following table shows CalWORKs caseload and General Fund expenditures for state fiscal years 2009-10 through 2014-15.

TABLE 21
CalWORKs Expenditures
(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2009-10	553,347	$2.032
2010-11	586,659	2.240
2011-12[a]	575,988	1.158
2012-13	559,920	1.545
2013-14[b] [c]	551,100	1.195
2014-15[b] [d]	541,281	0.733

[a] Beginning in FY 2011-12, CalWORKs General Fund expenditures reflect a $1.1 billion ongoing annual savings as a result of redirecting 1991-92 realignment revenues from mental health to fund CalWORKs grants, pursuant to Chapter 13, Statutes of 2011.

[b] Estimated.

[c] Reflects an anticipated $300 million General Fund savings through redirecting a portion of 1991-92 realignment revenues from indigent health to CalWORKs, pursuant to Chapter 24, Statutes of 2013.

[d] Reflects $725 million General Fund savings from redirecting a portion of 1991-92 realignment revenue from indigent health to CalWORKs.

Chapter 24, Statutes of 2013 (AB 85), increased CalWORKs grants levels by 5 percent, effective March 1, 2014, funded with 1991-92 realignment sales tax revenue growth funds. The grant increase is estimated to cost $58.3 million in 2013-14 and $170.7 million annually thereafter. Based on current revenue projections, the estimated 2014-15 costs of the grant increase will exceed available realignment revenues by $13 million. The 2014 Budget Act includes $13 million General Fund to cover this projected shortfall to fully fund the grant increase, as required by AB 85. Future grant increases are subject to projections of realignment sales tax growth revenues available after the ongoing cumulative costs of all prior grant increase are fully funded.

In addition to the 5-percent grant increase authorized in AB 85, the 2014 Budget Act includes an additional 5-percent grant increase effective April 1, 2015, which is estimated to cost $43.2 million General Fund in 2014-15 and $104.6 million General Fund in 2015-16. Similar to the 5-percent increase that took effect March 1, 2014, the General Fund will support a portion of these costs until sufficient 1991-92 realignment sales tax revenues are available.

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 2014 Budget Act includes approximately $2.8 billion for the

SSI/SSP program from the General Fund for fiscal year 2014-15, 1.1 percent more than the revised fiscal year 2013-14 funding level. The average monthly caseload in this program is estimated to be 1.3 million recipients in fiscal year 2014-15, a 0.8 percent increase over the revised fiscal year 2013-14 projected level.

Health Programs

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 30 percent of all Californians. Federal law requires Medi-Cal to provide basic services such as doctor visits, laboratory tests, x-rays, hospital inpatient and outpatient care, hospice, skilled nursing care, and early periodic screening, diagnosis and treatment. Also, federal matching funds are available if states choose to provide any of numerous optional benefits. California's Federal Medical Assistance Percentage is 50 percent, which is the share of federal funding for standard program benefits. There are also federal funds in the Medi-Cal budget for a number of Medi-Cal programs or supplemental payments that are matched with local funds that do not appear in state funding totals or that receive a higher matching rate. A wide range of public and private providers and facilities delivers these services. Providers are reimbursed by the traditional fee-for-service method or by managed care plans that receive capitated payments from the state. Approximately 8.3 million Medi-Cal beneficiaries (more than 70 percent of the people receiving Medi-Cal benefits and services) are currently enrolled in managed care plans.

Average monthly caseload in Medi-Cal is projected to be 9.36 million in fiscal year 2013-14. Caseload is expected to increase in fiscal year 2014-15 by approximately 2.14 million, or 22.9 percent, to 11.5 million people. This increase is largely due to the implementation of federal health care reform and the shift of children from the Healthy Families program to Medi-Cal. Caseload would increase by 1 percent absent these changes.

The following table shows Medi-Cal expenditures for the fiscal years 2010-11 through 2013-14 and the proposed amounts for fiscal year 2014-15.

TABLE 22
Medi-Cal Expenditures

(Dollars in Billions)

Fiscal Year	General Fund	Other State Funds	Federal Funds	Total[(a)]
2010-11	$12.5	$8.9	$30.7	$52.1
2011-12	15.2	2.1	26.4	43.7
2012-13	15.0	6.4	28.5	49.9
2013-14[(b)]	16.8	6.2	39.8	62.8
2014-15[(c)]	17.5	14.5	59.1	91.1

(a) Totals may not add due to rounding.
(b) Estimated.
(c) Proposed.

The 2014 Budget Act includes the following major General Fund elements:

- Net Savings of $122.0 million in fiscal year 2013-14 and $370.4 million in fiscal year 2014-15 due to the implementation of the Coordinated Care Initiative. Chapter 33, Statutes of 2012 (SB 1008) and Chapter 45, Statutes of 2012 (SB 1036) authorized the Coordinated Care Initiative in which persons eligible for both Medicare and Medi-Cal (dual eligibles) will receive medical, behavioral health, long-term supports and services, and home and community-based services coordinated through a single health plan.

- Net costs of $477.7 million in fiscal year 2014-15 to pay for the federally required and optional expansion of coverage under federal health care reform. See "Health Care Reform."

- Costs of $187.2 million in fiscal year 2014-15 for rate increases to Medi-Cal managed care health plans.

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 – The federal Affordable Care Act ("ACA") increases access to public and private health care coverage through various programmatic, regulatory, and tax incentive mechanisms. To expand coverage, the ACA provides for: (1) the health insurance exchange, a new marketplace in which individuals who do not have access to public coverage or affordable employer coverage can purchase insurance and access federal tax credits, and (2) two expansions of Medicaid – a mandatory expansion by simplifying rules affecting eligibility, enrollment, and retention; and an optional expansion to adults with incomes up to 138 percent of the federal poverty level. Additionally, the ACA requires specified rate increases for primary care for two years beginning January 1, 2013 and prohibited California from restricting eligibility primarily for the Medi-Cal and Healthy Families programs before the new coverage requirements went into effect in 2014.

Health care reform has resulted in a significant net increase of General Fund program costs in fiscal year 2013-14 and beyond. The net impact of health care reform on the General Fund will depend on a variety of factors, including levels of individual and employer participation, changes in insurance premiums, and savings resulting from the reform as beneficiaries in current state-only programs receive coverage through Medi-Cal or the California Health Benefit Exchange (Exchange), also known as Covered California. The 2014 Budget Act includes $477.7 million General Fund in 2014-15 for the costs of expanded eligibility under health care reform.

The 2013 Budget Act implemented the optional expansion to include adults up to 138 percent of the federal poverty level using a state-based approach. Under the ACA, the federal government promises to initially pay for 100 percent of the cost of benefits for newly eligible individuals served under the optional expansion; federal funding will gradually decrease to 90 percent by 2020. To mitigate against future risks to the General Fund, the legislation that implemented the optional expansion (Chapters 3 and 4, Statutes of 2013-14 First Extraordinary

Session) (AB/SB X1 1) requires that reductions in federal funding below 90 percent be addressed in a timely manner through the annual state budget or legislative process. If, prior to January 1, 2018, federal funding under the ACA is reduced to 70 percent or less, the implementation of the optional expansion will cease within 12 months.

As the provider of last resort, counties are responsible for indigent health care. Under the 1991 realignment, the state provides roughly $1.2 billion to counties to assist them in meeting their obligations. To receive these funds, counties must spend a required maintenance of effort of $343 million. Many counties spend additional funds on indigent care. Under health care reform, county costs and responsibilities for indigent health care are expected to decrease as uninsured individuals obtain health care coverage. The state, in turn, is bearing increased responsibility for providing care to these newly eligible individuals through the Medi-Cal expansion. Chapter 24, Statutes of 2013, specifies two mechanisms for determining county savings, depending on how counties currently deliver indigent care. Once determined, these savings will be redirected to fund local human services programs. The 12 public hospital counties and the 12 non-public health/non-County Medical Service Program counties had the option to select one of two mechanisms:

- Option 1 – A formula measures actual county health care costs and revenues for Medi-Cal beneficiaries and the uninsured, reflecting historic growth rates and appropriate limits on cost growth. The difference between total revenues and total costs will determine the savings. The state will receive 80 percent of any calculated savings, with the county retaining 20 percent of the savings to invest in the local health care delivery system or spend on public health activities.

- Option 2 – 60 percent of a county's health realignment allocation plus maintenance-of-effort will be redirected to local human services programs, and the county will retain 40 percent of this funding for providing public health services, to serve the remaining uninsured, or serve other health care needs.

All of the public hospital counties and seven non-public health/non-County Medical Service Program counties chose Option 1. The remaining five non-public health/non-County Medical Service Program counties chose Option 2.

Counties participating in the County Medical Service Program are required to use an alternative mechanism that is akin to Option 2.

County health care savings are estimated to be $300 million in fiscal year 2013-14 and $724.9 million in fiscal year 2014-15. Actual savings will depend on the level of realignment revenues for those counties operating under the 60/40 formula and on the various factors used to determine costs and revenues for those counties using the mechanism described in Option 1. Out year savings for all counties will be estimated in January and May, prior to the start of each fiscal year and based on the most recent data available. A true-up process will be used to adjust funding to the extent actual county savings differ from initial estimates. Currently, savings to the counties are estimated to be $724.9 million in fiscal years 2015-16 and 2016-17. These savings will provide funding for certain services currently funded by the state.

Chapter 655, Statutes of 2010 ("AB 1602"), and Chapter 659, Statutes of 2010 ("SB 900"), established the Exchange as an independent entity in state government and outlined the authorities and responsibilities of the Exchange and its governing board. The Exchange launched its marketplace for individuals and small businesses to purchase health insurance, called Covered California, on October 1, 2013. This entity established requirements for health plans to participate in the Exchange, standards and criteria for selecting health plans to be offered by the Exchange, and required the Exchange to provide an adequate selection of qualified health plans in each region of the state. The federal government initially awarded California $1 million to fund preliminary planning efforts related to the development of the Exchange. On August 12, 2011, the Exchange received a $39 million Level I Exchange Establishment grant to help the state design and develop this entity. This was followed by an award of $196 million in August 2012 for continued support of the Exchange's start-up, planning, and development activities through June 30, 2013 and an award of $674 million in January 2013 for continued support through 2014. On October 1, 2013, Covered California began offering affordable health insurance, including plans subsidized with federally funded tax subsidies and products for individuals and small businesses. The Exchange's first open enrollment period closed on April 15, 2014 with 1.4 million individuals enrolled in private health insurance plans and approximately 1.9 million individuals enrolled in Medi-Cal. The Exchange's second open enrollment period will be from November 15, 2014 to February 15, 2015. By the end of fiscal year 2014-15, the Exchange must transition from being exclusively funded by federal grants to being self-sustaining from assessment fees paid by health plans and insurers participating in the Exchange. AB 1602 authorizes the Exchange to assess charges, as a part of premiums, on participating health plans and at rates reasonable to support the ongoing operations of the Exchange and maintain a prudent reserve.

<u>In-Home Supportive Services (IHSS)</u> – On September 17, 2013, the United States Department of Labor released final regulations (effective January 1, 2015) requiring overtime pay for domestic workers, compensation for providers traveling between multiple recipients, and compensation for time spent in mandatory provider training. The 2014 Budget Act includes $394.8 million ($172.2 million General Fund) and $819.7 million ($354.4 million General Fund) annually thereafter to comply with the new federal regulations. Implementation of the federal rule on overtime payments will begin no sooner than January 1, 2015, or on the date that the federal government requires implementation, whichever is later.

To control costs and promote the continued health and safety of Medicaid recipients in the program, a provider cannot exceed 66 hours in a work week, as reduced by the 7-percent across-the-board reduction to authorized hours required by current law. Additionally, while the current monthly assessment and authorization of services hours remains intact, monthly hours will now be converted to weekly hours. Recipients whose weekly hours do not exceed 40 can adjust their hours over the course of the month without prior authorization from the county social worker. This flexibility is contingent upon maintaining a work week not to exceed 40 hours or the monthly authorized hours. Otherwise, approval will be needed from the county social worker. Providers will also be compensated for hours related to mandatory training, medical accompaniment, and travel between their recipients; however, travel hours are subject to a maximum of 7 hours per week.

California Department of Corrections and Rehabilitation

General – As one of the largest departments in state government, the California Department of Corrections and Rehabilitation ("CDCR") operates 37 youth and adult correctional facilities and 43 youth and adult camps. The CDCR also contracts for multiple adult parolee service centers and community correctional facilities. The CDCR operates an adult prisoner/mother facility, adult parole units and sub-units, parole outpatient clinics, licensed general acute care hospitals, regional parole headquarters, licensed correctional treatment centers, hemodialysis clinics, outpatient housing units, a correctional training center, a licensed skilled nursing facility, and a hospice program for the terminally ill. The CDCR has six regional accounting offices and leases approximately two million square feet of office space. 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.

Ruling Concerning Prison Population – Pursuant to various rulings issued by a panel of three federal judges (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 December 31, 2013. On February 10, 2014, the three-judge court granted the state's request for a two-year extension of the deadline to meet the 137.5 percent population cap. The court ordered the state to comply with the population cap by February 28, 2016 and also ordered the state to implement the following population reduction measures: 1) increase credit earning for certain non-violent second-strike inmates and minimum custody inmates; 2) create and implement a new parole determination process for non-violent second-strike inmates who have completed 50 percent of their sentence; 3) parole certain inmates serving indeterminate sentences who have already been granted parole but have future parole dates; 4) in consultation with the Receiver's office, finalize and implement an expanded parole process for medically incapacitated inmates and finalize and implement a new parole process for certain elderly inmates; 5) activate a total of 13 reentry hubs within a year of the court's order; 6) pursue expansion of pilot reentry programs with additional counties and local communities; and 7) implement an expanded alternative custody program for women. The court also ordered that a Compliance Officer be appointed to ensure the state meets the interim benchmarks of 143 percent of design capacity by June 30, 2014 (subsequently extended by a July 3, 2014 court order to August 31, 2014), 141.5 percent of design capacity by February 28, 2015, and the final benchmark of 137.5 percent by February 28, 2016. The Compliance Officer will have the authority to order the release of inmates should the state fail to meet any of the benchmarks. *As outlined in CDCR's September 15, 2014 filing with the three-judge court, CDCR met the August 31, 2014 benchmark and as of September 10, 2014, the institution population totaled 116,269 inmates, or 140.6 percent of design capacity. The state has agreed not to pursue further court appeals.*

On September 12, 2013, Governor Brown signed into law Senate Bill 105, which appropriated $315 million to be used in different ways depending on the Court's actions regarding the deadline for meeting the 137.5 percent cap. As of the 2014 Budget Act, SB 105 expenditures are anticipated to be $208 million in 2013-14 for a savings of $107 million. As a result of these savings, the 2014 Budget Act includes a total Recidivism Reduction Fund transfer of $91 million. The Budget allocates these funds to various departments to expand substance use disorder treatment in state prisons, provide substance use disorder treatment and cognitive behavioral therapy programs at in-state contracted facilities, conduct an independent evaluation of the effectiveness of the Integrated Services for Mentally Ill Parolees program, expand community reentry services and sites, provide case managers at Parolee Outpatient Clinics, provide grants to community colleges for inmate education, provide a planning grant to the California Leadership Academy, expand non-profit programming, provide a Mentally Ill Offenders Crime Reduction competitive grant, provide community recidivism reduction grants to counties, provide grants to cities with the highest rates of crime, provide a competitive grant for court programs known to reduce recidivism, facilitate the use of social innovation bonds to achieve measurable social benefits, and provide a competitive grant for workforce training and job development.

CDCR Budget – The 2014 Budget Act includes total expenditures of $9.8 billion ($9.5 billion General Fund) for CDCR from all funding sources. The CDCR budget includes funding for 60,708 positions at a total cost for salaries and benefits of approximately $7.4 billion. Lease payments total $366.4 million, and the remaining funds are budgeted for operating expenses and equipment, insurance, and local assistance. There is an additional $890.2 million budgeted for capital outlay expenditures.

The 2014 Budget Act includes savings for CDCR of $1.5 billion General Fund in fiscal year 2014-15 related to implementation of AB 109. AB 109 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.

CDCR Population – The average daily adult inmate population is projected to increase from 134,215 in fiscal year 2013-14, to 136,530 in fiscal year 2014-15, an increase of 2,315 inmates. The average daily adult parole population is projected to decrease from 47,247 in fiscal year 2013-14, to 41,866 in fiscal year 2014-15, a reduction of 5,381 adult parolees. The increase in the adult inmate population is due to an increase in new admissions and second striker admissions, while the decline in the adult parole population is related to the passage and implementation of AB 109.

The Division of Juvenile Justice's average daily facility population is projected to decrease from 707 in fiscal year 2013-14, to 656 in fiscal year 2014-15.

Litigation Concerning Prison Medical Care Services – The federal receiver, the court appointed individual who oversees 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. All of these projects will be constructed at existing state correctional institutions. See "Prison Construction Program" below.

The 2014 Budget Act includes $1.646 billion General Fund for the Receiver's Medical Services and Pharmacy Programs, compared to the 2013 Budget Act, which totaled $1.628 billion General Fund.

In January 2012, a federal District Court judge ordered California officials to begin planning for the end of the federal Receivership of the state's prison medical programs. The judge, with jurisdiction over the CDCR medical care litigation, cited "significant progress" in improving California's prison medical care and stated that many of the goals of the Receivership had been accomplished. For these reasons, the judge ordered the State and the plaintiffs in the case to prepare a joint report on various aspects of post-Receiver planning. In response to this report, the court ordered the Receiver to work with CDCR to determine when the state will assume responsibility for particular tasks. To date, the Receiver has transitioned health care access units, which provide guarding and transportation for inmates accessing health care services, as well as the responsibility for planning for the activation of new construction that is primarily related to serving the health care needs of inmates. Additional transition planning efforts are underway.

<u>*Prison Construction Program*</u> – On May 3, 2007, the Governor signed AB 900 (Chapter 7, Statutes of 2007), which provides funding for an expansion of capacity in the state prison system to address housing and health care needs. As last amended on June 27, 2012 (see Chapter 42, Statutes of 2012), AB 900 authorized approximately $2.1 billion of lease revenue bond financing authority for design and construction of state prison facilities that include the California Health Care Facility and the adjacent DeWitt Nelson Correctional Annex, located in Stockton, and several other medical and mental health projects throughout the state, including the projects in the Health Care Facility Improvement Program. A number of the projects authorized with AB 900 authority have already been completed and occupied and several other projects are in construction and will be completed in 2014 and 2015. Of particular note, the California Health Care Facility began occupancy July 2013, the DeWitt Nelson Correctional Annex began occupancy in April 2014, and the Central California Women's Facility Enhanced Outpatient Program Treatment and Office Space project is scheduled to begin occupancy in June 2015. In addition, as of June 2014, 25 projects in the Health Care Facility Improvement Program are in the design phase and it is anticipated the remaining projects will be initiated during the second half of 2014.

The 2012 Budget Act included an additional $810 million of lease revenue bond financing authority for the design and construction of three new Level II dormitory housing facilities at existing prisons. Two of these new dormitory housing facilities are located adjacent to Mule Creek State Prison in Ione, and the third is located adjacent to Richard J. Donovan Correctional Facility in San Diego. Approximately $795 million of lease revenue bonds were sold in the spring of 2014 to fund these projects. Construction is currently underway at all three facilities and is anticipated to be completed in the spring of 2016.

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, the employer contributions were not sufficient to cover the cost of the benefits to claimants during the recession. 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 was $10.2 billion at the end of calendar year 2012 and $9.7 billion at the end of calendar year 2013. Using current economic outlook and unemployment projections, absent changes to the UI Fund financing structure, the deficit is projected to be $8.8 billion at the end of calendar year 2014. 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 federal UI loan. These changes have already started and will increase annually until the fund is returned to solvency.

Pursuant to federal law, if the state is unable to repay the loan within the same year it is taken, state funds must be used to pay the annual interest payments on the borrowed funds. While annual interest payments were waived under the American Recovery and Reinvestment Act of 2010, interest payments of $303.5 million and $308.2 million were paid in 2011 and 2012, respectively. Given the condition of the General Fund in those years, loans were authorized from the Unemployment Compensation Disability Fund to the General Fund to pay the UI interest expense. The September 2013 interest payment of $259 million was paid from the General Fund. The 2014 Budget Act provides $218.5 million from the General Fund to make the 2014 interest payment. Interest will continue to accrue and be payable annually until the principal on the UI loan is repaid. Pursuant to federal law, the General Fund is not liable for repayment of the principal of this loan, which will be done over time by reducing federal tax credits to employers in the state.

The interest due after fiscal year 2014-15 will depend on a variety of factors, including the actual amount of the federal loan outstanding (which in turn will depend on the rate of unemployment, employer contributions to the UI Fund, and any state or federal law changes relating to the funding of the program) and the interest rate imposed by the federal government. In an effort to identify preferred alternatives to meet annual federal interest obligations, repay the federal loan, and return the state's UI Fund to solvency, the Secretary for Labor and Workforce Development convened a series of meetings to bring together key stakeholders, including business and labor. The Administration intends to continue working with these stakeholders to develop a solution. The Budget identifies a framework for solvency which identifies goals and principles to guide future discussions.

Retiree Health Care Costs

In addition to a pension, described in the following section "PENSION TRUSTS," the state also provides postemployment health care and dental benefits to its employees and their spouses and dependents, when applicable, and, except as otherwise described below, utilizes a "pay-as-you-go" funding policy. These are sometimes referred to as "Other Postemployment Benefits" or "OPEB."

As of June 30, 2013, approximately 163,100 retirees were enrolled to receive health benefits and 135,100 to receive dental benefits. Generally, employees vest for those benefits after serving 10 years with the state. 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 (as described below). Additional information on the State's OPEB plan can be found in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013 included as APPENDIX E to this Official Statement.

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

On March 6, 2014, the State Controller's Office released the state's latest OPEB actuarial valuation report by the private actuarial firm, Gabriel, Roeder, Smith & Company, which was tasked with calculating the state's liability for these benefits. The 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 the Actuarial Accrued Liability ("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 such as the price and wage inflation are assumed to be 2.75 percent and 3 percent, respectively. 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 AAL, which is the present value of future retiree healthcare costs attributable to employee service earned in prior fiscal years.

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 actuarial valuation as of June 30, 2013, the pay-as-you go funding policy results in an unfunded AAL of $64.57 billion as of June 30, 2013. Additionally, the pay-as-you go funding policy results in an annual OPEB cost of $5.12 billion, estimated employer contributions of $1.78 billion and an expected net OPEB obligation of $19.46 billion for fiscal year 2013-14. The annual required contribution for fiscal year 2014-15 is estimated at $5.08 billion.

If the previous assumptions had been exactly realized during the year, the actuarial liability would have increased to $67.32 billion as of June 30, 2013. The key factors contributing to a $2.74 billion decrease in expected actuarial liabilities had the previous assumptions been realized are:

- Favorable healthcare claims experience and plan design changes, resulting in a decrease in actuarial liabilities of approximately $5.71 billion.

- Changes in demographic experience (including more members retiring, retiring earlier, and living longer than assumed) caused actuarial liabilities to increase by $0.25 billion.

- Changes in OPEB related assumptions and methods (inflation assumptions changing from 3.00 to 2.75 percent, impacting the discount rate, wage inflation, and salary increases) increased actuarial liabilities by $2.72 billion.

The valuation depended primarily on the interest discount rate assumption used to develop the present value of future benefits and on the assets available to pay benefits. The discount rate of 4.25 percent represents the long-term expectation of the earnings on the state's General Fund, which is invested in short-term securities in the PMIA. 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 23
OPEB Pay-As-You-Go Funding
Fiscal Years 2009-10 to 2013-14

(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]
2009-10	$3.93	$1.37	35%	$7.25	$59.91	341%
2010-11	4.21	1.58	38	9.88	62.14	345
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[a]	5.12	1.78	35	19.46	N/A	N/A

[a] Net employer contribution and Net OPEB Obligation estimated for fiscal year ending June 30, 2014.
[b] Amounts are projected as of the valuation date.
Source: State of California OPEB Valuation as of June 30, 2013.

The following table illustrates the state's budget for postemployment benefits from fiscal years 2007-08 to 2014-15 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 the retiree's health benefits. The state also contributes 90 percent of this average for the health benefits of each of the retiree's dependents. CSU employees fully vest for the 100/90 formula at 5 years of service. As noted below, employees in bargaining unit 12, hired after January 1, 2011, are subject to a longer vesting period.

TABLE 24
Actual Costs/Budget for Other Postemployment Benefits
Fiscal Years 2007-08 through 2014-15

(Dollars in Thousands)

Fiscal Year	State Employees All Funds[c]	State Employees General Fund	CSU Employees All General Fund	Total Contributions All Funds	Total General Fund Contributions
2007-08	1,114,317	1,051,486	N/A	1,114,317	1,051,486
2008-09	1,183,495	1,146,932	N/A	1,183,495	1,146,932
2009-10	1,182,497	1,145,934	N/A	1,182,497	1,145,934
2010-11	1,386,839	1,351,008	N/A	1,386,839	1,351,008
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	1,359,224[b]
2013-14[a]	1,420,250	1,416,242	245,794	1,666,044	1,662,036
2014-15[a]	1,559,336	1,553,336	270,144	1,829,480	1,823,480

(a) Estimated Contributions.

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

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

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.

PENSION TRUSTS

General

The principal retirement systems in which the state participates or contributes funds to 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, 2013. See "FINANCIAL STATEMENTS."

The University of California ("UC") maintains a separate retirement system. From fiscal years 1990-91 through 2011-12, no amounts from the state's General Fund directly contributed to UC's retirement system. The 2012 Budget Act and Chapter 31 of the Statutes of 2012 provided \$89.1 million in state General Fund appropriations for UC's employer retirement contributions for fiscal year 2012-13; this funding does not constitute a state obligation to provide funding after fiscal year 2012-13 for additional UC employer retirement costs.

The 2013 Budget Act did not allocate any of UC's appropriation specifically to fund its employer retirement costs, however, the 2013 Budget Act and Chapter 50 of the Statutes of 2013 shifted funding for UC's general obligation and lease revenue bond debt service into UC's main support appropriation, authorized UC to restructure its debt, and required UC to use any savings from restructuring of debt to reduce the existing unfunded liability of the UC's retirement plan. Information about this system may be obtained directly from UC. The 2014 Budget Act does not allocate any of UC's appropriation specifically to fund their employer retirement costs.

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.

This section contains certain information relating to CalPERS and CalSTRS. The information 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 and will replace GASB Statement 27 and most of GASB Statements 25 and 50. The changes will impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: 1) the inclusion of unfunded pension liabilities on the government's balance sheet (currently, such unfunded liabilities are typically included as notes to the government's financial statements); 2) more components of full pension costs will be shown as expenses regardless of actual contribution levels; 3) lower actuarial discount rates will be required to be used for underfunded plans in certain cases for purposes of the financial statements; 4) closed amortization periods for unfunded liabilities will be required to be used for certain purposes of the financial statements; and 5) the difference between expected and actual investment returns will be recognized over a closed five-year smoothing period.

In addition, GASB Statement 68 states that, for pensions within the scope of the statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions, and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on CalPERS and CalSTRS is not known at this time. The reporting requirements for pension plans will take effect for the fiscal year beginning mid-2013 and the reporting requirements for government employers will take effect for the fiscal year beginning mid-2014. The impact of new GASB reporting requirements will be reflected in the CalPERS and CalSTRS Comprehensive Annual Financial Reports for year ended June 30, 2014. The impact of new GASB reporting requirements will be reflected in the CalPERS and CalSTRS Comprehensive Annual Financial Reports for year ended June 30, 2014.

Pension Reform

PEPRA

Chapter 296, Statutes of 2012 (AB 340), a comprehensive pension reform package affecting state and local government, increased the retirement age and lowered retirement benefits for most new state and local government employees hired on or after January 1, 2013. AB 340, known as the Public Employees' Pension Reform Act of 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 would be 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. PEPRA also directs state savings from additional employee contributions to be used toward additional payments on the state's unfunded liability, subject to Budget Act approval. The 2014 Budget Act includes an additional $102.7 million ($70.9 million General Fund) directed toward the state's unfunded pension liability to reflect the savings resulting from increased employee contributions under PEPRA.

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:

- New, lower defined-benefit formulas that increase retirement ages for new public employees hired on or after January 1, 2013.

- For new employees, a cap on pensionable income in the 2013 calendar year of \$113,700, or \$136,440 (for employees not in Social Security). Annual increases on the cap would be limited to the Consumer Price Index for All Urban Consumers. As of January 1, 2014, the cap on pensionable income was adjusted to \$115,064, or \$138,077 (for employees not in Social Security).

- A standard that employees pay at least 50 percent of normal costs.

- Establishes increases for current state civil service and related excluded employees who are not contributing at least half of normal costs.

- CSU and judicial branch employees hired on or after January 1, 2013 will pay at least 50 percent of the normal cost or the current contribution rate of similarly situated employees, whichever is greater.

- Chapter 528, Statutes of 2013, (SB 13) made clarifying and technical amendments to PEPRA which authorizes CSU, on or after January 1, 2019, to impose higher employee contribution rates on CSU members hired before January 1, 2013. SB 13 also directs savings from increased CSU employee contributions to be retained by the university.

Costs for OPEB are not addressed in PEPRA, however, later retirement ages will help reduce OPEB liabilities in the long term.

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 state contribution levels in the long term. See "CalSTRS Funding Solution."

On August 20, 2014, the CalPERS Board voted to submit to the Office of Administrative Law for further review proposed regulations on the type of pay items that can be counted in an employee's pension calculation upon retirement. The regulations affect only state and local government employees hired after January 1, 2013.

CalPERS included approximately 100 types of pay items as permitted by the state's recent pension-reform legislation. All of the major cost-savings components of the pension reform law (including lower benefit formulas, cap on pensionable income, and a three-year final compensation period) remain intact.

The Administration does have a disagreement with CalPERS over one pay item included in the proposed regulations – for temporary pay upgrades ("out-of-class" pay). In 2013, no state employees subject to the pension-reform law received an out-of-class pay differential. As the workforce turns over, the Department of Finance estimates that, after 30 years, approximately 1,000 employees (less than one-half of one-percent of today's Executive Branch workforce) could receive an out-of-class pay premium in a given year.

CalSTRS Funding Solution

As described in "PENSION TRUSTS – CalSTRS," the funding of the CalSTRS Defined Benefit Plan (referred to in the state's 2013 Financial Statements and in this APPENDIX A as 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 2013 and 2014, the Governor, the Legislature and CalSTRS worked to develop an approach to addressing the long-term funding needs of the DB Program.

The 2014 Budget Act contained this legislative solution and on June 24, 2014, the Governor signed AB 1469, a comprehensive funding solution intended to eliminate the current CalSTRS unfunded liability on the DB Program by 2046. The plan will start modestly in fiscal year 2014-15 to provide state, schools, and teachers sufficient time to prepare for future increases in contributions. The plan directs an estimated $276 million ($59.1 million from the state's General Fund) in additional contributions to the DB Program from all three entities in fiscal year 2014-15.

Under the plan, 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, phased in over time on July 1, 2014, July 1, 2015 and July 1, 2016.

School (employer) contributions will increase from 8.25 percent to a total of 19.1 percent of creditable compensation, phased in on each July 1 from 2014 through 2020. These school contributions will be paid from existing revenue sources.

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.

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 effect the funded status of CalSTRS.

CalPERS

General

At June 30, 2013, CalPERS administered 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 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 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 employees.

PERF

PERF is a multiple-employer defined benefit retirement plan. In addition to the state, employer participants at June 30, 2013 included 1,580 public agencies and schools (representing more than 2,500 entities). 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 PERF. Other public agencies can elect whether or not to participate in PERF or administer their own plans. Members of PERF 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 PERF, 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 PERF assets.

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

<u>Members</u>

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

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

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

The following table reflects the number of state employee members of PERF as of June 30, 2012 and June 30, 2013. (PERF's fiscal year commences July 1 and ends June 30 of the following year).

TABLE 25
PERF Membership (State Employees) as of June 30, 2012 and 2013

Category	2012	2013
Retirees	169,657	175,851
Survivors and Beneficiaries	26,567	28,785
Active Members	244,171	243,620
Inactive Members	91,428	90,463
Total	531,823	538,719

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2012 and June 30, 2013.

Retirement Benefits

For state employees, annual benefits depend on the particular employee's employment category and are generally determined by taking into account years of service credit, final compensation, and age of retirement. Depending on the employment category, annual benefits generally range from 2 percent of final compensation (generally meaning the average pay rate and special compensation over the last one year or three consecutive years of employment, unless the member elects a different period with a higher average) 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). Annual benefits are also 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 benefit. Benefits also generally include disability and death benefits. A detailed description of the benefits payable by PERF to state employees is set forth in CalPERS actuarial valuations.

Legislation enacted in October 2010 as part of the state's budget for fiscal year 2010-11 (SB 22, Chapter 3, Sixth Extraordinary Session of 2010) ("SBX6 22") made changes to the retirement formula for state employees hired after January 15, 2011, unless an earlier date was agreed upon in a collective bargaining agreement. Generally, the formula for receiving full retirement benefits was restored to the provisions in effect prior to 1999, when a law increased the percentage formula and reduced the age at which employees could obtain maximum benefits; these formulas vary depending on the category of employment.

SBX6 22 also addressed the problem of pension "spiking" by generally requiring the retirement formula for future employees not currently in the three-year formula to be based on an average of pay in three consecutive years, rather than being based on the single highest year's pay. These reforms will not significantly impact state retirement costs until many years in the future. However, there are also current savings from most existing and future employees contributing a greater percentage, ranging from two to five percent, of their salaries toward future pension benefits. These increases were collectively bargained and extended to most non-represented employees.

AB 340 is a comprehensive pension reform package impacting state and local governments that increased retirement age and reduced benefits for most new employees. See "PENSION TRUSTS – Pension Reform."

The following table shows the amount of benefits paid from PERF for fiscal years 2006-07 through 2011-12.

TABLE 26
PERF (State Only)
Schedule of Benefits Paid

(Dollars in Millions)

Fiscal Year	**Amount of Benefits Paid**
2006-07	$4,352
2007-08	4,741
2008-09	5,037
2009-10	5,485
2010-11	6,017
2011-12	6,711

Source: CalPERS State and Schools Actuarial Valuation for fiscal years ended June 30, 2007 through June 30, 2012. The State and Schools Actuarial Valuation for fiscal year ended June 30, 2013 is expected to be released in late summer 2014.

Member Contributions

The benefits for state employees in PERF are funded by contributions from members, the state, and earnings from investments. Member and state contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and vary by bargaining units within the same employee classification. The required contribution rates of active plan members are based on a percentage of salary in excess of a base compensation amount ranging from $0 to $863 monthly, and range from 1.5 to 12 percent.

Actuarial Methods

Generally, the ultimate cost that PERF incurs is equal to benefits paid plus the expenses resulting from administration. These costs are paid through contributions to the plan and investment earnings on PERF's assets. Using the state plan's schedule of benefits, member data, and a set of actuarial assumptions, CalPERS' actuary estimates the cost of the benefits to be paid. Then, using the actuarial funding method determined by CalPERS (as described below), the actuary allocates these costs to the fiscal years within the employee's career. CalPERS' financial objective is to fund in a manner which keeps contribution rates approximately as a level percentage of payroll from generation to generation, while accumulating sufficient assets over each member's working career.

The primary funding method used to accomplish this objective is the "Entry Age Normal Cost Method." New GASB standards will require all states and local governments with pension liabilities to use the Entry Age Normal Cost Method beginning in fiscal year 2014-15 if they are not already doing so. Annual actuarial valuations are performed as of each June 30. Information through the most recent valuation date of June 30, 2012 is set forth below. According to

CalPERS, the actuarial assumptions and methods used by CalPERS for funding purposes meet the current parameters set for disclosures presented in the Financial Section by GASB Statements 25 and 27.

Under the Entry Age Normal Cost Method, projected benefits are determined for all members. For active members, 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 AAL for members currently receiving benefits, for active members beyond the assumed retirement age, and for inactive members entitled to deferred benefits is equal to the present value of the benefits expected to be paid. No normal costs are applicable for these participants. The excess of the total AAL over the value of plan assets is called the unfunded actuarial accrued liability. The required contribution is then determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payroll.

With respect to CalPERS, the unfunded liability is broken down into components, or bases, according to their date of origin and the cause that gave rise to that component. A component of the unfunded liability that arose due to a change in plan provisions or in actuarial methods or assumptions is separately tracked and amortized over a declining 20-year period. The actuarial assumptions discussed below are used to determine projected benefits. The effect of differences between those assumptions and the actual experience of the plan is calculated each year when the annual actuarial valuation is performed. These differences are actuarial gains or losses.

Gains and losses are tracked separately and amortized over a rolling 30-year period (except as described below with respect to gains and losses in fiscal years 2008-09 through 2010-11). A maximum 30-year amortization payment on the entire unfunded liability is enforced on the amortization methods described above. In addition, when the amortization methods described above result in either mathematical inconsistencies or unreasonable actuarial results, all unfunded liability components are combined into a single base and amortized over a period of time, as determined by the CalPERS Chief Actuary. There is a minimum employer contribution equal to normal cost, less 30-year amortization of surplus (negative unfunded liability), if any.

In 2009, the CalPERS Board adopted a change to the amortization policy, described in the following section. This change resulted in all actuarial gains and losses for fiscal years 2008-09, 2009-10, and 2010-11 to be amortized over a fixed 30-year period instead of a rolling 30-year period. The rolling 30-year period for amortization resumed with actuarial gains and losses for fiscal year 2011-12.

In April of 2013, the CalPERS Board adopted new amortization and smoothing methodologies. The new methodologies replace the current 15-year asset-smoothing policy with a 5-year direct-rate smoothing process and replace the current 30-year rolling amortization of actuarial gains and losses with a 30-year fixed amortization period. See the following section for further detail.

<u>Actuarial Valuation; Determination of Required Contributions</u>

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. The actuarial value of assets is used to determine the required employer contributions. Various methods exist for calculating the actuarial value of assets. Since 2005, CalPERS has recognized investment gains and losses on the market value of assets equally over a 15-year period when determining the actuarial value of assets. (This is referred to as "smoothing.") The recognized portion is added to the gains and losses and (except as described herein) is amortized over a rolling 30-year period (as described herein under "Actuarial Methods"). This is currently an approved method for determining actuarial value of assets under GASB Statements 25 and 27.

Asset smoothing delays recognition of gains and losses, however, thereby providing an actuarial value of assets that does not reflect the market value of pension plan assets at the time of measurement. As a result, presenting the actuarial value of assets as determined using "smoothing" might provide a more or less favorable presentation of the current financial position of a pension plan than would a method that recognizes investment gains and losses annually. As discussed under the caption "PENSION TRUSTS – General," beginning in fiscal year 2014-15, GASB Statement 68 will require state and local governments with pension liabilities to recognize the difference between expected and actual investment returns over a closed 5-year period. CalPERS will continue to set contributions based on an actuarial value basis until fiscal year 2015-16, at which time CalPERS will implement a new direct-rate smoothing policy as described below.

In addition to the use of "smoothing," as described above, when CalPERS sets contribution rates, the actuarial value of assets generally cannot be more than 120 percent of the market value or less than 80 percent of the market value (referred to as the "corridor"). Any asset value changes outside these ranges will be recognized immediately, and will result in a greater impact on future state contribution rates. However, in 2009 CalPERS adjusted the "corridor" to mitigate the effects of a negative 24 percent fiscal year 2008-09 investment loss.

According to CalPERS, the 3-year phase-in of the fiscal year 2008-09 investment loss is achieved by temporarily relaxing the constraints on the smoothed value of assets. Previously, the actuarial value of assets could not be more than 120 percent of the market value or less than 80 percent of the market value. Under the 3-year phase in, assets are treated as follows:

1. For the June 30, 2009 actuarial valuations of the State plans setting the contribution requirements for fiscal year 2010-11, the actuarial value of assets cannot be more than 140 percent of the market value or less than 60 percent of the market value.

2. For the June 30, 2010 actuarial valuations of the State plans setting the contribution requirements for fiscal year 2011-12, the actuarial value of assets cannot be more than 130 percent of the market value or less than 70 percent of the market value.

3. For the June 30, 2011 actuarial valuations of the State plans setting the contribution requirements for fiscal year 2012-13, the actuarial value of assets cannot be more than 120 percent of the market value or less than 80 percent of the market value.

Lastly, the asset loss outside of the 80 – 120 percent corridor will be isolated, and paid down with a fixed and certain 30-year amortization schedule. By utilizing a fixed and certain 30-year payment schedule, these losses will be paid in full at the end of 30 years, and will be independent of any investment gain/loss experienced by the remaining portfolio as a whole.

The use of "smoothing" and the "corridor" described above will mitigate short term increases in the state's required annual contribution. While this will limit extreme increases in the state's required annual contribution to CalPERS in the near term, absent investment returns significantly over and above the 7.5 percent assumed by CalPERS, it is expected to result in significantly higher required contributions in future fiscal years.

Depending on actual investment returns and other factors, the state's required annual contribution to PERF could increase significantly. The contribution, not including CSU, is estimated to be \$4.0 billion for fiscal year 2014-15, approximately \$2.1 billion of which is payable from the General Fund. In addition, CSU's contribution is estimated to be approximately \$542.8 million for fiscal year 2014-15, approximately \$542.5 million of which is payable from the General Fund.

At the April 16 and 17, 2013, meetings, the CalPERS Board approved a plan to replace the current 15-year asset-smoothing policy with a 5-year direct-rate smoothing process and replace the 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 2008-09 investment losses) of the state plans in the near term. Under the CalPERS Board action, actual rates for the state will not be set using the new methods until fiscal year 2015-16, reflected in the June 30, 2014 valuation. The impact of the new amortization and smoothing policies are estimated to increase state retirement contributions (including CSU) by \$200 million in fiscal year 2015-16 and \$400 million in fiscal year 2016-17, roughly half of those increases coming from the General Fund.

Actuarial Assumptions

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, 2009 through June 30, 2012.

TABLE 27
Certain Actuarial Assumptions Utilized for PERF

Actuarial Assumption	2009	2010	2011	2012
Investment Returns	7.75%	7.75%	7.50%	7.50%
Inflation	3.00	3.00	2.75	2.75
Salary Increase (Total Payroll)	3.25	3.25	3.00	3.00

Source: CalPERS State and Schools Actuarial Valuation for fiscal years ended June 30, 2009 through June 30, 2012. The State and Schools Actuarial Valuation for fiscal year ended June 30, 2013 is expected to be released in late summer 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 will be phased in over three years, with a twenty year amortization, beginning in 2014-15.

The Department of Finance estimates these changes will incrementally increase state retirement contributions by an additional $430.1 million ($254.2 General Fund) in 2014-15, an additional $267.2 million ($138.0 million General Fund) in 2015-16, and an additional $281.1 million ($152.7 million General Fund) in 2016-17. Since the assumption changes will be fully phased-in by 2016-17, the cumulative additional retirement contributions will be $978.5 million ($545.0 million General Fund). According to CalPERS, the assumption changes are estimated to increase the system’s unfunded liability by approximately $9.0 billion in 2014-15. These estimates only reflect the new assumptions and do not include other natural changes such as actual payroll and investment performance. In April 2014, the CalPERS Board adopted the 2014-15 employer and member retirement contribution rates. The June 30, 2013 State and School actuarial valuation is expected to be available in late summer 2014.

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.

As reflected in the actuarial valuation report for the fiscal year ended June 30, 2012, the investment return for the PERF in fiscal year 2011-12 was 0.1 percent. As a result of this investment return, the funded ratio on an MVA basis was approximately 66.1 percent as of June 30, 2012, as compared to approximately 70.3 percent as of June 30, 2011, and the unfunded liability was approximately $45.5 billion on an MVA basis as of June 30, 2012, as compared to approximately $38.5 billion on an MVA basis as of June 30, 2011.

At the CalPERS Finance and Administration Committee meeting on April 14, 2014, staff presented the employer retirement contribution rates and other actuarial information to be incorporated into the June 30, 2013 Actuarial Valuation, which is anticipated to become available in late summer 2014. According to the agenda materials, the state employer contribution rate increased for all retirement categories, which was primarily a result of the new mortality assumptions adopted by the CalPERS Board at the February 2014 meeting. Additionally, the unfunded liability increased to $49.9 billion as of June 30, 2013 as compared to $45.5 billion as of June 30, 2012 based on market value of assets. The funded status remained at 66.1 percent due to the higher than assumed 13.8 percent investment return for 2012-13, which offset the increased liabilities created by the new mortality assumptions. The full CalPERS Board adopted this item at their April 16, 2014 meeting.

The actuarial report for the fiscal year ended June 30, 2012 can be found on the CalPERS website at http://www.calpers.ca.gov/eip-docs/about/pubs/employer/2012-st-body.pdf.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

TABLE 28
PERF Schedule of Funding Progress
State Employees Only
(Fiscal Years Ended June 30)

(Dollars in Millions)

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13[(a)]
Market Value of Assets (MVA)	$65,488	$74,050	$81,968	$96,988	$91,349	$68,179	$76,266	$91,159	$88,810	$97,453
Actuarial Value of Assets (AVA)	67,081	71,830	77,143	83,439	89,304	93,377	97,346	102,452	106,145	N/A
Actuarial Accrued Liabilities (AAL)-entry age	79,800	86,595	92,557	100,352	107,642	116,827	121,446	129,648	134,314	147,393
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis	(14,312)	(12,545)	(10,589)	(3,364)	(16,293)	(48,648)	(45,180)	(38,489)	(45,504)	(49,940)
Excess of Actuarial Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) AVA Basis	(12,719)	(14,765)	(15,414)	(16,913)	(18,338)	(23,450)	(24,100)	(27,195)	(28,169)	N/A
Covered Payroll	12,624	12,935	13,299	14,571	15,890	16,333	16,281	16,212	15,680	N/A
Funded Ratio (MVA)	82.1 %	85.5 %	88.6%	96.6%	84.9%	58.4%	62.8%	70.3%	66.1%	66.1%
Funded Ratio (AVA)	84.1%	82.9%	83.3%	83.1%	83.0%	79.9%	80.2%	79.0%	79.0%	N/A

Source: CalPERS State and Schools Actuarial Valuation, Fiscal Year Ended June 30, 2012 and prior years.

[(a)] Actuarial information sourced from agenda materials from the April 16, 2014 CalPERS Board meeting. The Actuarial Valuation for June 30, 2013 is anticipated to become available in late summer 2014. Data marked "N/A" will be updated when the June 30, 2013 Actuarial Valuation is released in late summer 2014. http://www.calpers.ca.gov/eip-docs/about/committee-meetings/agendas/financeadmin/201404/item8a-07.pdf

State Contributions

As described above, required contributions to PERF are determined annually on an actuarial basis. Payments into PERF are made from the state and from employee contributions. State contributions are made from the General Fund, special funds, and non-governmental cost funds. From fiscal years 2007-08 to 2014-15, a range of approximately 55 to 63 percent of the state contributions to PERF are made from the General Fund. Table 29 shows the state's actual contributions to PERF for fiscal years 2007-08 through 2012-13 and estimated contributions for fiscal years 2013-14 and 2014-15. The state has made the full amount of actuarially required contribution each year.

TABLE 29
State Contribution to PERF, including CSU
Fiscal Years 2007-08 to 2014-15
Fiscal Year Ending June 30

(Dollars in Thousands)

Fiscal Year	State Employees All Funds[(b)]	State Employees General Fund[(b)]	CSU Employees All Funds	CSU General Fund	Total Contributions	Total General Fund Contributions
2007-08	$2,999,455	$1,649,700	N/A	N/A	$2,999,455	$1,649,700
2008-09	3,063,009	1,684,655	N/A	N/A	3,063,009	1,684,655
2009-10	2,860,787	1,573,433	N/A	N/A	2,860,787	1,573,433
2010-11	3,230,489	1,776,769	N/A	N/A	3,230,489	1,776,769
2011-12	3,174,494	1,745,972	N/A	N/A	3,174,494	1,745,972
2012-13	2,948,137	1,506,043	449,243	449,000	3,397,380	1,955,043[(b)]
2013-14[(a)]	3,219,262	1,644,546	473,798	473,542	3,693,060	2,118,088[(b)]
2014-15[(a)]	4,041,591	2,119,742	542,814	542,520	4,584,405	2,662,262[(b)]

(a) Estimated contributions.

(b) Pension contributions for CSU employees are included for all years displayed in this table. However, beginning in 2012-13, CSU contributions are split out and identified separately.

Source: State of California, Department of Finance.

Prospective Funding Status; Future 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. See the caption "PENSION TRUSTS – General" for a discussion of new standards adopted by GASB. It is not known at this time how these changes in accounting and financial reporting will impact CalPERS' contribution policies.

The following employer contribution rates are included in the 2014 Budget Act:

	Fiscal Year 2014-15 Employer Contribution Rates
State Miscellaneous Tier 1	24.280%
California State University, Miscellaneous Tier 1	24.280
State Miscellaneous Tier 2	24.237
State Industrial	18.134
State Safety	19.338
State Peace Officers & Firefighters	36.827
California State University, Peace Officers and Firefighters	36.827
California Highway Patrol	43.494

In accordance with state law, the actuarial valuation for the fiscal year ended June 30, 2012 includes a sensitivity analysis of discount rates 2 percent lower and 2 percent higher than the current discount rate of 7.5 percent. The analysis displays potential required employer contribution rates assuming that the discount rate was adjusted to rates of 5.5 percent or 9.5 percent over the long term. 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, 2012 contains information concerning the specific impact on employer contribution rates and unfunded liability resulting from these different discount rate assumptions.

The valuation report for PERF for the Fiscal Year ended June 30, 2012 contains a projection of future state contribution rates as a percentage of payroll under different investment return scenarios. However, the projections were prepared prior to the adoption of the actuarial assumption changes adopted by the CalPERS Board on February 20, 2014. (CalPERS indicated that it intends to perform this analysis with each annual valuation.)

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.

CalPERS follows a strategic asset allocation policy that identifies the percentage of funds to be invested in each asset class. Policy targets are typically implemented over a period of several years on market declines and through dollar cost averaging. Listed below is CalPERS' current asset allocation mix by market value and policy target percentages as of March 31, 2014. The strategic allocation policy may be changed by CalPERS from time to time. Additional information concerning CalPERS investments can be found on the CalPERS website.

Asset Class	Actual Investment (Billions)	Actual Investment	Interim Strategic Target [1]
Growth – Public Equity	$155.6	54.0%	50.0%
Growth – Private Equity	31.1	10.8	14.0
Income	45.0	17.0	17.0
Liquidity	12.6	4.4	4.0
Real Estate	24.6	8.5	9.0
Forestland/ Infrastructure	3.8	1.3	2.0
Inflation	9.5	3.3	4.0
Absolute Return Strategy	5.1	1.8	N/A
Multi Asset Class Strategy	1.1	0.4	N/A
Total Fund*	$288.2	100.0%	100.0%

(1) Interim strategic targets adopted by the Investment Committee at the August 2011 Investment Committee Meeting.

* Figures are rounded for viewing purposes.

Source: http://www.calpers.ca.gov/index.jsp?bc=/investments/assets/assetallocation.xml

The following tables set forth the total return on all assets for PERF for the fiscal years ending June 30, 2003 through June 30, 2013, as well as time-weighted average returns.

TABLE 30
CalPERS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Return
2002-03	3.7%
2003-04	16.6
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

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2012 and June 30, 2013.

On July 14, 2014, a CalPERS press release reported a 18.4% return on investments for the twelve months ended June 30, 2014.

TABLE 31
PERF Time-Weighted Average Returns as of June 30, 2013

Period	**Time Weighted Average Rate of Return**
3 years	11.3%
5 years	3.5
10 years	7.1

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2013.

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, 2013, CalPERS reported that JRF had an unfunded actuarial liability of approximately $3.3 billion and JRF II had an unfunded actuarial liability of approximately $58.2 million. In the LRF actuarial report for the year ended June 30, 2013, CalPERS reported that LRF had actuarial value of assets that exceeded the actuarial liability by approximately $7.4 million. In the 1959 Survivor Benefit program actuarial report for the year ended June 30, 2013, CalPERS reported that the program had an unfunded actuarial liability of approximately $37.9 million. The state's fiscal year 2014-15 retirement contributions from the General Fund are estimated to be $176.8 million for JRF, $56.6 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, 2013 attached as APPENDIX E to this Official Statement.

CalSTRS

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 2013 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 AB1469.

As of June 30, 2013 (the fiscal year of the DB Program commences July 1 and ends June 30 of the following year), the DB Program's unfunded actuarial obligation was $73.7 billion (66.9 percent funded ratio) based on an actuarial value of assets basis and $74.4 billion (66.5 percent funded ratio) based on a market value of assets basis. The funding status triggered the requirement for the state to make specified supplemental contributions starting in the fiscal year ended June 30, 2013. See "Funding for the DB Program – State Contributions," "Funding Status" and "Prospective Funding Status; Future Contributions."

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.

The CalSTRS Board appoints a Chief Executive Officer to administer CalSTRS and a Chief Investment Officer to direct investment of CalSTRS' assets in accordance with CalSTRS Board policy. The CalSTRS Board also retains independent actuaries, auditors, and investment advisors. The CalSTRS Board has appointed Crowe Horwath LLP beginning with the fiscal year ended June 30, 2011 to serve as the independent auditor for CalSTRS, Pension Consulting Alliance to provide asset allocation and other investment analyses and Milliman, Inc. (the "CalSTRS Consulting Actuary") to provide actuarial services to CalSTRS and for conducting specialized studies at the request of CalSTRS staff. The CalSTRS System Actuary, a CalSTRS employee, is responsible for reviewing the CalSTRS Consulting Actuary's work for quality control purposes and also conducts day-to-day analyses as requested by CalSTRS staff.

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

Members and Employers

As of June 30, 2013, the DB Program included 1,660 employers. The following table reflects the total number of members in the DB Program as of June 30, 2013 and 2012.

TABLE 32
DB Program Membership

Membership	June 30, 2013	June 30, 2012	Percent Change
Active Members	416,643	421,499	(1.2)%
Inactive Members	182,576	178,655	2.2
Retirees and Beneficiaries	269,274	262,038	2.8
Total Membership	868,493	862,192	0.7

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2013.

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 seven fiscal years:

TABLE 33
DB Program
Schedule of Benefits Paid and Administrative Expenses

(Dollars in Millions)

Fiscal Year	Amount of Benefits Paid	Administrative Expenses
2006-07	$ 7,168	$106
2007-08	7,823	109
2008-09	8,604	113
2009-10	9,358	140
2010-11	10,092	110
2011-12	10,677	138
2012-13	11,355	137

Source: CalSTRS Comprehensive Annual Financial Reports for Fiscal Years ended June 30, 2007 through 2013.

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.

In 2013 and 2014, the Governor, the Legislature and CalSTRS worked to develop an approach to addressing the long-term funding needs of the DB Program. On June 24, 2014, the Governor signed AB 1469, a comprehensive 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.

Based on the most recent actuarial valuation, as of June 30, 2013, an unfunded obligation exists for the benefits in place as of July 1, 1990, which triggered the supplemental payments for the fiscal year ending June 30, 2012 at a contribution rate of 0.524 percent starting October 1, 2011. An appropriation for this supplemental contribution was included in the 2011 Budget Act. An increased supplemental contribution rate to 0.774 percent was included in the 2012 Budget Act and 1.024 percent was included in the 2013 Budget Act.

Under AB 1469, the state will continue to make a supplemental contribution tied to the unfunded obligation that existed for the benefits in place as of July 1, 1990. The 2014 Budget Act includes an increased supplemental contribution rate of 1.437 percent. The state's supplemental contribution increases to 2.874 percent on July 1, 2015, and to 4.311 percent on July 1, 2016 for fiscal year 2016-17 through fiscal year 2045-46. 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 following table displays the annual actuarially required contributions, the actual contributions for employers, and the percentage of the actuarially required contribution that has been funded by the employers and the state for the last six fiscal years. Contributions from the state are displayed for the budget year and the previous seven fiscal years.

TABLE 34
DB Program
Schedule of Contributions from Employers and the State

(Dollars in Millions)

Fiscal Year	Annual Actuarially Required Contribution[(a)]	Contributed by Employers[(b)]	Contributed by State[(c)]	Total Contributed	Percent of Actuarially Required Contribution Contributed
2007-08	$4,362	$2,363	$501	$2,864	66%
2008-09	4,547	2,331	536	2,867	63
2009-10	4,924	2,130	563	2,693	55
2010-11	5,985	2,228	568	2,796	47
2011-12	6,230	2,166	653	2,819	45
2012-13	6,629	2,192	718	2,910	44
2013-14	Not yet released	Not yet released	779	Not yet released	Not yet released
2014-15	Not yet released	Not yet released	904	Not yet released	Not yet released

(a) For the DB Program Annual Required Contribution for employers and state, an open amortization period of 30 years is used by the CalSTRS Consulting Actuary to determine the unfunded actuarial liability.

(b) For employer contributions, amounts are reduced by the amount of transfers to the Medicare Premium Program.

(c) State of California, Department of Finance; fiscal years ending June 30, 2014 and 2015 are estimated; amount contributed by state in fiscal year 2007-08 differs from amount reflected in CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2012 due to timing issues. The fiscal years ending June 30, 2012, 2013, 2014, and 2015 include the pre-1990 benefit described on the previous page. For 2012, the 0.524 percent contribution equates to $106.5 million, for 2013, the 0.774 percent contribution equates to $188.0 million, for 2014, the 1.024 percent contribution equates to $251.5 million and for 2015, the 1.437 percent contribution equates to $376.0 million.

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2013 (except as noted in footnote (c) to this Table 34).

Actuarial Methods and Assumptions

Although contributions are set by statute, the CalSTRS Consulting Actuary 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 20, 2014 (the "2013 CalSTRS Valuation"), was prepared as of June 30, 2013, and is available on the CalSTRS website. The actuarial assumptions and methods used in the 2013 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 2013 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 Statement 68 will 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, 2013.

On June 25, 2012, GASB adopted Statement 67, which is effective beginning in fiscal year 2013-14. See the caption, "PENSION TRUSTS – General." GASB Statement 67 will change the rate used to discount projected benefit payments to their present value (the "Discount Rate") for underfunded pension plans under specific conditions. GASB has stated that GASB Statement 67 will require the Discount Rate for some insufficiently funded plans to be based on a single rate that reflects a blend of the actuarially assumed investment return and the yield or index rate on tax-exempt 20-year AA/Aa-or-higher rated general obligation municipal bonds. There can be no assurance that such change will not apply to the DB Program. The final text of GASB Statement 67 was released on August 2, 2012, and the full effect on the new standards on CalSTRS financial statements is not known at this time. CalSTRS staff has indicated on a preliminary basis that the application of a lower Discount Rate would increase the reported unfunded liability for the DB Program.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

TABLE 35
Certain Actuarial Methods and Assumptions Utilized For DB Program
Fiscal Year Ending June 30

	2010	2011	2012	2013
Methods				
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	7.75%	7.50%	7.50%	7.50%
Interest on Accounts	6.00	4.50	4.50	4.50
Wage Growth	4.00	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, 2010, 2011, 2012, and 2013.

Actuarial Valuation

According to CalSTRS and as reflected in the 2013 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.

See the caption "Actuarial Methods and Assumptions" above for a discussion of expected changes in GASB standards that could change the Discount Rate used to calculate the DB Program's unfunded actuarial obligation from a long-term assumed investment rate of return to a blend of the long term assumed investment rate of return and a yield or index rate.

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 2013 CalSTRS Valuation, due to the asset smoothing method, approximately one-third of the approximately $1.06 billion investment loss was recognized in June 30, 2013 (the difference between the AVA and MVA in Table 36 below). As discussed under the caption "PENSION TRUSTS – General," 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. It is not known at this time how this change will impact the DB Program.

Funding Status

The following table sets forth the schedule of funding progress as of the ten 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.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

TABLE 36
DB Program Schedule of Funding Progress
(Fiscal Years Ended June 30)

(Dollars in Millions)

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Market Value of Assets (MVA)[a]	NA	NA	NA	NA	NA	NA	$117,129	$140,040	$134,835	$147,907
Actuarial Value of Assets (AVA)	$114,094	$121,882	$131,237	$146,419	$155,215	$145,142	140,291	143,930	144,232	148,614
Actuarial Accrued Liabilities (AAL)-entry age	138,254	142,193	150,872	167,129	177,734	185,683	196,315	208,405	215,189	222,281
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis[a]	NA	NA	NA	NA	NA	NA	(79,186)	(68,365)	(80,354)	(74,374)
Excess of Actuarial Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) AVA Basis	(24,160)	(20,311)	(19,635)	(20,710)	(22,519)	(40,541)	(56,024)	(64,475)	(70,957)	(73,667)
Covered Payroll	22,589	23,257	24,240	25,906	27,118	27,327	26,275	25,576	25,388	25,479
Funded Ratio (MVA)[a]	NA	NA	NA	NA	NA	NA	60%	67%	63%	67%
Funded Ratio (AVA)	83%	86%	87%	88%	87%	78%	71%	69%	67%	67%

[a] The CalSTRS Comprehensive Annual Financial Report reports the SBMA assets with DB Program assets and does not provide a separate accounting of only the DB Program assets. Therefore, market values for DB Program assets were not available for the fiscal years ended June 30, 2004 to 2009. The market value of the DB Program assets (without SBMA assets) for the fiscal year ended June 30, 2010, June 30, 2011, June 30, 2012, and June 30, 2013 was provided by the CalSTRS Consulting Actuary.

Source: CalSTRS Actuarial Valuations for Fiscal Years ended June 30, 2004 through 2013.

According to the CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2013, the market value of the entire DB Program investment portfolio (including the SBMA assets) was \$165.8 billion, an increase from \$150.6 billion or 10.1 percent over June 30, 2012.

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.

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 effect the funded status of CalSTRS. Once the actuarial valuation for the DB Program as of June 30, 2014 is released, the impact of the changes in contribution rates made pursuant to AB 1469 on the funded status of the DB Program will be available.

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. See "General" above.

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. Listed below is CalSTRS current asset allocation mix by market value and guideline target percentages. The strategic allocation guidelines may be changed by the CalSTRS Board from time to time. Additional information concerning CalSTRS investments can be found on the CalSTRS website.

Asset	Market Value (Millions)[1]	Actual %[1]	Current Target %[2]
Global Equity	$ 105,833	57.3%	55.0%
Fixed Income	29,262	15.8	17.0
Real Estate	22,078	11.9	13.0
Private Equity	21,207	11.5	13.0
Cash	3,735	2.0	1.0
Inflation Sensitive	1,266	0.7	1.0
Absolute Return	1,442	0.8	0.0
Total Investment Assets	$184,823	100.0%	100.0%

(1) As of May 31, 2014.
(2) Target Allocation adopted September 10, 2013.
Source: http://www.calstrs.com/current-investment-portfolio

The following table sets forth the total return on all CalSTRS' assets (including the DB Program assets) for the fiscal years ended June 30, 2003 through June 30, 2013, as well as time-weighted average returns.

TABLE 37
CalSTRS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Return
2002-03	3.41%
2003-04	17.38
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

Source CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2013.

On July 14, 2014, a CalSTRS press release reported a 18.7% return on investments for the twelve months ended June 30, 2014.

TABLE 38
CalSTRS Time-Weighted Average Returns as of June 30, 2013

Period	Time-Weighted Rate of Return
3 years	12.57%
5 years	3.72
10 years	7.53

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2013.

Funding for the SBMA

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

State Contributions. 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 summarizes funding of the SBMA during the nine fiscal years ending June 30, 2015. The Education Code requires the state to continue contributions to the SBMA and that the unused balances remain in the SBMA even if they exceed the amounts required to be paid to beneficiaries.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

TABLE 39
SBMA Funding

Fiscal Year	General Fund Contributions[1]	Benefit Payments	Interest	Reserve
2006-07	$ 598,390,798	$224,130,894	$224,218,226	$3,399,499,340
2007-08	1,121,500,844[2]	223,337,493	271,959,947	4,569,622,638
2008-09	597,474,363[3]	341,069,179	365,569,811	5,302,830,510
2009-10	684,935,046	266,244,852	424,226,441	6,112,989,062
2010-11	689,633,129	245,823,604	489,039,125	6,988,857,762
2011-12	662,743,780	234,612,293	554,436,996	8,283,302,000
2012-13	641,762,636	221,451,000	Not yet released	9,269,803,000
2013-14[4]	581,260,411	Not yet released	Not yet released	Not yet released
2014-15[4]	582,183,634	Not yet released	Not yet released	Not yet released

[1] State of California, Department of Finance; fiscal years ending June 30, 2014 and 2015 are estimated.

[2] In the fiscal year ended June 30, 2004, the Legislature reduced the planned $558,867,986 contribution by $500 million. After litigation, the state was ordered to repay the $500 million with interest. The principal amount was repaid in the fiscal year ended June 30, 2008, and the interest is to be paid in four annual installments beginning with the fiscal year ended June 30, 2010. The interest payments are included in the contribution amounts for the respective years.

[3] The Education Code was amended to reduce the amount transferred from the General Fund and to provide that the transfer be made in two equal payments, one on November 1 and the second on April 1.

[4] Estimated.

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2013 and a 2011 Report to the Governor and the Legislature (except as noted in footnote 1 to this Table 39).

THE BUDGET PROCESS

General

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 Governor's Budget, the Legislature takes up the proposal. As required by the Balanced Budget Amendment ("Proposition 58") and as described below, 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.

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. Pursuant to

Proposition 25, enacted on November 2, 2010, the Budget Act (or other appropriation bills and "trailer bills" which are part of a budget package) must be approved by a majority vote of each House of the Legislature. (This was a reduction from a requirement for a two-thirds vote.) 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 majority 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.

Constraints on the Budget Process

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 state's General Fund or special fund revenues, or otherwise limited the Legislature and the Governor's discretion in enacting budgets. Historic examples of provisions that make it more difficult to raise taxes include Proposition 13, passed in 1978, which, among other things, required that any change in state taxes enacted for the purpose of increasing revenues collected pursuant thereto, whether by increased rates or changes in computation, be approved by a two-thirds vote in each house of the Legislature, and Proposition 4, approved in 1979, which limits government spending by establishing an annual limit on the appropriation of tax proceeds. Examples of provisions restricting the use of General Fund revenues are Proposition 98, passed in 1988, which mandates that a minimum amount of General Fund revenues be spent on local education, and Proposition 10, passed in 1998, which raised taxes on tobacco products and mandated how the additional revenues would be expended. See "STATE FINANCES – Proposition 98 and K-14 Funding" and "- Sources of Tax Revenue – Taxes on Tobacco Products."

Constitutional amendments approved by the voters have also affected the budget process. These include Proposition 49, approved in 2002, which requires the expansion of funding for before and after school programs. Proposition 58, approved in 2004, which requires the adoption of a balanced budget and restricts future borrowing to cover budget deficits; Proposition 63, approved in 2004, which imposes a surcharge on taxable income of more than $1 million and earmarks this funding for expanded mental health services; Proposition 1A, approved in 2004, which limits the Legislature's power over local revenue sources, and Proposition 1A, approved in 2006, which limits the Legislature's ability to use sales taxes on motor vehicle fuels for any purpose other than transportation. Propositions 22 and 26, approved on November 2, 2010, further limit the state's fiscal flexibility. Proposition 25, also passed by the voters in November 2010, changed the legislative vote requirement to pass a budget and budget related legislation from two-thirds to a simple majority. It retained the two-thirds vote requirement for taxes. Proposition 30, approved on November 6, 2012, among other things, placed into the state Constitution the current statutory provisions transferring 1.0625 percent of the state sales tax to local governments to fund realignment; and Proposition 39, also approved on November 6, 2012, among other things, dedicates for five years up to $550 million annually to clean energy projects out of an expected $1 billion annual increase in corporate tax revenue due to reversal of a provision adopted in 2009 that gave corporations an option on how to calculate their state income tax liability.

These approved constitutional amendments are described below.

Balanced Budget Amendment (Proposition 58)

Proposition 58, approved by the voters in 2004, requires the state to enact a balanced budget, and establish a special reserve, and restricts certain future borrowing to cover fiscal year end deficits. As a result of the provisions requiring the enactment of a balanced budget and restricting borrowing, the state would in some cases have to take more immediate actions to correct budgetary shortfalls. Beginning with the budget for fiscal year 2004-05, Proposition 58 requires the Legislature to pass a balanced budget and 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. The balanced budget determination is made by subtracting estimated expenditures from all resources expected to be available, including prior-year balances.

If the Governor determines that the state is facing substantial revenue shortfalls or spending increases, the Governor is authorized to declare a fiscal emergency. He or she would then be required to propose legislation to address the emergency, and call the Legislature into special session for that purpose. If the Legislature fails to pass and send to the Governor legislation to address the fiscal emergency within 45 days, the Legislature would be prohibited from: (i) acting on any other bills or (ii) adjourning in joint recess until such legislation is passed.

Proposition 58 also required the establishment of the Budget Stabilization Account, which is funded by annual transfers of specified amounts from the General Fund, unless suspended or reduced by the Governor or until a specified maximum amount has been deposited.

Proposition 58 also 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 revenue anticipation notes or revenue anticipation warrants currently used by the state), or (ii) inter-fund borrowings.

In connection with the enactment of the 2014 Budget, the Legislature placed a constitutional amendment on the November 2014 ballot which would revise the Proposition 58 requirements. See "CURRENT STATE BUDGET" and "STATE FINANCES - Budget Reserves."

Local Government Finance (Proposition 1A of 2004)

As described under "STATE FINANCES – Local Governments," Senate Constitutional Amendment No. 4 (also known as "Proposition 1A of 2004"), approved by the voters in the November 2004 election, 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 vehicle license fee revenues as of November 3, 2004. Beginning with fiscal year 2008-09, the state was able to borrow up to 8 percent of local property tax revenues, but only if the Governor proclaimed such action was necessary due to a severe state fiscal hardship and two-thirds of both houses of the Legislature approve the borrowing. The amount borrowed is required to be paid back within three years. In addition, the state cannot reduce the local sales tax rate or restrict the authority of local governments to impose or change the distribution of the statewide local sales tax.

The provisions of Proposition 1A of 2004 allowing the state to borrow money from local governments from time to time have been repealed by Proposition 22 of 2010, which permanently prohibits any future such borrowing. However, prior to such repeal, the Amended 2009 Budget Act authorized the state to exercise its Proposition 1A of 2004 borrowing authority. This borrowing generated $1.998 billion that was used to offset state General Fund costs for a variety of court, health, corrections, and K-12 programs. Pursuant to Proposition 1A of 2004, the state was required to repay the local government borrowing no later than June 15, 2013. The 2012 Budget Act included $2.1 billion to fully retire the outstanding obligations, with interest, to be paid from the General Fund, and repayment was made in June of 2013.

Proposition 1A of 2004 also prohibits the state from mandating activities on cities, counties or special districts without providing for the funding needed to comply with the mandates. Beginning in fiscal year 2005-06, if the state does not provide funding for the mandated activity, the requirement on cities, counties or special districts to abide by the mandate is suspended. In addition, Proposition 1A of 2004 expands the definition of what constitutes a mandate on local governments to encompass state action that transfers to cities, counties and special districts financial responsibility for a required program for which the state previously had partial or complete financial responsibility. The state mandate provisions of Proposition 1A of 2004 do not apply to schools or community colleges or to mandates relating to employee rights. The 2014 Budget Act suspends 60 mandates for the 2014-15 fiscal year. The total estimated back cost owed on these post 2004-05 suspended mandates is approximately $900 million, an amount that would be payable if the Legislature had chosen to fund all suspended mandates.

Proposition 1A of 2004 further requires the state to reimburse cities, counties, and special districts for mandated costs incurred prior to fiscal year 2004-05 over a term of years. Chapter 72, Statutes of 2005 (AB 138) requires the payment of mandated costs incurred prior to fiscal year 2004-05 to begin in fiscal year 2006-07 and to be paid over a term of 15 years. The 2014 Budget Act includes a $100 million payment against these claims. The 2014-15 Budget also includes a trigger that could pay up to the remaining $800 million in 2014-15 should revenues rise higher than anticipated.

After School Education Funding (Proposition 49)

An initiative statute, Proposition 49, called the "After School Education and Safety Program Act of 2002," was approved by the voters on November 5, 2002, and required the state to expand funding for before and after school programs in the state's public elementary, middle and junior high schools. The increase was first triggered in fiscal year 2004-05, which increased funding for these programs to $122 million; since 2006-07, these programs have been funded at

$550 million annually. These funds are part of the Proposition 98 minimum funding guarantee for K-14 education and, in accordance with the initiative, expenditures can only be reduced in certain low revenue years. See "STATE FINANCES – Proposition 98 and K 14 Funding."

Mental Health Services (Proposition 63)

On November 2, 2004, the voters approved Proposition 63, the Mental Health Services Act, 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. Chapter 5, Statutes of 2011 (AB 100) allowed the one-time redirection of $861 million of Proposition 63 funds from the reserve in fiscal year 2011-12 for the Early and Periodic Screening, Diagnosis and Treatment ("EPSDT") program, mental health managed care, and mental health services for special education students. Commencing in fiscal year 2012-13, the EPSDT program and mental health managed care are funded with "2011 Realignment" funds as the programs are realigned to counties, mental health services for special education students are funded with Proposition 98 General Fund, and all available Proposition 63 funds are distributed for programs eligible under the Mental Health Services Act.

Transportation Financing (Proposition 1A of 2006)

On November 7, 2006, voters approved Proposition 1A of 2006, which had been placed on the ballot by the Legislature as Senate Constitutional Amendment No. 7, to protect Proposition 42 transportation funds from any further suspensions. Provisions of the state Constitution enacted as Proposition 42 in 2002, permitted the suspension of the annual transfer of motor vehicle fuel sales tax revenues from the General Fund to the Transportation Investment Fund if the Governor declared that the transfer would result in a "significant negative fiscal impact" on the General Fund and the Legislature agreed with a two-thirds vote of each house. The new measure modified the constitutional provisions of Proposition 42 in a manner similar to Proposition 1A of 2004, so that if such a suspension were to have occurred, the amount owed by the General Fund would have had to be repaid to the Transportation Investment Fund within three years, and only two such suspensions could have been made within any 10-year period. In fiscal year 2003-04, $868 million of the scheduled Proposition 42 transfer was suspended, and in fiscal year 2004-05 the full transfer of $1.258 billion was suspended. Budget Acts for fiscal years 2006-07 through 2010-11 all fully funded the Proposition 42 transfer and partially repaid the earlier suspensions. Chapter 11, Statutes of 2010, in the Eighth Extraordinary Session included an elimination of the state sales tax rate on gasoline and an increase in gasoline excise taxes, effectively removing the revenue subject to these restrictions from the state tax system. However, consistent with the requirements of Proposition 1A of 2006, the 2014-15 Budget includes $83 million in 2014-15 to repay a portion of past suspensions. The final payment of $85 million is scheduled for 2015-16.

Proposition 22 – Local Government Funds

On November 2, 2010, voters approved this measure, called the "Local Taxpayer, Public Safety and Transportation Protection Act of 2010," which supersedes some parts of Proposition

1A of 2004, prohibits any future action by the Legislature to take, reallocate or borrow money raised by local governments and redevelopment agencies for local purposes, and prohibits changes in the allocation of property taxes among local governments designed to aid state finances or pay for state mandates. The Proposition 1A borrowing done in 2009 was grandfathered. In addition, by superseding Proposition 1A of 2006, the state is prohibited from borrowing sales taxes or excise taxes on motor vehicle fuels for budgetary purposes (but legislation enacted in 2012 clarifies these funds may be used for short-term cash management borrowing), or changing the allocations of those taxes among local governments except pursuant to specified procedures involving public notices and hearings. Any law enacted after October 29, 2009 inconsistent with Proposition 22 is repealed. Proposition 22 jeopardized the use of funds from the gasoline excise tax that had been used in the 2010 Budget Act to offset General Fund debt service cost on highway bonds and for lending to the General Fund. Passage of this measure jeopardized an estimated $850 million in General Fund relief in fiscal year 2010-11, an amount which had been expected to grow to almost $1 billion by fiscal year 2013-14. The 2011 Budget Act replaced the use of gasoline excise tax for these purposes with truck weight fees and other transportation revenues that may be used for these purposes under Article XIX of the state Constitution. This preserved the 2011 Budget Act allocations for state and local programs while achieving similar levels of General Fund relief to that obtained in the 2010 Budget Act. These debt service offsets were continued in 2012-13 Budget and are now permanent and ongoing.

The inability of the state to borrow or redirect property tax funds reduces the state's flexibility in reaching budget solutions. The state had used these actions for several billion dollars of solutions prior to the enactment of Proposition 22.

Proposition 26 – Increases in Taxes or Fees

On November 2, 2010, voters approved this ballot measure which revises provisions in Articles XIII A and XIII C of the state Constitution dealing with tax increases. The measure 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 is treated as being able to be adopted by majority vote. Furthermore, any increase in a fee beyond the amount needed to provide the specific service or benefit is deemed a tax requiring two-thirds vote. Finally, any tax or fee adopted after January 1, 2010 with a majority vote which would have required a two-thirds vote if Proposition 26 were in place would be repealed after one year from the election date unless readopted by the necessary two thirds vote.

Proposition 25 – On-Time Budget Act of 2010

On November 2, 2010, voters approved this measure that is intended to end budget delays by changing the legislative vote necessary to pass the budget bill from two-thirds to a majority vote and by requiring legislators to forfeit their pay if the Legislature fails to pass the budget bill on time. This measure does not change Proposition 13's property tax limitations in any way. This measure does not change the two-thirds vote requirement for the Legislature to raise taxes. The lower vote requirement also applies to trailer bills that appropriate funds and are identified by the Legislature "as related to the budget in the budget bill." This measure also provides that the budget bill and other bills providing for appropriations related to the budget bill are to take effect immediately upon being signed by the Governor or upon a date specified in the legislation.

Proposition 30 – The Schools and Local Public Safety Protection Act of 2012

On November 6, 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-14 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 – Sources of Tax Revenue."

Proposition 39 – The California Clean Energy Jobs Act

On November 6, 2012, voters approved Proposition 39 thereby amending state statutes governing corporation taxes by reversing a provision adopted in 2009 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 would be increased by $600 million to $825 million per year starting in 2013-14. The measure also, for five years, dedicates 50 percent, up to $550 million, per year from the annual estimate of this increased income to funding of projects that create energy efficiency and clean energy jobs in California.

FINANCIAL STATEMENTS

The Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2013 (the "Financial Statements") are included as APPENDIX E to this Official Statement and incorporated into this 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, 2013 ("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, 2013 through June 30, 2014 and July 1, 2014 through August 31, 2014 are included as EXHIBIT 1 and EXHIBIT 2, respectively, to this 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 this APPENDIX A. Investors are cautioned that interim financial information is not necessarily indicative of results for a fiscal year. Information which may appear in this 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 because of timing differences in the recording of in-transit items.

INVESTMENT OF STATE FUNDS

Moneys on deposit in the State Centralized Treasury System are invested by the State Treasurer in the PMIA. As of August 31, 2014, the PMIA held approximately $35.1 billion of state moneys, and $19.8 billion invested for about 2,531 local governmental entities through the Local Agency Investment Fund ("LAIF"). The assets of the PMIA as of August 31, 2014 are shown in the following table.

TABLE 40
Analysis of Pooled Money Investment Account Portfolio[a]

(Dollars in Thousands)

Type of Security	Amount	Percent of Total
U.S. Treasuries	$ 32,302,476	58.88%
Federal Agency Debentures	2,386,296	4.36
Certificates of Deposit	8,500,015	15.49
Bank Notes	300,000	0.55
Federal Agency Discount Notes	1,419,400	2.59
Time Deposits	5,000,240	9.11
GNMAs	0	0
Commercial Paper	3,708,839	6.76
FHLMC/REMICs	114,523	0.21
AB 55 Loans	334,670	0.61
General Fund Loans	644,300	1.17
Other	149,917	0.27
Total	$ 54,860,676	100.00%

[a] Totals may not add due to rounding.

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

The State's Treasury operations are managed in compliance with the California 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 August 31, 2014 was 233 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 eighty-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."

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

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	John Chiang	Democrat	2006
Treasurer	Bill Lockyer	Democrat	2006
Attorney General	Kamala D. Harris	Democrat	2010
Secretary of State	Debra Bowen	Democrat	2006
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.

Effective July 1, 2013, by way of the Governor's Reorganization Plan, in addition to other entities such as the Department of Finance, the executive branch is principally administered through the following agencies and Secretaries:

1. Business, Consumer Services and Housing,
2. Government Operations,
3. Corrections and Rehabilitation,
4. Labor and Workforce Development,
5. Health and Human Services,
6. Environmental Protection,
7. Natural Resources,
8. Food and Agriculture,
9. Transportation, and
10. Veterans Affairs.

In addition, 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.

Higher Education

California has a comprehensive system of public higher education comprised of three segments: the University of California, the California State University System and California Community Colleges. The University of California provides undergraduate, graduate and professional degrees to students, awarding 63,523 degrees in the 2012-13 school year. The ten

University of California campuses and the Hastings College of Law enrolled 239,357 full time students in the 2012-13 school year. The California State University provides undergraduate and graduate degrees, awarding 101,209 degrees in the 2012-13 school year. The California State University enrolled 358,794 full-time students at the 23 campuses in the 2012-13 school year.

The third segment consists of 112 campuses operated by 72 community college districts, which provide associate degrees and certificates to students. Additionally, students may attend California community colleges ("CCCs") to meet basic skills and other general education requirements prior to transferring to a four-year undergraduate institution. The CCCs awarded 167,946 associate degrees and certificates in the 2012-13 school year. For the 2012-13 school year, approximately 1.1 million full-time equivalent students were enrolled at CCCs.

Employee Relations

The 2014 Budget Act estimates the state work force for fiscal year 2014-15 at approximately 356,000 positions. Approximately 136,000 of those positions represent state employees of the legislative and judicial branches of government and institutions of higher education. Of the remaining 220,000 positions, over 80 percent are subject to collective bargaining under the purview of the Governor and 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.

The scope of representation is limited to wages, hours, and other terms and conditions of employment. Representatives of the Governor are required to meet and confer in good faith and endeavor to reach agreement with the employee organization and, if an agreement is reached, to prepare a memorandum of understanding ("MOU") and present it to the Legislature for ratification. The Governor and the recognized employee organization are authorized to agree mutually on the appointment of a mediator for the purpose of settling any disputes between the parties, or either party could request the Public Employment Relations Board to appoint a mediator.

There are 21 collective BUs that represent state employees. The Service Employees International Union is the exclusive representative for 9 of the 21 BUs, or approximately 50 percent of those represented employees subject to collective bargaining. The International Union of Operating Engineers is the exclusive representative for 2 of the 21 collective BUs. The remaining BUs have their own exclusive representative. Eighteen of the state's 21 BUs have an existing MOU. The following table lists the state's 21 BUs, their exclusive representatives, membership levels, and MOU expiration dates.

TABLE 41
Collective Bargaining Units

Unit	Description	Full-Time Equivalents[a]	MOU Expiration
1, 3, 4, 11, 14, 15, 17, 20, and 21	Service Employees International Union, Local 1000: Various	93,810	7/1/2016
2	California Attorneys, Administrative Law Judges & Hearing Officers in State Employment: Attorneys and Administrative Law Judges	3,869	7/1/2013[b]
5	California Association of Highway Patrolmen: Highway Patrol	6,794	7/3/2018
6	California Correctional Peace Officers Association: Corrections	27,200	7/2/2015
7	California Statewide Law Enforcement Association: Protective Services and Public Safety	6,957	7/1/2016
8	California Department of Forestry Firefighters: Firefighters	5,116	7/1/2017
9	Professional Engineers in California Government: Professional Engineers	11,051	7/1/2015
10	California Association of Professional Scientists: Professional Scientists	2,870	7/1/2013[c]
12	International Union of Operating Engineers: Craft and Maintenance	10,793	7/1/2015
13	International Union of Operating Engineers: Stationary Engineers	952	7/1/2013[d]
16	Union of American Physicians and Dentists: Physicians, Dentists, and Podiatrists	1,517	7/1/2016
18	California Association of Psychiatric Technicians: Psychiatric Technicians	5,914	7/1/2016
19	American Federation of State, County and Municipal Employees: Health and Social Services/Professional	4,885	7/1/2016
Total		181,728	

[a] Full-Time equivalents are from the Table 183, State Controller's Office, March 2014. Figures rounded for display purposes.

[b] Tentative agreement reached on August 14, 2014 is pending both legislative and membership ratification.

[c] Tentative agreement reached on August 12, 2014 is pending both legislative and membership ratification.

[d] Tentative agreement reached on August 21, 2014 is pending both legislative and membership ratification.

Source: Department of Human Resources

The following are major changes in employee compensation and terms of employment in 2014-15, 2015-16, and 2016-17 as a result of the 2013 and 2014 Budget Acts, current MOUs, enacted pension reform legislation, and administratively established compensation adjustments for excluded employees:

- Employee contributions of 0.5 percent of base salary towards prefunding other postemployment retirement benefits for BUs 12 and 16, effective July 1, 2013.

- State contribution of an additional 2 percent of base salary towards prefunding other postemployment retirement benefits for BU 5, effective July 1, 2013.

- BUs 5, 8, 12, 16, 18, 19, and excluded employees associated with BUs 5 and 8 received restructured pay scales that added a top step adjustment of 2 to 5 percent on January 1, 2012. The remaining BUs (1, 2, 3, 4, 6, 7, 9, 10, 11, 13, 14, 15, 17, 20 and 21) and excluded employees received restructured pay scales that added a top step of 2 to 5 percent on July 1, 2013.

- BU 5 employees and the related excluded employees received a 4 percent General Salary Increase (GSI), effective July 1, 2013.

- State contribution, on behalf of BU 5 employees and the related excluded employees, of an additional 1.9 percent of base salary towards prefunding other post-employment retirement benefits, effective July 1, 2013. This contribution shall be in addition to the contributions already being made.

- State contribution of an additional 1.9 percent of base salary towards prefunding other post-employment retirement benefits for BU 5 employees and the related excluded employees, effective July 1, 2015.

- BUs 6, 7, and 9 will receive a GSI ranging from 3 to 4 percent between January 1 and July 1, 2015.

The 2014 Budget Act includes specific salary increases for 15 of the state's collective bargaining units based on agreements reached during the last 12 months. These specific salary increases were originally tied to the concept of a revenue-based "trigger," provided the Director of Finance made the determination that revenues at the 2014-15 May Revision would be sufficient to fully fund existing statutory and constitutional obligations, existing fiscal policy, and the cost of the trigger-based salary increases. The Director of Finance determined that revenues met these criteria at the May Revision and the Budget Act includes $189.2 million ($91.4 million General Fund) to fund these increases, as listed below.

- BU 12 will receive a one-time bonus, effective July 1, 2014, and a 3 percent GSI, effective July 1, 2015.

- BUs 1, 3, 4, 11, 14, 15, 16, 17, 18, 19, 20, and 21 will receive a 2 percent GSI, effective July 1, 2014, and a 2.5 percent GSI, effective July 1, 2015.

- BU 6 will receive a 4 percent GSI, effective January 1, 2015.

- The state and BU 10 reached a tentative agreement on August 12, 2014. Provisions of the agreement include a one-time bonus and a pay differential, both effective October 1, 2014, and a 3 percent GSI, effective July 1, 2015. The agreement is pending ratification by both the Legislature and membership.

- The state and BU 2 reached a tentative agreement on August 14, 2014. Provisions of the agreement include a 2 percent GSI, effective July 1, 2014, and a 2.5 percent GSI, effective July 1, 2015. The agreement is pending ratification by both the Legislature and membership.

- The state and BU 13 reached a tentative agreement on August 21, 2014. Provisions of the agreement include a one-time bonus, effective July 1, 2014, a pay differential, effective July 1, 2014, a 2 percent GSI, effective July 1, 2014, a 2.5 percent GSI, effective July 1, 2015, and a separate pay differential, effective July 1, 2015. The agreement is pending ratification by both the Legislature and membership.

- The state and BU 8 signed a side letter agreement on August 26, 2014. Pursuant to the provisions of the side agreement, BU 8 will receive a 4 percent GSI, effective January 1, 2015. The agreement is pending ratification by both the Legislature and membership.

- \$58.2 million (\$5.8 million General Fund) was approved to address salary parity and inequity issues involving supervisorial and managerial engineers and scientists.

Additionally, the same 2 percent salary increase has been extended to a majority of rank and file members described above to unrepresented state managers and supervisors to avoid salary compaction issues. Managers and supervisors associated with BU 5 and BU 6 will receive the same salary adjustment extended to their rank and file counterparts (6.0 percent on July 1, 2014 and 4 percent on January 1, 2015, respectively).

With the passage of the Public Employees' Pension Reform Act of 2013, state employees in designated bargaining units and associated excluded employees started making additional payroll contributions to their pension plans on July 1, 2013. Generally, the additional employee contribution ranges from 1 to 3 percent, some of which are phased in over a two-year period.

ECONOMY AND POPULATION

Introduction

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, agriculture, manufacturing, tourism, construction and services. California followed the nation's path through the recession and into the recovery. California labor markets deteriorated dramatically during the latter half of 2008 and the first nine months of 2009, suffering their worst losses on record. From July 2007 through February 2010, the state lost 1.3 million nonfarm jobs. These losses switched to very modest gains during 2010 and 2011, which accelerated in 2012. California has gained 1.3 million jobs from February 2010 through April 2014, recovering almost all of the nonfarm jobs lost during the recession. See "CURRENT STATE BUDGET – Development of Revenue Estimates."

Population, Labor Force and Demographic Trends

In 2013, California's population reached 38.2 million residents. California's population gain over the ten years (2003-2013) is 2.8 million persons. To put this in perspective, California added more residents between 2003 and 2013 than the total 2010 population of each of the seventeen least populated states. While the last few years have seen relatively slow growth, this short-term trend is beginning to change. As California's economy continues to improve and employment picks up, California will continue to see stronger population gains.

California's population is projected to be 38.5 million in July 2014 and 38.9 million by July 2015, which allow for growth rates of 0.92 and 0.94 percent respectively. The forecast further assumes that through the next five years, the state will grow at a slightly higher rate than over the last few years, averaging increases of over 360,000 residents annually through 2018.

Natural increase will 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. By July 2018, California is projected to have added 1.8 million people and to reach a population milestone of over 40.0 million due to a five-year growth rate of 4.8 percent.

The dependency ratio is an economic measure which approximates dependency by dividing the dependent-age population (under 18 plus 65 and over) by the working-age (18 to 64) population. The ratio represents the dependent age population per 100 working-age population. The dependency ratio for California's 2010 population stood at 57.1, compared to 59.2 for the remainder of the United States. The dependency ratio ignores labor force participation rates, as well as employment and unemployment levels.

The demographic phenomenon of the baby-boom began in 1946 and ended in 1964, so the first baby-boomers began to turn 65 in 2011. California will experience large growth in the 65 and over age group for the next two decades, as will the United States and much of the world. However, California enjoys a more diverse population that remains younger than most other states in the union. According to the 2010 Census, California's 65 and over age cohort comprised 11.4 percent of the state's population; in the remainder of the United States, the 65 and over groups accounted for 13.3 percent of the population. Only five states have a lower percentage of the population who are 65 years of age or older.

As the state's growth patterns change, the age and race distribution of California's population continue to transform. In early 2014, for the first time since California became a state, the Hispanic population became the largest group in California. This shift is due primarily to variations in demographic patterns, including fertility, age structure, and migration. In July 2013, of the non-Hispanic White population, 43 percent were at least 50 years of age, while 19 percent of Hispanics were age 50 or older.

Population growth rates vary significantly by age group. The state's projected total five-year growth rate of 4.8 percent is higher than the anticipated 3 percent growth in the preschool-age group. The school-age group will increase by 0.2 percent, and the college-age group will decrease by 4.5 percent. The working-age population will grow by 871,000 or 4.3 percent. The population of the retirement-age group, those 65 and older, will expand rapidly (20.7 percent). The retirement-age growth will be concentrated in the 65 through 74 age cohort, with a growth rate of 26.5 percent.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

The following table shows California's population data for 2002 through 2013.

TABLE 42
Population 2002-2013

Year	California Population[a]	Increase Over Preceding Year	United States Population[a]	Increase Over Preceding Year	California as % of United States
2002	34,938,290	1.2%	287,803,914	1.0%	12.1
2003	35,388,928	1.3	290,326,418	0.9	12.2
2004	35,752,765	1.0	293,045,739	0.9	12.2
2005	35,985,582	0.7	295,753,151	0.9	12.2
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	37,309,404	0.6	309,326,295	0.8	12.1
2011	37,570,112	0.7	311,582,564	0.7	12.1
2012	37,872,431	0.8	313,873,685	0.7	12.1
2013	38,204,597	0.9	316,128,839	0.7	12.1

[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 civilian labor force data for the resident population, age 16 and over, for the years 2002 to 2013.

TABLE 43
Labor Force 2002-2013

(Thousands)

			Unemployment Rate	
Year	Labor Force	Employment	California	United States
2002	17,344	16,181	6.7%	5.8%
2003	17,391	16,200	6.8	6.0
2004	17,444	16,355	6.2	5.5
2005	17,545	16,592	5.4	5.1
2006	17,687	16,821	4.9	4.6
2007	17,921	16,961	5.4	4.6
2008	18,207	16,894	7.2	5.8
2009	18,220	16,155	11.3	9.3
2010	18,336	16,068	12.4	9.6
2011	18,418	16,250	11.8	8.9
2012	18,519	16,590	10.4	8.1
2013	18,597	16,933	8.9	7.4

Source: State of California, Employment Development Department.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

Employment, Income, Construction and Export Growth

The following table shows California's nonfarm payroll employment distribution and growth for 2003 and 2013.

TABLE 44
Nonfarm Payroll Employment by Major Sector
2003 and 2013

(Thousands)

	Employment		Distribution of Employment	
Industry Sector	**2003**	**2013**	**2003**	**2013**
Mining and Logging	22.2	30.6	0.2%	0.2%
Construction	796.8	636.2	5.5	4.2
Manufacturing				
Nondurable Goods	566.0	470.0	3.9	3.1
High Technology	394.5	334.9	2.7	2.2
Other durable	584.0	445.9	4.0	2.9
Trade, Transportation & Utilities	2,716.3	2,802.5	18.7	18.5
Information	476.1	450.4	3.3	3.0
Financial Activities	878.8	782.3	6.0	5.2
Professional & Business Services	2,085.3	2,330.9	14.3	15.4
Educational & Health Services	1,707.5	2,307.1	11.7	15.2
Leisure & Hospitality	1,400.1	1,671.3	9.6	11.0
Other Services	504.3	515.2	3.5	3.4
Government				
Federal Government	255.4	245.5	1.8	1.6
State & Local Government	2,170.7	2,124.7	14.9	14.0
TOTAL	**14,558.0**	**15,147.4**	**100.0%**	**100.0%**

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

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

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

TABLE 45
Total Personal Income in California 2001-2013[(a)]

(Dollars in Millions)

Year	Total Personal Income	Annual % Change	California % of U.S.
2001	$1,174,489	3.4%	13.1%
2002	1,193,375	1.6	13.0
2003	1,244,351	4.3	13.1
2004	1,321,609	6.2	13.2
2005	1,396,173	5.6	13.2
2006	1,499,452	7.4	13.2
2007	1,564,441	4.3	13.0
2008	1,596,282	2.0	12.8
2009	1,536,430	-3.7	12.7
2010	1,579,148	2.8	12.7
2011	1,683,204	6.6	12.8
2012	1,768,039	5.0	12.9
2013	1,817,010	2.8	12.9

(a) Estimates reflect the comprehensive revision to the national income and product accounts (NIPAs) released in July 2013.

Note: omits income for government employees overseas.

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

TABLE 46
Personal Income Per Capita 2001-2013[(a)]

Year	California	Annual % Change	United States	Annual % Change	California % of U.S.
2001	$34,063	2.0%	$31,524	4.0%	108.1%
2002	34,222	0.5	31,798	0.9	107.6
2003	35,298	3.1	32,676	2.8	108.0
2004	37,150	5.2	34,300	5.0	108.3
2005	38,969	4.9	35,888	4.6	108.6
2006	41,627	6.8	38,127	6.2	109.2
2007	43,157	3.7	39,804	4.4	108.4
2008	43,609	1.0	40,873	2.7	106.7
2009	41,569	-4.7	39,357	-3.7	105.6
2010	42,297	1.8	40,163	2.0	105.3
2011	44,666	5.6	42,298	5.3	105.6
2012	46,477	4.1	43,735	3.4	106.3
2013	47,401	2.0	44,543	1.8	106.4

(a) Estimates reflect the comprehensive revision to the national income and product accounts (NIPAs) released in July 2013.

Note: omits income for government employees overseas.

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

The following tables show California's residential and non-residential construction.

TABLE 47
Residential Construction Permits Authorized
2001-2013

	Units			
Year	**Total**	**Single**	**Multiple**	**Valuation[(a)] (Dollars in Millions)**
2001	148,757	106,902	41,855	$28,804
2002	167,761	123,865	43,896	33,305
2003	195,682	138,762	56,920	38,968
2004	212,960	151,417	61,543	44,777
2005	208,972	155,322	53,650	47,138
2006	164,280	108,021	56,259	38,108
2007	113,034	68,409	44,625	28,621
2008	64,962	33,050	31,912	18,072
2009	36,421	25,454	10,967	12,037
2010	44,762	25,526	19,236	13,731
2011	47,092	21,538	25,554	14,356
2012	57,961	27,406	30,555	16,451
2013[p/]	82,674	36,281	46,393	22,328

[(a)] Valuation includes additions and alterations.

[p/] Preliminary.

Source: Construction Industry Research Board.

TABLE 48
Non-residential Construction 2001-2013

(Dollars in Thousands)

Year	Commercial	Industrial	Other	Additions and Alterations	Total
2001	$6,195,368	$1,552,047	$2,584,321	$6,421,551	$16,753,287
2002	5,195,348	1,227,754	2,712,681	5,393,329	14,529,112
2003	4,039,561	1,320,222	2,954,039	5,601,117	13,914,939
2004	5,105,541	1,456,283	3,100,982	6,026,567	15,689,373
2005	5,853,351	1,693,373	3,818,100	6,900,709	18,265,533
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	2,213,037	478,896	2,224,685	8,144,510	13,061,128
2012	3,215,903	1,409,808	2,382,790	7,626,971	14,635,471
2013[p/]	5,200,328	1,075,472	6,250,539	8,836,957	21,363,296

[p/] Preliminary

Source: Construction Industry Research Board.

The following table shows changes in California's exports for the period from 2001 through 2013.

TABLE 49
Exports through California Ports 2001-2013

(Dollars in Millions)

Year	Exports[(a)]	Annual % Change
2001	$126,960.0	-14.4%
2002	111,305.1	-12.3
2003	113,351.0	1.8
2004	123,097.7	8.6
2005	129,929.2	5.5
2006	147,766.9	13.7
2007	159,357.1	7.8
2008	170,313.8	6.9
2009	137,087.2	-19.5
2010	168,412.8	22.9
2011	189,371.8	12.4
2012	191,702.8	1.2
2013	201,815.8	5.3

(a) "Free along ship" value basis.

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

LITIGATION

The state is a party to numerous legal proceedings. The following describes litigation matters that are pending with service of process on the state accomplished and have been identified by the state as having a potentially significant fiscal impact upon the state's revenues or expenditures. The state makes no representation regarding the likely outcome of these litigation matters.

The following 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 litigation 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 and no inquiry has been made into pending administrative proceedings. There may be litigation and administrative proceedings with potentially significant fiscal impacts that have not been described below.

Budget-Related Litigation

Actions Challenging Cap and Trade Program Auctions

In *California Chamber of Commerce, et al. v. California Air Resources Board*, (Sacramento County Superior Court, Case No. 34-2012-80001313), business interests and a taxpayer 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. A second lawsuit raising substantially similar claims*, Morning Star*

Packing Co., et al. v. California Air Resources Board (Sacramento County Superior Court, Case No. 34-2013-80001464), was consolidated with the *Chamber of Commerce* matter. The trial court ruled for the Board, finding that it had authority to conduct the auctions, and that the auction does not constitute an unconstitutional tax. Petitioners have appealed (Court of Appeal, Third Appellate District, Case Nos. C075930, C075954).

Actions Challenging School Financing

In *Robles-Wong, et al. v. State of California* (Alameda County Superior Court, Case No. RG-10-515768) and *California Teachers Association ("CTA") Complaint in Intervention*, plaintiffs challenge the state's "education finance system" as unconstitutional. Plaintiffs, consisting of 62 minor school children, various school districts, the California Association of School Administrators, the California School Boards Association and CTA, allege the state has not adequately fulfilled its constitutional obligation to support its public schools, and seek an order enjoining 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. It is currently unknown what the fiscal impact of this matter might be upon the General Fund. 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 court issued a ruling that there was no constitutional right to a particular level of school funding. The court allowed plaintiffs to amend their complaint with respect to alleged violation of plaintiffs' right to equal protection. Plaintiffs in each of these matters elected not to amend, and both matters were dismissed by the trial court. Plaintiffs in each matter appealed (Court of Appeal, First Appellate District, Case Nos. A134423, A134424).

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 recent 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. If the court declares that the state has failed to properly pay for mandated educational programs, the state will be limited in the manner in which it funds education going forward.

Actions Challenging Statutes Which Reformed California Redevelopment Law

In *California Redevelopment Association, et al. v. Matosantos, et al.* (California Supreme Court, Case No. S194861), the California Supreme Court upheld the validity of legislation ("ABx1 26") dissolving all local Redevelopment Agencies ("RDAs") and invalidated a second law ("ABx1 27") that would have permitted existing RDAs to convert themselves into a new form of RDA and continue to exist, although they would have to pay higher fees to school, fire and transit districts to do so.

A second case challenging the constitutionality of these statutes, *City of Cerritos, et al. v. State of California* (Sacramento County Superior Court, Case No. 34-2011-80000952) raises the same theories advanced in *Matosantos*, and also contains challenges based on claimed violations of the single subject rule and the contracts clause, the statutes being outside scope of the proclamation calling the Legislature into special session, and the failure to obtain a 2/3 vote to pass the statutes. The trial court denied the petitioners' motion for a preliminary injunction seeking to block implementation of ABx1 26. Plaintiffs appealed (Court of Appeal, Third Appellate District, Case No. C070484). Plaintiffs' request to stay portions of ABx1 26 was denied by the appellate court.

There are over 100 pending actions that challenge implementation of the statutory process for winding down the affairs of the RDAs, asserting a variety of claims including constitutional claims. Some of the pending cases challenge AB 1484, which requires successor agencies to the former RDAs to remit by July 2012 certain property tax revenues for fiscal year 2011-12 that the successor agency had received, or face a penalty. Some cases challenge other provisions in ABx1 26 or AB 1484 that require successor agencies to remit various funds of former RDAs. One such case, *City of Brentwood, et al. v. California Department of Finance, et al.* (Sacramento County Superior Court, Case No. 34-2013-80001568), challenges provisions that retroactively invalidate transfers of funds from a former RDA to the city or county that created the RDA, and require redistribution of those funds. The trial court denied the petition in this matter, and petitioners appealed (Court of Appeal, Third Appellate District, Case No. C076343). Another case, *League of California Cities, et al. v. Matosantos, et al.* (Sacramento County Superior Court, Case No. 34-2012-80001275), challenges the statutory mechanisms for the Department of Finance or the county auditor-controller to recover these disputed amounts. The trial court denied the petition for a writ in this matter but on reconsideration, granted the writ in part, striking down provisions that allowed the state to withhold a city's sales and use tax. The state appealed (Court of Appeal, Third Appellate District, Case No. C076075). Another matter asserting similar arguments was heard by the trial court on September 20, 2013, and the court issued a ruling in favor of the state, finding all of the challenged statutes facially constitutional. *City of Bellflower, et al. v. Matosantos, et al.* (Sacramento County Superior Court, Case No. 34-2012-80001269). Petitioners appealed (Court of Appeal, Third Appellate District, Case No. C075832). Other cases challenge the implementation of ABx1 26, contending that various obligations incurred by the RDAs are enforceable obligations entitled to payment from tax revenues under ABx 1 26. 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 on an implied contracts theory. The court denied a motion for class action status in this matter.

<u>*Actions Regarding Furlough of State Employees*</u>

In several cases, petitioners challenged Governor Schwarzenegger's executive orders directing the furlough without pay of state employees. The first order, issued on December 19, 2008, directed furloughs for two days per month, effective February 1, 2009 through June 30, 2010. The second, issued on July 1, 2009, required a third furlough day per month, effective through June 30, 2010. On July 28, 2010, Governor Schwarzenegger issued a new executive order requiring furloughs for three days per month beginning August 1, 2010, until a new 2010 Budget Act was adopted and the Director of the Department of Finance determined that the state had sufficient cash flow to pay for essential services.

On October 4, 2010, the California Supreme Court, ruling in three consolidated cases, upheld the validity of the two day per month furloughs implemented by the Governor's

December 2008 order on the ground that the Legislature had ratified these furloughs in enacting the 2008 budget revision. *Professional Engineers in California Government ("PECG"), et al. v. Schwarzenegger, et al.* (California Supreme Court, Case No. S183411).

Most of the remaining cases that challenge the two furlough orders issued in July 2009 and/or July 2010 have been dismissed or settled. The pending cases include the following:

Two cases challenge the furloughs of certain categories of employees, such as those paid from funds other than the General Fund or who otherwise claim they should not be furloughed on a basis outside of the rationale of the California Supreme Court decision. These two cases are *PECG v. Schwarzenegger, et al.* (Alameda County Superior Court, Case No. RG 10 494800) and *California Association of Professional Scientists v. Schwarzenegger, et al.* (Alameda County Superior Court, Case No. RG-10-530845). The trial court granted the petition in part, finding that two furlough days in March 2011, were unlawful for specified employees. The state appealed (Court of Appeal, First Appellate District, Case No. A136338).

In *Horton v. Brown, et al.* (Sacramento County Superior Court, Case No. 34-2012-00125438), plaintiff asserts a class action on behalf of all gubernatorial and certain other appointees. The complaint alleges that such appointees were exempt from civil service rules, and therefore should not have been furloughed. The trial court granted the state's motion to strike certain claims and the appellate court rejected the plaintiff's appeal (Court of Appeal, Third District, Case No. C073117). The trial court denied plaintiff's motion for class certification. Because the class certification was denied, any fiscal impact on the state's General Fund is expected to be modest.

In *PECG, et al. v. Brown et al.* (Alameda County Superior Court, Case No. RG-13-673444) PECG challenges the implementation of the 2012 furlough program, for the period of July 1, 2012 through June 2013, alleging an unlawful impairment of contractual rights in the bargaining agreement. The trial court ruled for the state and petitioners appealed (Court of Appeal, First Appellate District, Case No. A141028).

In *Vent v. Brown, et al.* (Sacramento County Superior Court, Case No. 34-2013-80001576), an individual state employee challenges both Governor Schwarzenegger's furlough order and the 2012 furlough program and seeks back pay for herself and other attorneys employed by the state.

Action Challenging Use of Mortgage Settlement Proceeds

In *National Asian American Coalition, et al. v. Brown, et al.* (Sacramento County Superior Court, Case No. 34-2014-80001784), three non-profit organizations allege that approximately $369 million received by the state in 2012 in connection with the nationwide settlement between states and certain mortgage servicers was deposited in a special fund intended to provide assistance to California homeowners, but that such settlement monies were instead used for other purposes in the fiscal year 2012-13 budget. The plaintiffs allege the use of the settlement monies was inconsistent with the terms of the settlement agreement and California law, and seek to compel state officials to return the monies to the special fund.

Tax Cases

Six actions have been 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. *Kimberly-Clark Worldwide, Inc., et al. v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-495916); *Gillette Company and Subsidiaries v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-495911); *Procter & Gamble Manufacturing Company & Affiliates v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC 10 495912); *Sigma-Aldrich, Inc. and Affiliates v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-496437); *RB Holdings (USA), Inc. v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-496438); and *Jones Apparel Group v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-499083), now consolidated in one matter, collectively referred to as *Gillette Company v. Franchise Tax Board*. Plaintiffs contend that the single-weighted sales factor specified in Section 25128 prior to amendment was contained within the Multistate Tax Compact ("Compact") and therefore cannot 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 in each of these matters, but, on appeal, the trial court judgment was reversed (Court of Appeal, First Appellate District, Case No. A130803). The appellate court held that the Compact was valid and the state was bound by its provisions for the tax years at issue because the state had not withdrawn from the Compact. The court also held that in attempting to override the contractual terms of the Compact, section 25128 violated the constitutional protections against impairment of contract. The California Supreme Court granted the state's petition for review (California Supreme Court Case No. S206587). See "STATE FINANCES – Sources of Tax Revenue – Corporation Tax."

A pending case challenges the fee imposed by the state tax code upon limited liability companies ("LLCs") registered in California, alleging that it discriminates against interstate commerce and violates the U.S. and the 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). *Bakersfield Mall* was filed as a purported class action on behalf of all LLCs operating solely in California. Plaintiff filed an amended complaint to allege that not all of its income is derived solely from sources in California, which would call into question the class plaintiff purports to represent. A second lawsuit that is virtually identical to *Bakersfield Mall* also seeks to proceed as a class action. *CA-Centerside II, LLC v. Franchise Tax Board* (Fresno County Superior Court, Case No. 10 CECG00434). 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 this immediately appealable order is reversed and the cases proceed as class actions, the claimed refunds could be significant (in excess of $500 million).

Lucent Technologies, Inc. v. State Board of Equalization ("Lucent I") (Los Angeles County Superior Court, Case No. BC 402036), a tax refund case, involves the interpretation of certain statutory sales and use tax-exemptions relating to computer software and licenses to use computer software that are transferred pursuant to technology transfer agreements. A second case, *Lucent Technologies, Inc. v. State Board of Equalization ("Lucent II")* (Los Angeles County Superior Court, Case No. BC 448715), involving the same issue but for different tax years than in the *Lucent I* matter, was consolidated with the *Lucent I* case. In a similar case, *Nortel Networks Inc. v. State Board of Equalization* (Los Angeles County Superior Court, Case No. BC 341568), the trial court ruled in favor of plaintiff and the ruling was affirmed on appeal (Court of Appeal, Second Appellate District, Case No. B213415, California Supreme Court, Case No. S190946). The adverse ruling in the *Nortel* matter, unless limited in scope by a decision in the *Lucent* matters, if applied to other similarly situated taxpayers, could have a significant negative impact, in the range of approximately $300 million annually, on tax revenues. In the *Lucent* matters, the trial court granted plaintiffs' motion for summary judgment and denied the Board of Equalization's motion for summary judgment. Judgment was entered for plaintiffs and the Board of Equalization appealed (Court of Appeal, Second Appellate District, Case No. B257808).

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 and 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* sustained a demurrer on this issue without leave to amend; the issue is now pending on appeal. Trial in *Abercrombie* is set for February 2015. Should Section 25101.15 be invalidated, a significant amount of otherwise apportionable income from multi-state unitary businesses would be removed from the state taxing power. At this time, it is unknown what future fiscal impact a potential adverse ruling would actually have on corporation taxes (including potentially 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 – 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 multi-state businesses; resolution of this issue in *Harley Davidson* has been deferred to await the outcome of the issue in *Gillette* (discussed above).

Environmental Matters

In a federal Environmental Protection Agency ("U.S. EPA") administrative abatement action titled *In the Matter of: Leviathan Mine, Alpine County, California, Regional Water Quality Control Board, Lahontan Region, State of California* (U.S. EPA Region IX CERCLA Docket No. 00-16(a)), the state, as owner of the inactive Leviathan Mine, is a responsible party through the Lahontan Regional Water Quality Control Board ("Regional Board"). The Atlantic Richfield Company ("ARCO") is also a responsible party as the successor in interest to the mining company that caused certain pollution of the mine site. The Leviathan Mine site ("Site") is listed on the U.S. EPA "Superfund" List, and both remediation costs and costs for natural resources damages may be imposed on the state. The alleged bases for the state's liability are the state's ownership of the Site and the terms of a 1983 settlement agreement between the Regional Board and ARCO. The Regional Board purchased the Site to abate the pollution and has undertaken certain remedial actions ("Project"), but the U.S. EPA's decision on the interim and final remedies is pending. ARCO has sued the state, the State Water Resources Control Board, and the Regional Board, seeking to recover past and future clean-up costs, based on the settlement agreement, the state's ownership of the property, and the Regional Board's allegedly defective Project. The October 2012 trial date for this matter was postponed until November 2014, to permit the parties to continue settlement negotiations. *Atlantic Richfield Co. v. State of California* (Los Angeles County Superior Court, Case No. BC 380474). It is possible these matters if determined adversely to the state could result in potential liability in the hundreds of millions of dollars.

In *Consolidated Suction Dredge Mining Cases (Karuk Tribe v. DFG)* (Alameda, Siskiyou, and San Bernardino County Superior Courts), environmental and mining interests challenge the state's regulation of suction dredge gold mining. After initially prohibiting such mining in the state except pursuant to a permit issued by the Department of Fish and Wildlife (formerly Fish and Game) under specified circumstances, the Legislature subsequently placed a moratorium on all suction dredging until certain conditions are met by the Department. The cases are coordinated for hearing in San Bernardino County Superior Court (Case No. JCPDS4720). One of these matters, *The New 49'ERS, Inc. et al. v. California Department of Fish and Game*, claims that federal law preempts and prohibits state regulation of suction dredge mining on federal land. 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.

In *City of Colton v. American Promotional Events, Inc., et al.* (Los Angeles County Superior Court, Case No. BC 376008), two defendants in an action involving liability for contaminated groundwater have filed cross complaints seeking indemnification from the state and the Regional Water Quality Control Board in an amount of up to $300 million. In a related action, *Emhart Industries v. Regional Water Quality Control Board* (Los Angeles County Superior Court, Case No. BC 472949), another defendant in an action involving liability for contaminated groundwater seeks indemnification from the state and the Regional Water Quality Control Board in an amount up to $300 million.

Escheated Property Claims

In *Taylor v. Chiang* (U.S. District Court, Eastern District, Case No. S-01-2407 WBS GGH), plaintiffs claim that the state's unclaimed property program violates the United States Constitution and various federal and state laws. They assert that the state has an obligation to pay interest on private property that has escheated to the state, and that failure to do so constitutes an unconstitutional taking of private property. Although the case is styled as a class action, no class has been certified. Plaintiffs also assert that for the escheated property that has been disposed of by the state, plaintiffs are entitled to recover, in addition to the proceeds of such sale, any difference between the sale price and the property's highest market value during the time the state held it; the state asserts that such claims for damages are barred by the Eleventh

Amendment. The district court ruled against plaintiffs in a related action, *Suever v. Connell* (U.S. District Court, Northern District, Case No. C03-00156 RS). The Ninth Circuit affirmed and the United States Supreme Court denied review. Meanwhile, the *Taylor* plaintiffs amended their complaint to allege that the Controller applies the Unclaimed Property Law's notice requirements in ways that violate state and federal law, and the district court granted the state's motion to dismiss plaintiffs' claims. Plaintiffs appealed this ruling to the Ninth Circuit.

Actions Seeking Damages for Alleged Violations of Privacy Rights

In *Gail Marie Harrington-Wisely, et al. v. State of California, et al.* (Los Angeles County Superior Court, Case No. BC 227373), plaintiffs seek damages, asserting that the use by the California Department of Corrections and Rehabilitation ("CDCR") of a body-imaging machine to search visitors entering state prisons for contraband violated the rights of the visitors. This matter was certified as a class action. The trial court granted judgment in favor of the state. Plaintiffs' appeal was dismissed (Court of Appeal, Second Appellate District, Case No. B190431) and the trial court denied plaintiffs' motion for attorneys' fees. The parties agreed to a stipulated judgment and dismissed the case subject to further review if CDCR decides to use similar technology in the future. Plaintiffs filed another appeal (Court of Appeal, Second Appellate District, Case No. B248565). If plaintiffs were successful in obtaining an award of damages for every use of the body-imaging machine, damages could be as high as $3 billion.

Plaintiff in *Gilbert P. Hyatt v. Franchise Tax Board* (State of Nevada, Clark County District Court, Case No. A382999) was subject to an audit by the Franchise Tax Board involving a claimed change of residence from California to Nevada. Plaintiff alleges a number of separate torts involving privacy rights and interference with his business relationships arising from the audit. The trial court ruled that plaintiff had not established a causal relation between the audit and the loss of his licensing business with Japanese companies; the Nevada Supreme Court denied review of this ruling. The economic damages claim exceeded $500 million. On the remaining claims, the jury awarded damages of approximately $387 million, including punitive damages, plus interest and attorneys' fees, for a total of approximately $490 million. The total judgment with interest is currently approximately $600 million. *On September 18, 2014, the Nevada Supreme Court reversed the judgment on most of the plaintiff's claims and the award of punitive damages. The Court upheld the award of approximately $1.08 million in damages on the fraud claim, reversed the award of damages for the infliction of emotional distress claim, remanding that claim to the trial court for a new trial on the issue of damages, and reversed and remanded the award of prejudgment interest and costs.*

Action Regarding Special Education

Plaintiffs in *Morgan Hill Concerned Parents Assoc. v. California Department of Education* (United States District Court, Eastern District of California, 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 *Orinda Convalescent Hospital Inc., 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 trial court ruled the QAF is properly characterized as a "tax" rather than a "fee." Trial then proceeded on plaintiffs' claims for refund of QAF amounts paid as an allegedly illegal and improperly collected tax. The QAF amounts collected from all providers to date total nearly $2 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. Plaintiffs appealed (Court of Appeal, Third Appellate District, Case No. C070361).

A series of federal court cases challenging state legislation requiring reductions in Medi-Cal reimbursements (under AB 5 and AB 1183) were argued before the United States Supreme Court in 2011 and remanded to the Ninth Circuit Court of Appeal, where they remain in mediation. *Independent Living Center of Southern California, et al. v. Shewry, et al.* (U.S. District Court, Central District, Case No. CV 08-3315 CAS (MANx)) (AB 5 reductions for various Medi-Cal services); *California Pharmacists Association, et al. v. Maxwell-Jolly, et al.* (U.S. District Court, Central District, Case No. CV09-0722) (AB 1183 reductions for doctors, hospitals, pharmacists, and other providers); and *Independent Living Center of Southern California, et al. v. Maxwell-Jolly, et al.* (U.S. District Court, Central District, Case No. CV09-00382) (AB 1183 reductions for prescription drugs). The district court enjoined certain of the reductions and the Ninth Circuit affirmed. (U.S. Court of Appeals, Ninth Circuit, Case No. 08-56422.) After the United States Supreme Court heard argument but before it decided the cases, DHCS reached an agreement with the federal government under which DHCS withdrew most of its pending requests for approvals of the reductions (referred to as State Plan Amendments ("SPAs")) for the period in which the reductions had been enjoined and received approval for the SPAs for the periods for which reductions had not been enjoined. The United States Supreme Court (United States Supreme Court, Case No. 09-958) vacated the judgment and remanded the matters to the Ninth Circuit for further review in light of the federal government's intervening action approving the state's plan to implement the rate reductions. The parties have reached a settlement agreement subject to court approval. A hearing is set for September 22, 2014.

In *California Medical Association, et al. v. Shewry, et al.* (Los Angeles County Superior Court, Case No. BC 390126), professional associations representing Medi-Cal providers seek to enjoin implementation of the 10 percent Medi-Cal rate reductions that were to go into effect on July 1, 2008, alleging that the legislation violates federal Medicaid requirements, state laws and regulations, and the state Constitution. The trial court denied plaintiffs' motion for a preliminary injunction. Plaintiffs filed an appeal, which was dismissed at their request. (Court of Appeal, Second Appellate District, Case No. B210440.) Plaintiffs have indicated that they will file an amended petition seeking the retrospective relief the Ninth Circuit awarded in the *Independent Living Center* case, discussed above, after final disposition of that case. The matter is stayed pending final resolution in the *Independent Living Center* matter. A final decision adverse to the state in this matter could result in costs to the General Fund of $508.2 million.

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 DHCS of reduced published average wholesale price data to establish reimbursement rates, and challenging the Legislature's amendment of Welfare and Institutions Code section 14105.45 and enactment of Welfare and Institutions Code section 14105.455. Plaintiffs seek injunctive relief based on alleged violations of federal law. The district court granted a request for preliminary injunction in part, with respect to sections 14104.45 and 14105.455, and denied it in part, with respect to the use of reduced published average wholesale price data to establish reimbursement rates. Plaintiffs filed a motion seeking to modify the district court ruling, and both parties filed notices of appeal to the Ninth Circuit Court of Appeals. The parties have requested mediation. At this time it is unknown what fiscal impact this case would have on the state's General Fund.

In *Centinela Freeman Emergency Medical Associates, et al. v. Maxwell-Jolly, et al.* (Los Angeles County Superior Court, Case No. BC 406372), filed as a class action on behalf of emergency room physicians and emergency department groups, plaintiffs claim that Medi-Cal rates for emergency room physicians are below the cost of providing care. The trial court granted the petition of the plaintiffs and ordered DHCS to conduct an annual review of reimbursement rates for physicians and dentists pursuant to Welfare and Institutions Code section 14079. A final decision in this matter adverse to the state could result in costs to the General Fund of $250 million.

In *Sierra Medical Services Alliance, et al. v. Maxwell-Jolly, et al.* (U.S. District Court, Central District, Case No. CV10-04182), emergency medical transportation companies challenge California regulations that set Medi-Cal reimbursement rates paid for medical transportation services. Plaintiffs seek damages and injunctive relief, alleging constitutional violations. Judgment has been entered for the state.

In *California Hospital Association v. Maxwell-Jolly, et al.* (Sacramento County Superior Court, Case No. 34-2010-80000673), plaintiff challenges limits on Medi-Cal reimbursement rates for hospital services enacted in 2008, and which were to take effect October 1, 2008 or March 1, 2009, as allegedly violating federal law. Plaintiff seeks to enjoin the implementation of the limits. This matter is currently stayed. At this time it is unknown what fiscal impact this matter may have on the state's General Fund.

Medicaid providers and beneficiaries filed four law suits against both the State and the federal government, seeking to enjoin a set of rate reductions (the AB 97 reductions) that were approved by the federal government in October 2011 with an effective date of June 1, 2011. *Managed Pharmacy Care, et al., v. Sebelius* (U.S. District Court, Central District, Case No. 2:11-cv-09211-CAS(MANx)); *California Medical Assoc., et al., v. Douglas* (U.S. District Court, Central District, Case, No. 2:11-cv-09688-CAS (MANx)); *California Medical Transportation Assoc. Inc., v. Douglas* (U.S. District Court, Central District, Case No. 2:11-cv-

09830-CAS (MANx)); *California Hospital Association, et al., v. Douglas* (U.S. District Court, Central District, Case No. CV-11-09078 CAS (MRWx)). The Medicaid rates at issue in the four cases include pharmacy service and prescription drugs; services provided by skilled nursing facilities that are distinct part units within a hospital; non-emergency medical transportation services; physician services; dental services; durable medical equipment; and emergency ambulance services. The district court entered a series of preliminary injunctions to prevent the rate reductions from taking effect. Both the federal and state government (DHCS) appealed to the Ninth Circuit Court of Appeals. The Ninth Circuit reversed the district court, vacated the preliminary injunctions, and remanded the case. The Ninth Circuit denied plaintiffs' petitions for rehearing and request for a stay. The United States Supreme Court denied plaintiffs' petitions for certiorari.

Prison Healthcare Reform and Reduction of Prison Population

The adult prison health care delivery system includes medical health care, mental health care and dental 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 JFM 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 *Plata* and *Coleman*, discussed above, a three-judge panel was convened to consider plaintiffs' motion for a prisoner-release order. The motions alleged that prison overcrowding was the primary cause of unconstitutional medical and mental health care. After a trial, the panel issued a prisoner release order and ordered the state to prepare a plan for the reduction of approximately 40,000 prisoners over two years.

On January 7, 2013, the state moved to terminate the *Coleman* matter arguing that the prison mental health-care system is constitutional. The district court denied the state's motion and the state appealed to the Ninth Circuit. In January 2013, the state also moved to vacate the three-judge panel's prisoner-release order arguing that further population reductions are unnecessary in order for the state to provide appropriate health care to the prison population. The three-judge panel denied the state's motion and ordered the state to meet the court-ordered reduction by December 31, 2013. The state's request for review of the court-ordered reduction was denied by the United States Supreme Court. Based on enactment of SB 105, which appropriated $315 million for a mix of increased prison capacity and long-term reforms to control prison crowding, the state asked the three-judge panel for a three-year extension of the deadline for compliance with the population cap. On February 10, 2014, the three-judge panel issued its order granting the state a two-year extension to meet the final population-reduction benchmark. The order requires the state to comply in part through a combination of additional in-state capacity in county jails, community correctional facilities, and a private prison, and through newly enacted programs, including the development of additional measures regarding reforms to state penal and sentencing laws designed to reduce the prison population. The three-judge panel also appointed a "compliance officer" to bring the state into compliance if any benchmark is missed by ordering the release of inmates. *On August 31, 2014, the state's prison population met the first of the interim benchmarks set by the court.*

Actions Regarding Proposed Sale of State-Owned Properties

Two taxpayers filed a lawsuit seeking to enjoin the sale of state-owned office properties, which was originally scheduled to close in December 2010, on the grounds that the sale of certain of the buildings that house appellate court facilities required the approval of the Judicial Council, which had not been obtained, and that the entire sale constituted a gift of public funds in violation of the state Constitution and a waste of public funds in violation of state law. *Epstein, et al. v. Schwarzenegger, et al.* (San Francisco County Superior Court, Case. No. CGC-10-505436). Plaintiffs' request for a preliminary injunction was denied. In a second action filed after the state decided not to proceed with the sale, and now coordinated with the *Epstein* matter, the prospective purchaser seeks to compel the state to proceed with the sale of the state-owned properties, or alternatively, for damages for breach of contract. *California First, LP v. California Department of General Services, et al.* (Los Angeles County Superior Court, Case No. BC457070). The trial court denied the state's motion for judgment on the pleadings, in which the state asserted that the plaintiff should not be permitted to pursue claims for damages. The parties have stipulated to bifurcate the matters for trial and to stay the *Epstein* matter pending trial of the *California First* matter.

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. Respondents' motion for judgment on the pleadings on petitioners' remaining claims was denied by the trial court on March 4, 2014, and respondents' subsequent petition for writ of mandate from that ruling was denied. In *High-Speed Rail Authority, et al. v. All Persons Interested, etc.* (Sacramento County Superior Court, Case No. 34-2013-00140689), the Authority is seeking to validate issuance of the bonds authorized under the bond act for high-speed rail system. The trial court denied validation of the bonds. Respondents in *Tos* and plaintiffs in the validation action filed a writ petition in the California Supreme Court from the judgment in the validation action and the order in *Tos* requiring the Authority to rescind the funding plan, and the Supreme Court transferred the proceeding to the court of appeal (Court of Appeal, Third Appellate District, Case No. C075668). On February 14, 2014, the court of appeal granted an alternative writ and stayed the trial court's order in *Tos* directing the Authority to rescind the funding plan. On July 31, 2014, the Court of Appeal reversed both trial court rulings and ordered the trial court to enter a judgment validating the bonds. Petitions for rehearing were denied by the Court of Appeal, and petitions for review have been filed in the California Supreme Court (California Supreme Court Case No. S220926). In the event of a final decision adverse to the state in these pending matters that delays or prevents issuance of the bonds, it is possible that the federal government may require the state to reimburse federal funds provided for the high-speed rail project. The potential amount of any such reimbursement cannot be determined at this time.

Actions Regarding State Mandates

Plaintiff in *Santa Clarita Valley Sanitation District of Los Angeles County v. California Commission on State Mandates, et al.* (Los Angeles County Superior Court, Case No. BS 148024) asserts that the certain orders issued by the regional water quality control board regarding treatment of wastewater impose additional state-mandated costs that must be reimbursed by the state. Plaintiff alleges the cost of compliance with the orders would be over $250 million.

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

BANK ARRANGEMENTS

The table immediately following the text of APPENDIX A, prior to the State Debt Tables, includes certain information relating to bank arrangements the state has entered into. See also "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – Bank Arrangements."

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 table titled "Bank Arrangements" contains certain information relating to letters of credit, liquidity facilities and other bank arrangements 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.

"Special Revenue Fund bonds" also known as Economic Recovery Bonds or ERBs, are "self liquidating" general obligation bonds which are primarily secured by a pledge of a one-quarter cent statewide sales and use tax deposited in the Fiscal Recovery Fund. Debt service payments are made directly from the Fiscal Recovery Fund and not the General Fund. The Special Revenue Fund bonds are also general obligations of the state to which the full faith and credit of the state are pledged to the punctual payment of the principal of and interest thereon, if the sales tax revenues are insufficient.

As of July 1, 2014, there was $577,690,000 principal amount of commercial paper notes outstanding.

The following tables do not include the following bond sales:

$110,000,000 State of California Veterans General Obligation Bonds sold on September 18, 2014.

$2,369,640,000 State of California Various Purpose General Obligation Bonds and General Obligation Refunding Bonds sold on September 23, 2014. This sale included $1,382,055,000 of new money bonds, with the rest consisting of refunding bonds.

BANK ARRANGEMENTS TABLE

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

As of July 1, 2014

Program	Series	Outstanding Par Amount[(a)]	Credit Provider	Expiration	Type of Credit	Reset Mode
GO VRDOs	2003A 1	$50,000,000	JPMorgan Chase Bank	12/16/2016	LOC	Daily
	2003A 2-3	$200,000,000	Bank of Montreal	10/16/2015	LOC	Daily
GO VRDOs	2003B 1-4	$250,000,000	JPMorgan Chase (80.0%)	11/10/2016	LOC	Weekly
			CA Public Employees' Retirement System (20.0%)			
GO VRDOs	2003C 1	$100,000,000	Bank of America, N.A.	12/16/2016	LOC	Weekly
	2003C 3-4	$100,000,000	U.S. Bank National Association	04/12/2017	LOC	Weekly
GO VRDOs	2004A 1, 4 & 5	$200,000,000	Citibank, N.A.	10/15/2015	LOC	Daily
GO VRDOs	2004A 2 &3	$150,000,000	State Street Bank and Trust Company	11/10/2016	LOC	Daily
GO VRDOs	2004A 6, 7, 8 & 10	$200,000,000	Citibank, N.A.	10/15/2015	LOC	Weekly
GO VRDOs	2004A 9	$50,000,000	State Street Bank and Trust Company	11/10/2016	LOC	Weekly
GO VRDOs	2004B 1-3	$165,000,000	Citibank, N.A.	10/15/2015	LOC	Daily
GO VRDOs	2004B 4	$35,000,000	Citibank, N.A.	10/15/2015	LOC	Weekly
GO VRDOs	2004B 5-6	$100,000,000	U.S. Bank National Association	04/06/2015	LOC	Weekly
GO VRDOs	2005A-1-1	$85,850,000	Royal Bank of Canada	11/04/2016	LOC	Weekly
GO VRDOs	2005A-1-2	$85,750,000	Royal Bank of Canada	11/04/2016	LOC	Weekly
GO VRDOs	2005A-2-1	$143,200,000	Barclays Bank PLC	04/11/2017	LOC	Weekly
GO VRDOs	2005A-2-2	$28,400,000	Royal Bank of Canada	11/04/2016	LOC	Weekly
GO VRDOs	2005A-3	$49,100,000	Bank of America, N.A.	12/16/2016	LOC	Weekly
GO VRDOs	2005B-1	$147,100,000	Bank of America, N.A.	02/17/2017	LOC	Weekly
GO VRDOs	2005B-2	$98,100,000	Bank of Tokyo – Mitsubishi UFJ, Ltd.	11/10/2016	LOC	Weekly
GO VRDOs	2005B-3	$49,100,000	Barclays Bank PLC	04/11/2017	LOC	Weekly
GO VRDOs	2005B-4	$49,100,000	JPMorgan Chase Bank	12/16/2016	LOC	Weekly
GO VRDOs	2005B-5	$88,890,000	Barclays Bank PLC	04/11/2017	LOC	Weekly

Program	Series	Outstanding Par Amount[a]	Credit Provider	Expiration	Type of Credit	Reset Mode
GO VRDOs	2005B-7	$49,100,000	JPMorgan Chase Bank	12/16/2016	LOC	Daily
Total GO VRDOs		**$2,473,690,000**				
ERB VRDOs	2004C-4	$110,370,000	JPMorgan Chase Bank	12/12/2014	LOC	Daily
Total ERB VRDOs		**$110,370,000**				
GO CP [a]	A1/B1	$500,000,000	Wells Fargo Bank, N.A.	12/17/2017	LOC	Up to 90 days
	A2/B2	$500,000,000	Royal Bank of Canada	12/16/2016	LOC	Up to 90 days
	A3/B3	$200,000,000	JPMorgan Chase Bank (75%)	12/16/2016		
			CA Public Employees' Retirement System (25%)		LOC	Up to 90 days
	A4/B4	$150,000,000	Morgan Stanley Bank, N.A.	12/16/2016	LOC	Up to 90 days
	A5/B5	$125,000,000	U.S. Bank National Association	12/16/2016	LOC	Up to 90 days
	A6/B6	$50,000,000	Bank of America, N.A.	12/16/2016	LOC	Up to 90 days
	A7/B7	$125,000,000	Mizuho Bank, Ltd.	02/19/2016	LOC	Up to 90 days
	A8/B8	$75,000,000	Bank of the West	02/17/2017	LOC	Up to 90 days
Total CP		$1,725,000,000				
Total Par		**$4,309,060,000**				

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

Source: State Treasurer's Office.

OUTSTANDING STATE DEBT
FISCAL YEARS 2009-10 THROUGH 2013-14
(Dollars in Thousands Except for Per Capita Information)

	2009-10	2010-11	2011-12	2012-13	2013-14
Outstanding Debt (a)					
General Obligation Bonds					
General Fund (Non-Self Liquidating).....................	$ 68,766,304	$ 71,283,705	$ 73,060,865	$ 74,456,230	$ 75,714,125
Enterprise Fund (Self Liquidating)........................	$ 1,475,440	$ 1,216,115	$ 1,115,935	$ 884,180	$ 671,180
Special Revenue Fund (Self Liquidating)..............	$ 7,720,220	$ 6,787,220	$ 5,910,480	$ 4,731,745	$ 3,417,115
Total General Obligation Bonds..............................	$ 77,961,964	$ 79,287,040	$ 80,087,280	$ 80,072,155	$ 79,802,420
Revenue Bonds					
Lease-Purchase Debt...	$ 9,887,600	$ 9,426,325	$ 11,330,355	$ 11,822,140	$ 11,266,240
Propsosition 1A Receivables Program……………	$ 1,895,000	$ 1,895,000	$ 1,895,000	$ 0	$ 0
Total Revenue Bonds…………..............................	$ 11,782,600	$ 11,321,325	$ 13,225,355	$ 11,822,140	$ 11,266,240
Total Outstanding General Obligation and Revenue Bonds...	$ 89,744,564	$ 90,608,365	$ 93,312,635	$ 91,894,295	$ 91,068,660
Bond Sales During Fiscal Year					
Non-Self Liquidating General Obligation Bonds....	$ 12,446,005	$ 4,525,000	$ 7,817,390	$ 7,417,170	$ 5,905,370
Self Liquidating General Obligation Bonds............	$ 118,710	$ 0	$ 0	$ 0	$ 0
Proposition 1A Receivables Revenue Bonds…….	$ 1,895,000	$ 0	$ 0	$ 0	$ 0
Self Liquidating Special Fund Revenue Bonds.......	$ 3,435,615	$ 0	$ 438,635	$ 0	$ 0
Lease-Purchase Debt...	$ 2,269,235	$ 0	$ 2,627,115	$ 1,678,130	$ 2,391,130
Debt Service (b)					
Non-Self Liquidating General Obligation Bonds....	$ 5,035,363	$ 5,704,729	$ 5,782,240	$ 5,424,867	$ 6,307,696
Lease-Purchase Debt...	$ 881,994	$ 973,824	$ 980,862	$ 1,194,881	$ 978,202
General Fund Receipts (c)......................................	$ 88,654,941	$ 95,536,379	$ 87,769,787	$ 103,424,674	$ 103,966,197
Non-Self Liquidating General Obligation Bonds Debt Service as a Percentage of General Fund Receipts...	5.68%	5.97%	6.59%	5.25%	6.07%
Lease-Purchase Debt Service as a Percentage of General Fund Receipts.................	0.99%	1.02%	1.12%	1.16%	0.94%
Population (d)...	37,077,204	37,309,404	37,570,112	37,872,431	38,204,597
Non-Self Liquidating General Obligation Bonds Outstanding per Capita...	$ 1,854.68	$ 1,910.61	$ 1,944.65	$ 1,965.97	$ 1,981.81
Lease-Purchase Debt Outstanding per Capita..........	$ 266.68	$ 252.65	$ 301.58	$ 312.16	$ 294.89
Personal Income (e)...	$ 1,516,677,000	$ 1,587,403,750	$ 1,664,635,750	$ 1,720,052,000	$ 1,819,290,000
Non-Self Liquidating General Obligation Bonds Outstanding as Percentage of Personal Income.....	4.53%	4.49%	4.39%	4.33%	4.16%
Lease-Purchase Debt Outstanding as Percentage of Personal Income.............................	0.65%	0.59%	0.68%	0.69%	0.62%

(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 24, 2014.

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 July 1, 2014
(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	44,140	0	0
+ 1990 School Facilities Bond Act	123	06/05/90	797,875	104,715	0	0
+ 1992 School Facilities Bond Act	155	11/03/92	898,211	289,605	0	0
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	40	03/05/02	2,600,000	2,181,915	0	259,240
+ California Library Construction and Renovation Bond Act of 1988	85	11/08/88	72,405	14,010	0	0
*+ California Park and Recreational Facilities Act of 1984	18	06/05/84	368,900	13,525	0	0
* California Parklands Act of 1980	1	11/04/80	285,000	2,960	0	0
California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of	14	03/07/00	350,000	278,035	0	5,040
*+ California Safe Drinking Water Bond Law of 1976	3	06/08/76	172,500	3,150	0	0
* California Safe Drinking Water Bond Law of 1984	28	11/06/84	75,000	2,030	0	0
* California Safe Drinking Water Bond Law of 1986	55	11/04/86	100,000	24,215	0	0
California Safe Drinking Water Bond Law of 1988	81	11/08/88	75,000	29,945	0	0
*+ California Wildlife, Coastal, and Park Land Conservation Act	70	06/07/88	768,670	124,555	0	0
Children's Hospital Bond Act of 2004	61	11/02/04	750,000	659,320	0	47,445
Children's Hospital Bond Act of 2008	3	11/04/08	980,000	541,960	34,510	399,590
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (Hi-Ed)	1A	11/03/98	2,500,000	1,780,210	0	0
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (K-12)	1A	11/03/98	6,700,000	4,223,610	0	11,400
Clean Air and Transportation Improvement Bond Act of 1990	116	06/05/90	1,990,000	838,975	0	4,985
* Clean Water Bond Law of 1984	25	11/06/84	325,000	11,255	0	0
* Clean Water and Water Conservation Bond Law of 1978	2	06/06/78	375,000	4,820	0	0
Clean Water and Water Reclamation Bond Law of 1988	83	11/08/88	65,000	21,970	0	0
* Community Parklands Act of 1986	43	06/03/86	100,000	3,135	0	0
* County Correctional Facility Capital Expenditure Bond Act of 1986	52	06/03/86	495,000	17,535	0	0
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	86	11/08/88	500,000	79,935	0	0
Disaster Preparedness and Flood Prevention Bond Act of 2006	1E	11/07/06	4,090,000	2,231,645	0	1,818,652

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of July 1, 2014
(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	87,190	2,275	7,490
* Fish and Wildlife Habitat Enhancement Act of 1984	19	06/05/84	85,000	5,395	0	0
Higher Education Facilities Bond Act of 1988	78	11/08/88	600,000	26,090	0	0
Higher Education Facilities Bond Act of June 1990	121	06/05/90	450,000	53,155	0	540
Higher Education Facilities Bond Act of June 1992	153	06/02/92	900,000	345,350	0	0
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	1B	11/07/06	19,925,000	13,248,140	417,000	5,870,290
Housing and Emergency Shelter Trust Fund Act of 2002	46	11/05/02	2,100,000	940,165	0	132,535
Housing and Emergency Shelter Trust Fund Act of 2006	1C	11/07/06	2,850,000	1,578,620	0	1,208,990
Housing and Homeless Bond Act of 1990	107	06/05/90	150,000	1,755	0	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (Hi-Ed)	47	11/05/02	1,650,000	1,444,460	0	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (K-12)	47	11/05/02	11,400,000	9,361,700	0	57,810
Kindergarten-University Public Education Facilities Bond Act of 2004 (Hi-Ed)	55	03/02/04	2,300,000	2,058,490	4,045	58,824
Kindergarten-University Public Education Facilities Bond Act of 2004 (K-12)	55	03/02/04	10,000,000	8,940,730	19,330	143,700
Kindergarten-University Public Education Facilities Bond Act of 2006 (Hi-Ed)	1D	11/07/06	3,087,000	3,003,300	7,100	38,775
Kindergarten-University Public Education Facilities Bond Act of 2006 (K-12)	1D	11/07/06	7,329,000	6,541,895	4,850	702,015
* Lake Tahoe Acquisitions Bond Act	4	08/02/82	85,000	300	0	0
* New Prison Construction Bond Act of 1986	54	11/04/86	500,000	3,485	0	0
New Prison Construction Bond Act of 1988	80	11/08/88	817,000	17,015	0	2,165
New Prison Construction Bond Act of 1990	120	06/05/90	450,000	22,390	0	605
Passenger Rail and Clean Air Bond Act of 1990	108	06/05/90	1,000,000	58,800	0	0
Public Education Facilities Bond Act of 1996 (Higher Education)	203	03/26/96	975,000	544,725	7,515	4,650
++ Public Education Facilities Bond Act of 1996 (K-12)	203	03/26/96	2,012,035	959,305	0	0
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	13	03/07/00	1,970,000	1,444,740	0	129,346
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of	84	11/07/06	5,388,000	2,394,965	0	2,957,710
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000	12	03/07/00	2,100,000	1,551,415	0	73,820
Safe, Clean, Reliable Water Supply Act	204	11/05/96	995,000	578,960	0	89,070
Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century	1A	11/04/08	9,950,000	623,705	0	9,244,480
* School Building and Earthquake Bond Act of 1974	1	11/05/74	40,000	15,970	0	0

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of July 1, 2014
(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	165,220	0	0
School Facilities Bond Act of 1992	152	06/02/92	1,900,000	592,160	0	10,280
Seismic Retrofit Bond Act of 1996	192	03/26/96	2,000,000	1,217,410	0	0
* State, Urban, and Coastal Park Bond Act of 1976	2	11/02/76	280,000	4,305	0	0
Stem Cell Research and Cures Bond Act of 2004	71	11/02/04	3,000,000	1,453,770	79,255	1,409,475
Veterans Homes Bond Act of 2000	16	03/07/00	50,000	35,205	0	975
Veterans Housing and Homeless Prevention Bond Act of 2014	17	06/03/14	600,000	0	0	600,000
Voting Modernization Bond Act of 2002	41	03/05/02	200,000	36,305	0	64,495
Water Conservation Bond Law of 1988	82	11/08/88	60,000	24,245	0	5,235
* Water Conservation and Water Quality Bond Law of 1986	44	06/03/86	150,000	34,940	0	13,730
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	50	11/05/02	3,440,000	2,771,185	1,810	404,574
Total General Fund Bonds			**128,119,341**	**75,714,125**	**577,690**	**25,777,931**
ENTERPRISE FUND BONDS (Self Liquidating)						
* California Water Resources Development Bond Act	1	11/08/60	1,750,000	237,535	0	167,600
Veterans Bond Act of 1986	42	06/03/86	850,000	31,730	0	0
Veterans Bond Act of 1988	76	06/07/88	510,000	34,690	0	0
Veterans Bond Act of 1990	142	11/06/90	400,000	50,475	0	0
Veterans Bond Act of 1996	206	11/05/96	400,000	142,485	0	0
Veterans Bond Act of 2000	16	11/07/00	500,000	174,265	0	238,610
++ Veterans Bond Act of 2008	12	11/04/08	300,000	0	0	300,000
Total Enterprise Fund Bonds			**4,710,000**	**671,180**	**0**	**706,210**

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of July 1, 2014
(Thousands)

	Proposition Number	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding (a) $	Unissued $
SPECIAL REVENUE FUND BONDS (Self Liquidating)						
* Economic Recovery Bond Act	57	04/10/04	15,000,000	3,417,115	0	0
Total Special Revenue Fund Bonds			**15,000,000**	**3,417,115**	**0**	**0**
TOTAL GENERAL OBLIGATION BONDS			**147,829,341**	**79,802,420**	**577,690**	**26,484,141**

(a) A total of not more than $1.725 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

SOURCE: State of California, Office of the Treasurer.

GENERAL OBLIGATION AND REVENUE BONDS
SUMMARY OF DEBT SERVICE REQUIREMENTS
As of July 1, 2014

	Total Debt		
	Interest	**Principal**	**Total (a)**
GENERAL OBLIGATION BONDS			
GENERAL FUND NON-SELF LIQUIDATING (b)			
Fixed Rate	$ 61,636,587,325.75	$ 72,292,335,000.00	$ 133,928,922,325.75
Variable Rate (c)	290,098,622.64	3,421,790,000.00	3,711,888,622.64
ENTERPRISE FUND SELF LIQUIDATING			
Fixed Rate	345,955,836.24	671,180,000.00	1,017,135,836.24
SPECIAL REVENUE FUND SELF LIQUIDATING (d)			
Fixed Rate	818,942,175.00	3,306,745,000.00	4,125,687,175.00
Variable Rate (e)	88,444.72	110,370,000.00	110,458,444.72
REVENUE BONDS			
GENERAL FUND LEASE-REVENUE			
Lease-Revenue	6,699,555,261.73	11,266,240,000.00	17,965,795,261.73
General Fund and Lease-Revenue Total (f)	**$ 69,791,227,666.08**	**$ 91,068,660,000.00**	**$ 160,859,887,666.08**

(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 July 1, 2014. The interest rates for the daily, weekly and monthly rate bonds range from 0.01 - 1.21%.
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% until reset date, and are assumed to bear that rate from reset until maturity.
(d) Economic Recovery Bonds.
(e) The estimate of future interest payments is based on the rate in effect as of July 1, 2014 which is 0.01%.
(f) 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 July 1, 2014

Fiscal Year Ending June 30	Current Debt			
	Interest (a)	Principal	Total (b)	
2015	$ 3,904,715,760.10	$ 2,663,040,000.00	$ 6,567,755,760.10	(c)
2016	3,785,429,962.60	2,732,275,000.00	6,517,704,962.60	
2017	3,665,889,595.62	2,406,125,000.00	6,072,014,595.62	
2018	3,554,395,189.95	2,319,805,000.00	5,874,200,189.95	
2019	3,438,700,873.12	2,613,020,000.00	6,051,720,873.12	
2020	3,291,382,245.14	2,678,110,000.00	5,969,492,245.14	
2021	3,168,836,955.23	2,262,835,000.00	5,431,671,955.23	
2022	3,047,779,910.31	2,568,985,000.00	5,616,764,910.31	
2023	2,925,072,940.53	2,131,395,000.00	5,056,467,940.53	
2024	2,822,792,745.43	1,861,655,000.00	4,684,447,745.43	
2025	2,726,244,764.40	2,126,025,000.00	4,852,269,764.40	
2026	2,617,063,065.35	2,173,850,000.00	4,790,913,065.35	
2027	2,504,895,468.31	2,261,200,000.00	4,766,095,468.31	
2028	2,393,469,105.86	2,307,775,000.00	4,701,244,105.86	
2029	2,282,181,737.60	2,366,455,000.00	4,648,636,737.60	
2030	2,161,142,734.31	2,674,785,000.00	4,835,927,734.31	
2031	2,016,480,595.61	2,763,270,000.00	4,779,750,595.61	
2032	1,885,408,109.40	2,531,100,000.00	4,416,508,109.40	
2033	1,749,928,457.51	2,553,560,000.00	4,303,488,457.51	
2034	1,621,249,878.50	3,423,455,000.00	5,044,704,878.50	
2035	1,385,973,699.85	3,170,320,000.00	4,556,293,699.85	
2036	1,195,685,550.76	2,782,530,000.00	3,978,215,550.76	
2037	1,021,670,824.37	3,122,660,000.00	4,144,330,824.37	
2038	837,618,859.44	3,068,625,000.00	3,906,243,859.44	
2039	689,644,728.95	3,415,270,000.00	4,104,914,728.95	
2040	413,020,962.50	1,603,885,000.00	2,016,905,962.50	
2041	255,309,093.75	2,190,000,000.00	2,445,309,093.75	
2042	153,029,093.75	1,319,000,000.00	1,472,029,093.75	
2043	97,571,718.75	1,326,325,000.00	1,423,896,718.75	
2044	24,002,698.75	875,000,000.00	899,002,698.75	
Total	**$ 61,636,587,325.75**	**$ 72,292,335,000.00**	**$ 133,928,922,325.75**	

(a) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(b) Includes scheduled mandatory sinking fund payments.
Does not include outstanding commercial paper.
(c) Total represents the remaining debt service requirements from August 1, 2014 through June 30, 2015.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Variable Rate
As of July 1, 2014

Fiscal Year Ending June 30	Current Debt			
	Interest (a)(b)	Principal	Total (c)	
2015	$ 22,614,224.56	$ -	$ 22,614,224.56	(d)
2016	23,034,704.92	24,400,000.00	47,434,704.92	
2017	22,956,478.11	188,275,000.00	211,231,478.11	
2018	22,621,635.57	247,005,000.00	269,626,635.57	
2019	22,138,691.24	117,320,000.00	139,458,691.24	
2020	21,899,977.26	109,500,000.00	131,399,977.26	
2021	21,657,951.24	58,600,000.00	80,257,951.24	
2022	21,620,552.24	43,600,000.00	65,220,552.24	
2023	21,574,382.84	65,600,000.00	87,174,382.84	
2024	21,525,003.82	178,300,000.00	199,825,003.82	
2025	21,431,017.24	121,300,000.00	142,731,017.24	
2026	21,369,115.84	208,400,000.00	229,769,115.84	
2027	16,776,453.24	395,900,000.00	412,676,453.24	
2028	7,666,207.62	404,500,000.00	412,166,207.62	
2029	2,357,821.64	415,600,000.00	417,957,821.64	
2030	1,074,741.58	262,590,000.00	263,664,741.58	
2031	479,441.60	172,100,000.00	172,579,441.60	
2032	337,625.00	225,500,000.00	225,837,625.00	
2033	154,984.40	180,700,000.00	180,854,984.40	
2034	926.20	1,600,000.00	1,600,926.20	
2035	517.80	-	517.80	
2036	519.20	-	519.20	
2037	516.60	-	516.60	
2038	517.80	-	517.80	
2039	517.80	-	517.80	
2040	475.60	1,000,000.00	1,000,475.60	
Total	**$ 293,295,000.96**	**$ 3,421,790,000.00**	**$ 3,715,085,000.96**	

(a) The estimate of future interest payments is based on rates in effect as of July 1, 2014. The interest rates for the daily, weekly and monthly rate bonds range from 0.01 - 1.21%.
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% until reset date, and are assumed to bear that rate from reset until maturity.
(b) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(c) Includes scheduled mandatory sinking fund payments.
Does not include outstanding commercial paper.
(d) Total represents the remaining estimated debt service requirements from August 1, 2014 through June 30, 2015.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR SPECIAL REVENUE FUND SELF LIQUIDATING BONDS
Fixed Rate
As of July 1, 2014

Fiscal Year Ending June 30	Current Debt			
	Interest	Principal	Total (a)	
2015	$ 82,141,877.50	$ -	$ 82,141,877.50	(b)
2016	153,999,230.00	417,675,000.00	571,674,230.00	
2017	140,025,400.00	165,160,000.00	305,185,400.00	
2018	132,149,376.25	174,290,000.00	306,439,376.25	
2019	113,267,497.50	592,955,000.00	706,222,497.50	
2020	86,361,762.50	496,145,000.00	582,506,762.50	
2021	61,465,062.50	507,445,000.00	568,910,062.50	
2022	36,925,093.75	451,575,000.00	488,500,093.75	
2023	12,571,250.00	500,000,000.00	512,571,250.00	
2024	35,625.00	1,500,000.00	1,535,625.00	
Total	**$ 818,942,175.00**	**$ 3,306,745,000.00**	**$ 4,125,687,175.00**	

(a) Includes scheduled mandatory sinking fund payments.
(b) Total represents the remaining debt service requirements from August 1, 2014 through June 30, 2015.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR SPECIAL REVENUE FUND SELF LIQUIDATING BONDS
Variable Rate
As of July 1, 2014

Fiscal Year Ending June 30	Current Debt			
	Interest (a)	Principal	Total (b)	
2015	$ 10,129.85	$ -	$ 10,129.85	(c)
2016	11,054.68	-	11,054.68	
2017	11,019.32	-	11,019.32	
2018	11,037.00	-	11,037.00	
2019	11,097.48	-	11,097.48	
2020	10,994.20	-	10,994.20	
2021	11,019.32	-	11,019.32	
2022	9,907.60	27,300,000.00	27,309,907.60	
2023	2,061.77	68,045,000.00	68,047,061.77	
2024	123.49	15,025,000.00	15,025,123.49	
Total	**$ 88,444.72**	**$ 110,370,000.00**	**$ 110,458,444.72**	

(a) The estimate of future interest payments is based on rate in effect as of July 1, 2014, which is 0.01%.
(b) Includes scheduled mandatory sinking fund payments.
(c) Total represents the remaining estimated debt service requirements from August 1, 2014 through June 30, 2015.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR ENTERPRISE FUND SELF LIQUIDATING BONDS
Fixed Rate
As of July 1, 2014

Fiscal Year Ending June 30	Current Debt			
	Interest	Principal	Total(a)	
2015	$ 29,114,470.00	$ 52,575,000.00	$ 81,689,470.00	(b)
2016	26,609,879.13	75,620,000.00	102,229,879.13	
2017	23,909,195.00	61,895,000.00	85,804,195.00	
2018	21,708,239.65	39,600,000.00	61,308,239.65	
2019	20,217,411.16	26,900,000.00	47,117,411.16	
2020	18,939,693.75	28,115,000.00	47,054,693.75	
2021	17,613,488.75	19,570,000.00	37,183,488.75	
2022	16,700,878.78	13,630,000.00	30,330,878.78	
2023	16,133,431.25	9,695,000.00	25,828,431.25	
2024	15,822,096.25	4,365,000.00	20,187,096.25	
2025	15,620,462.30	4,660,000.00	20,280,462.30	
2026	15,516,388.75	-	15,516,388.75	
2027	15,140,813.65	16,695,000.00	31,835,813.65	
2028	14,565,072.80	8,835,000.00	23,400,072.80	
2029	13,781,762.80	25,075,000.00	38,856,762.80	
2030	12,252,673.69	40,325,000.00	52,577,673.69	
2031	10,301,552.28	42,490,000.00	52,791,552.28	
2032	8,707,392.50	25,755,000.00	34,462,392.50	
2033	7,508,072.50	26,690,000.00	34,198,072.50	
2034	6,359,375.00	22,705,000.00	29,064,375.00	
2035	5,269,037.50	23,310,000.00	28,579,037.50	
2036	4,403,300.00	13,945,000.00	18,348,300.00	
2037	3,548,333.75	23,025,000.00	26,573,333.75	
2038	2,662,880.00	15,300,000.00	17,962,880.00	
2039	1,950,055.00	16,025,000.00	17,975,055.00	
2040	1,195,310.00	16,790,000.00	17,985,310.00	
2041	404,570.00	17,590,000.00	17,994,570.00	
Total	**$ 345,955,836.24**	**$ 671,180,000.00**	**$ 1,017,135,836.24**	

(a) Includes scheduled mandatory sinking fund payments.
(b) Total represents the remaining debt service requirements from August 1, 2014 through June 30, 2015.

SOURCE: State of California, Office of the Treasurer.

STATE PUBLIC WORKS BOARD AND
OTHER LEASE-REVENUE FINANCING
OUTSTANDING ISSUES
As of July 1, 2014

Name of Issue		Outstanding
GENERAL FUND SUPPORTED ISSUES:		
State Public Works Board		
California Community Colleges	$	311,335,000
California Department of Corrections and Rehabilitations		4,254,765,000
Trustees of the California State University		1,101,890,000
Various State Facilities (a)		5,229,825,000
Total State Public Works Board Issues	**$**	**10,897,815,000**
Total Other State Facilities Lease-Revenue Issues (b)	$	368,425,000
Total General Fund Supported Issues	**$**	**11,266,240,000**
SPECIAL FUND SUPPORTED ISSUES:		
East Bay State Building Authority	$	20,480,000
San Bernardino Joint Powers Financing Authority		27,930,000
Total Special Fund Supported Issues	**$**	**48,410,000**
TOTAL	**$**	**11,314,650,000**

(a) This includes projects that are supported by multiple funding sources in addition to the General Fund.
(b) Includes $88,005,000 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 July 1, 2014

Fiscal Year Ending June 30	Current Debt			
	Interest (a)	Principal	Total (b)	
2015	$ 563,990,592.14	$ 485,020,000.00	$ 1,049,010,592.14	(c)
2016	550,542,420.47	514,045,000.00	1,064,587,420.47	
2017	525,487,487.69	544,495,000.00	1,069,982,487.69	
2018	497,878,246.84	603,130,000.00	1,101,008,246.84	
2019	468,654,635.09	580,675,000.00	1,049,329,635.09	
2020	439,938,960.73	564,000,000.00	1,003,938,960.73	
2021	412,851,357.92	529,685,000.00	942,536,357.92	
2022	386,376,887.48	515,280,000.00	901,656,887.48	
2023	362,246,119.44	465,650,000.00	827,896,119.44	
2024	339,021,763.00	450,625,000.00	789,646,763.00	
2025	315,919,797.17	473,945,000.00	789,864,797.17	
2026	291,545,167.15	481,685,000.00	773,230,167.15	
2027	266,069,646.20	507,130,000.00	773,199,646.20	
2028	239,431,999.38	518,050,000.00	757,481,999.38	
2029	212,898,449.72	479,375,000.00	692,273,449.72	
2030	187,023,864.12	472,130,000.00	659,153,864.12	
2031	161,009,881.54	479,580,000.00	640,589,881.54	
2032	133,803,191.20	485,965,000.00	619,768,191.20	
2033	107,937,648.67	409,690,000.00	517,627,648.67	
2034	83,757,561.91	421,075,000.00	504,832,561.91	
2035	59,175,658.87	387,655,000.00	446,830,658.87	
2036	40,772,850.00	242,565,000.00	283,337,850.00	
2037	28,629,262.50	254,705,000.00	283,334,262.50	
2038	15,773,937.50	195,975,000.00	211,748,937.50	
2039	6,954,287.50	129,320,000.00	136,274,287.50	
	1,863,587.50	74,790,000.00	76,653,587.50	
Total	**$ 6,699,555,261.73**	**$ 11,266,240,000.00**	**$ 17,965,795,261.73**	

(a) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(b) Includes scheduled mandatory sinking fund payments.
(c) Total represents the remaining debt service requirements from August 1, 2014 through June 30, 2015.

SOURCE: State of California, Office of the Treasurer.

STATE AGENCY REVENUE BONDS
AND CONDUIT FINANCING
As of June 30, 2014

Issuing Agency		Outstanding[(a)(b)(c)]
State Revenue Bond Financing Programs:		
California Alternative Energy and Advanced Transportation Financing Authority	$	4,261,333
California Department of Transportation - GARVEE		127,405,000
California Earthquake Authority		94,500,000
California Health Facilities Financing Authority		66,165,000
California Housing Finance Agency		3,592,582,930
California Infrastructure and Economic Development Bank		601,600,000
California State University		3,507,043,000
Department of Water Resources - Central Valley Project		2,455,645,000
Department of Water Resources - Power Supply Program		5,943,250,000
The Regents of the University of California		15,267,255,000
Veterans Revenue Debenture		372,705,000
TOTAL	**$**	**32,032,412,263**
Conduit Financing:		
California Alternative Energy and Advanced Transportation Financing Authority	$	57,258,693
California Educational Facilities Authority		4,679,335,782
California Health Facilities Financing Authority		13,129,074,782
California Housing Finance Agency		340,892,754
California Infrastructure and Economic Development Bank		4,048,205,704
California Pollution Control Financing Authority		3,888,709,998
California School Financing Authority		279,543,416
TOTAL	**$**	**26,423,021,129**

(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.

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

June 2014

JOHN CHIANG
California State Controller

JOHN CHIANG
California State Controller

July 10, 2014

Users of the Statement of General Fund Cash Receipts and Disbursements:

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2013, through June 30, 2014. This statement reflects the State of California's General Fund cash position and compares actual receipts and disbursements for the 2013-14 fiscal year to cash flow estimates prepared by the Department of Finance (DOF) for the 2013-14 Budget Act. The statement is prepared in compliance with Provision 7 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 2013-14 fiscal year to cash flow estimates published in the 2014-15 Governor's Budget. These cash flow estimates are predicated on projections and assumptions made by the DOF in preparation of the 2014-15 Governor's Budget.

Attachment B compares actual receipts and disbursements for the 2013-14 fiscal year to cash flow estimates prepared by the Department of Finance based upon the 2013-14 Budget Act.

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

Any questions concerning this report may be directed to Casandra Moore-Hudnall, Division Chief of Accounting and Reporting, by telephone at (916) 445-5834.

Sincerely,
Original signed by:

JOHN CHIANG
California State Controller

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2014-15 Governor's Budget Estimates
(Amounts in thousands)

	July 1 through June 30				
	2014				2013
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	$ -	$ -	$ -	-	$ -
Add Receipts:					
Revenues	101,572,529	99,487,091	2,085,438	2.1	100,078,372
Nonrevenues	2,393,668	2,003,066	390,602	19.5	3,346,302
Total Receipts	103,966,197	101,490,157	2,476,040	2.4	103,424,674
Less Disbursements:					
State Operations	26,448,309	27,131,944	(683,635)	(2.5)	26,130,710
Local Assistance	72,773,611	72,535,395	238,216	0.3	68,095,108
Capital Outlay	154,544	192,580	(38,036)	(19.8)	117,388
Nongovernmental	233,239	163,016	70,223	43.1	1,923,042
Total Disbursements	99,609,703	100,022,935	(413,232)	(0.4)	96,266,248
Receipts Over / (Under) Disbursements	4,356,494	1,467,222	2,889,272	196.9	7,158,426
Net Increase / (Decrease) in Temporary Loans	(2,434,865)	(1,467,222)	(967,643)	66.0	(7,158,426)
GENERAL FUND ENDING CASH BALANCE	**1,921,629**	**-**	**1,921,629**		-
Special Fund for Economic Uncertainties	1,071,100	103,458	967,642	935.3	-
TOTAL CASH	**$ 2,992,729**	**$ 103,458**	**$ 2,889,271**		$ -
BORROWABLE RESOURCES					
Available Borrowable Resources	$ 23,761,526	$ 21,736,100	$ 2,025,426	9.3	$ 21,215,251
Outstanding Loans (b)	-	967,642	(967,642)	(100.0)	2,434,865
Unused Borrowable Resources	$ 23,761,526	$ 20,768,458	$ 2,993,068	14.4	$ 18,780,386

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 2013-14 fiscal year was prepared by the Department of Finance for the 2014-15 Governor's Budget. Any projections or estimates are set forth as such and not as representation of facts.
(b) $4 billion of RANs were repaid on June 23, 2014 as scheduled. The $4.3 billion in excess receipts over disbursements repaid the $2.4 billion of outstanding loans carried forward from June 30, 2013, leaving a net ending cash balance of $1.9 billion and $0.00 in outstanding loans at June 30, 2014.
(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) A $1.0 billion advance was repaid to the General Fund from the Medi-Cal Provider Interim Payment Fund.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2014				2013
	2014	2013	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 31,370	$ 29,418	$ 329,457	$ 324,939	$ 4,518	1.4	$ 360,803
Corporation Tax	2,480,217	2,112,500	8,511,645	7,786,245	725,400	9.3	7,620,406
Cigarette Tax	982	13,163	80,152	88,994	(8,842)	(9.9)	91,172
Estate, Inheritance, and Gift Tax	2,327	371	8,828	4,605	4,223	91.7	4,303
Insurance Companies Tax	307,021	326,110	2,365,974	2,171,895	194,079	8.9	2,244,313
Personal Income Tax	9,258,300	8,029,598	66,194,590	64,505,331	1,689,259	2.6	67,314,600
Retail Sales and Use Taxes	2,026,168	2,050,138	22,158,717	22,573,625	(414,908)	(1.8)	20,073,343
Vehicle License Fees	41	261	1,951	1,302	649	49.8	7,493
Pooled Money Investment Interest	3,554	4,178	21,351	24,877	(3,526)	(14.2)	23,426
Not Otherwise Classified	675,235	558,666	1,899,864	2,005,278	(105,414)	(5.3)	2,338,513
Total Revenues	**14,785,215**	**13,124,403**	**101,572,529**	**99,487,091**	**2,085,438**	**2.1**	**100,078,372**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	-	-	-	-	-
Transfers from Other Funds	247,020	340,873	1,197,097	1,069,137	127,960	12.0	2,051,308
Miscellaneous	24,182	38,652	1,196,571	933,929	262,642	28.1	1,294,994
Total Nonrevenues	**271,202**	**379,525**	**2,393,668**	**2,003,066**	**390,602**	**19.5**	**3,346,302**
Total Receipts	**$ 15,056,417**	**$ 13,503,928**	**$ 103,966,197**	**$ 101,490,157**	**$ 2,476,040**	**2.4**	**$ 103,424,674**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2014				2013
	2014	2013	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 32,232	$ 73,106	$ 1,478,905	$ 1,370,701	$ 108,204	7.9	$ 1,000,838
Business, Consumer Services and Housing	(4,415)	48,269	10,667	14,907	(4,240)	(28.4)	663,371
Transportation	20	269	593	-	593	-	3,978
Resources	64,873	59,696	1,084,230	1,090,214	(5,984)	(0.5)	1,143,350
Environmental Protection Agency	3,928	3,169	40,943	41,392	(449)	(1.1)	34,023
Health and Human Services:							
Health Care Services and Public Health	(2,978)	16,949	235,749	247,087	(11,338)	(4.6)	217,429
Department of State Hospitals	112,636	65,279	1,375,451	1,411,240	(35,789)	(2.5)	1,161,511
Other Health and Human Services	16,487	(14,830)	517,745	552,043	(34,298)	(6.2)	469,474
Education:							
University of California	2,889	502,167	2,852,368	2,851,927	441	-	2,386,114
State Universities and Colleges	29	62,144	2,551,907	2,632,289	(80,382)	(3.1)	2,244,988
Other Education	7,562	10,901	186,421	194,238	(7,817)	(4.0)	169,881
Dept. of Corrections and Rehabilitation	707,814	646,220	8,785,327	8,760,362	24,965	0.3	7,788,842
Governmental Operations	50,805	-	679,501	752,081	(72,580)	(9.7)	-
General Government	124,765	2,105,094	2,136,658	2,134,014	2,644	0.1	4,270,890
Public Employees Retirement System	(165,093)	(145,308)	(57,274)	(14,451)	(42,823)	296.3	(6,616)
Debt Service (d)	130,941	473,119	4,505,852	5,015,337	(509,485)	(10.2)	4,482,775
Interest on Loans	80,051	161,738	63,266	78,563	(15,297)	(19.5)	99,862
Total State Operations	**1,162,546**	**4,067,982**	**26,448,309**	**27,131,944**	**(683,635)**	**(2.5)**	**26,130,710**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	2,220,509	6,880,525	36,842,575	37,006,560	(163,985)	(0.4)	36,476,720
Community Colleges	354,750	842,868	4,001,929	3,894,433	107,496	2.8	3,584,580
Debt Service-School Building Bonds	-	-	-	(234)	234	(100.0)	-
Contributions to State Teachers' Retirement System	-	-	1,359,827	1,359,826	1	-	1,359,675
Other Education	13,863	(27,177)	1,744,406	1,816,796	(72,390)	(4.0)	1,813,620
School Facilities Aid	-	-	-	234	(234)	(100.0)	-
Dept. of Corrections and Rehabilitation	35	3,009	168,313	174,019	(5,706)	(3.3)	223,654
Dept. of Alcohol and Drug Program	605	1,583	(254)	(1,655)	1,401	(84.7)	42,770
Health Care Services and Public Health:							
Medical Assistance Program	823,586	99,102	16,995,452	16,675,506	319,946	1.9	14,391,478
Other Health Care Services/Public Health	(5,461)	10,178	104,234	186,790	(82,556)	(44.2)	108,352
Developmental Services - Regional Centers	122,783	(21,128)	2,653,769	2,475,757	178,012	7.2	2,037,886
Department of State Hospitals	-	-	-	-	-	-	10,664
Dept. of Social Services:							
SSI/SSP/IHSS	57,972	300,849	4,615,418	4,598,995	16,423	0.4	4,453,798
CalWORKs	(38,517)	55,369	1,481,494	1,452,827	28,667	2.0	1,348,177
Other Social Services	109,633	37,388	766,416	716,381	50,035	7.0	682,154
Tax Relief	-	-	421,734	417,356	4,378	1.0	427,285
Other Local Assistance	44,557	52,554	1,618,298	1,761,804	(143,506)	(8.1)	1,134,295
Total Local Assistance	**3,704,315**	**8,235,120**	**72,773,611**	**72,535,395**	**238,216**	**0.3**	**68,095,108**

See notes on page A1.

(Continued)

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

	Month of June		July 1 through June 30				
			2014				2013
	2014	2013	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**294**	**8,870**	**154,544**	**192,580**	**(38,036)**	**(19.8)**	**117,388**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	122,900	122,900	-	-	473,243
Transfer to Budget Stabilization Account	-	-	-	-	-	-	-
Transfer to Other Funds	419,500	43,740	1,093,514	1,001,548	91,966	9.2	404,748
Transfer to Revolving Fund	(7,279)	(10,989)	(12,787)	7,045	(19,832)	-	(9,808)
Advance:						-	
MediCal Provider Interim Payment	(1,000,000)	-	(1,000,000)	(1,000,000)	- (e)	-	1,000,000
State-County Property Tax Administration Program	(12,096)	(4,380)	(15,404)	13,745	(29,149)	-	18,682
Social Welfare Federal Fund	141,200	28,000	108,989	(18,250)	127,239	-	(63,763)
Local Governmental Entities	(60,000)	-	(30,913)	-	(30,913)	-	60,000
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	282,612	315,672	(33,060)	36,028	(69,088)	-	39,940
Total Nongovernmental	**(236,063)**	**372,043**	**233,239**	**163,016**	**70,223**	43.1	**1,923,042**
Total Disbursements	**$ 4,631,092**	**$ 12,684,015**	**$ 99,609,703**	**$ 100,022,935**	**$ (413,232)**	**(0.4)**	**$ 96,266,248**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (1,071,100)	$ 948,200	$ (948,200)	$ 19,442	$ (967,642)	-	$ 473,243
Budget Stabilization Account	-	-	-	-	-	-	-
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	(3,432,596)	1,486,665	(1,486,665)	(1,486,664)	(1)	-	(7,631,669)
Revenue Anticipation Notes	(4,000,000)	(7,500,000)	-	-	-	-	-
Net Increase / (Decrease) Loans	**(8,503,696)**	**$ (5,065,135)**	**$ (2,434,865)**	**$ (1,467,222)**	**$ (967,643)**	**66.0**	**$ (7,158,426)**

See notes on page A1.

(Concluded)

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

	July 1 through June 30			
	General Fund		Special Funds	
	2014	2013	2014	2013
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 329,457	$ 360,803	$ -	$ -
Corporation Tax	8,511,645	7,620,406	-	-
Cigarette Tax	80,152	91,172	700,910	776,194
Estate, Inheritance, and Gift Tax	8,828	4,303	4	-
Insurance Companies Tax	2,365,974	2,244,313	779,224	34,389
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	5,699,170	5,196,201
Diesel & Liquid Petroleum Gas	-	-	317,647	333,028
Jet Fuel Tax	-	-	2,811	2,406
Vehicle License Fees	1,951	7,493	2,163,979	1,971,800
Motor Vehicle Registration and Other Fees	-	-	4,165,105	3,920,199
Personal Income Tax	66,194,590	67,314,600	1,189,222	1,200,346
Retail Sales and Use Taxes	22,158,717	20,073,343	14,006,872	13,355,024
Pooled Money Investment Interest	21,351	23,426	148	181
Total Major Taxes, Licenses, and Investment Income	**99,672,665**	**97,739,859**	**29,025,092**	**26,789,768**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	3,239	2,479	52,727	52,136
Electrical Energy Tax	-	-	619,337	712,069
Private Rail Car Tax	8,530	7,893	-	-
Penalties on Traffic Violations	-	-	70,883	74,526
Health Care Receipts	12,569	18,442	-	-
Revenues from State Lands	417,751	422,475	-	-
Abandoned Property	485,893	474,738	-	-
Trial Court Revenues	49,003	51,251	1,656,797	1,701,124
Horse Racing Fees	1,058	1,117	12,789	13,461
Cap and Trade	-	-	477,140	257,264
Miscellaneous	921,821	1,360,118	10,403,490	11,754,098
Not Otherwise Classified	**1,899,864**	**2,338,513**	**13,293,163**	**14,564,678**
Total Revenues, All Governmental Cost Funds	**$ 101,572,529**	**$ 100,078,372**	**$ 42,318,255**	**$ 41,354,446**

See notes on page A1.

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2013-14 Budget Act
(Amounts in thousands)

	July 1 through June 30				
	2014				2013
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	$ -	$ -	$ -	-	$ -
Add Receipts:					
Revenues	101,572,529	96,346,000	5,226,529	5.4	100,078,372
Nonrevenues	2,393,668	2,051,441	342,227	16.7	3,346,302
Total Receipts	103,966,197	98,397,441	5,568,756	5.7	103,424,674
Less Disbursements:					
State Operations	26,448,309	26,582,163	(133,854)	(0.5)	26,130,710
Local Assistance	72,773,611	72,592,016	181,595	0.3	68,095,108
Capital Outlay	154,544	171,609	(17,065)	(9.9)	117,388
Nongovernmental	233,239	41,387	191,852	463.6	1,923,042
Total Disbursements	99,609,703	99,387,175	222,528	0.2	96,266,248
Receipts Over / (Under) Disbursements	4,356,494	(989,734)	5,346,228	(540.2)	7,158,426
Net Increase / (Decrease) in Temporary Loans	(2,434,865)	989,734	(3,424,599)	(346.0)	(7,158,426)
GENERAL FUND ENDING CASH BALANCE	**1,921,629**	-	**1,921,629**		-
Special Fund for Economic Uncertainties	1,071,100	-	1,071,100	-	-
TOTAL CASH	**$ 2,992,729**	$ -	**$ 2,992,729**		$ -
BORROWABLE RESOURCES					
Available Borrowable Resources	$ 23,761,526	$ 20,981,100	$ 2,780,426	13.3	$ 21,215,251
Outstanding Loans (b)	-	3,424,598	(3,424,598)	(100.0)	2,434,865
Unused Borrowable Resources	$ 23,761,526	$ 17,556,502	$ 6,205,024	35.3	$ 18,780,386

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 2013-14 fiscal year was prepared by the Department of Finance for the 2013 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.
(b) $4 billion of RANs were repaid on June 23, 2014 as scheduled. The $4.3 billion in excess receipts over disbursements repaid the $2.4 billion of outstanding loans carried forward from June 30, 2013, leaving a net ending cash balance of $1.9 billion and $0.00 in outstanding loans at June 30, 2014.
(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) A $1.0 billion advance was repaid to the General Fund from the Medi-Cal Provider Interim Payment Fund.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2014				2013
					Actual Over or (Under) Estimate		
	2014	2013	Actual	Estimate (a)	Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 31,370	$ 29,418	$ 329,457	$ 331,000	$ (1,543)	(0.5)	$ 360,803
Corporation Tax	2,480,217	2,112,500	8,511,645	8,109,000	402,645	5.0	7,620,406
Cigarette Tax	982	13,163	80,152	89,000	(8,848)	(9.9)	91,172
Estate, Inheritance, and Gift Tax	2,327	371	8,828	-	8,828	-	4,303
Insurance Companies Tax	307,021	326,110	2,365,974	2,200,000	165,974	7.5	2,244,313
Personal Income Tax	9,258,300	8,029,598	66,194,590	60,805,000	5,389,590	8.9	67,314,600
Retail Sales and Use Taxes	2,026,168	2,050,138	22,158,717	22,735,000	(576,283)	(2.5)	20,073,343
Vehicle License Fees	41	261	1,951	-	1,951	-	7,493
Pooled Money Investment Interest	3,554	4,178	21,351	33,000	(11,649)	(35.3)	23,426
Not Otherwise Classified	675,235	558,666	1,899,864	2,044,000	(144,136)	(7.1)	2,338,513
Total Revenues	**14,785,215**	**13,124,403**	**101,572,529**	**96,346,000**	**5,226,529**	**5.4**	**100,078,372**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	-	-	-	-	-
Transfers from Other Funds	247,020	340,873	1,197,097	1,060,288	136,809	12.9	2,051,308
Miscellaneous	24,182	38,652	1,196,571	991,153	205,418	20.7	1,294,994
Total Nonrevenues	**271,202**	**379,525**	**2,393,668**	**2,051,441**	**342,227**	**16.7**	**3,346,302**
Total Receipts	**$ 15,056,417**	**$ 13,503,928**	**$ 103,966,197**	**$ 98,397,441**	**$ 5,568,756**	**5.7**	**$ 103,424,674**

See notes on page B1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2014				2013
					Actual Over or (Under) Estimate		
	2014	2013	Actual	Estimate (a)	Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 32,232	$ 73,106	$ 1,478,905	$ 1,442,615	$ 36,290	2.5	$ 1,000,838
Business, Consumer Services and Housing	(4,415)	48,269	10,667	14,684	(4,017)	(27.4)	663,371
Transportation	20	269	593	-	593	-	3,978
Resources	64,873	59,696	1,084,230	1,097,450	(13,220)	(1.2)	1,143,350
Environmental Protection Agency	3,928	3,169	40,943	40,382	561	1.4	34,023
Health and Human Services:							
Health Care Services and Public Health	(2,978)	16,949	235,749	244,002	(8,253)	(3.4)	217,429
Department of State Hospitals	112,636	65,279	1,375,451	1,233,620	141,831	11.5	1,161,511
Other Health and Human Services	16,487	(14,830)	517,745	616,960	(99,215)	(16.1)	469,474
Education:							
University of California	2,889	502,167	2,852,368	2,644,168	208,200	7.9	2,386,114
State Universities and Colleges	29	62,144	2,551,907	2,611,148	(59,241)	(2.3)	2,244,988
Other Education	7,562	10,901	186,421	184,323	2,098	1.1	169,881
Dept. of Corrections and Rehabilitation	707,814	646,220	8,785,327	8,442,870	342,457	4.1	7,788,842
Governmental Operations	50,805	-	679,501	741,265	(61,764)	(8.3)	-
General Government	124,765	2,105,094	2,136,658	2,114,175	22,483	1.1	4,270,890
Public Employees Retirement System	(165,093)	(145,308)	(57,274)	(13,796)	(43,478)	315.1	(6,616)
Debt Service (d)	130,941	473,119	4,505,852	5,026,861	(521,009)	(10.4)	4,482,775
Interest on Loans	80,051	161,738	63,266	141,436	(78,170)	(55.3)	99,862
Total State Operations	**1,162,546**	**4,067,982**	**26,448,309**	**26,582,163**	**(133,854)**	**(0.5)**	**26,130,710**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	2,220,509	6,880,525	36,842,575	36,923,480	(80,905)	(0.2)	36,476,720
Community Colleges	354,750	842,868	4,001,929	3,888,246	113,683	2.9	3,584,580
Debt Service-School Building Bonds	-	-	-	(139)	139	(100.0)	-
Contributions to State Teachers' Retirement System	-	-	1,359,827	1,359,827	-	-	1,359,675
Other Education	13,863	(27,177)	1,744,406	1,938,626	(194,220)	(10.0)	1,813,620
School Facilities Aid	-	-	-	139	(139)	(100.0)	-
Dept. of Corrections and Rehabilitation	35	3,009	168,313	177,247	(8,934)	(5.0)	223,654
Dept. of Alcohol and Drug Program	605	1,583	(254)	-	(254)	-	42,770
Health Care Services and Public Health:							
Medical Assistance Program	823,586	99,102	16,995,452	16,655,483	339,969	2.0	14,391,478
Other Health Care Services/Public Health	(5,461)	10,178	104,234	133,869	(29,635)	(22.1)	108,352
Developmental Services - Regional Centers	122,783	(21,128)	2,653,769	2,421,457	232,312	9.6	2,037,886
Department of State Hospitals	-	-	-	-	-	-	10,664
Dept. of Social Services:							
SSI/SSP/IHSS	57,972	300,849	4,615,418	4,659,942	(44,524)	(1.0)	4,453,798
CalWORKs	(38,517)	55,369	1,481,494	1,303,955	177,539	13.6	1,348,177
Other Social Services	109,633	37,388	766,416	811,971	(45,555)	(5.6)	682,154
Tax Relief	-	-	421,734	418,356	3,378	0.8	427,285
Other Local Assistance	44,557	52,554	1,618,298	1,899,557	(281,259)	(14.8)	1,134,295
Total Local Assistance	**3,704,315**	**8,235,120**	**72,773,611**	**72,592,016**	**181,595**	**0.3**	**68,095,108**

See notes on page B1.

(Continued)

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

	Month of June		July 1 through June 30				
			2014				2013
	2014	2013	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**294**	**8,870**	**154,544**	**171,609**	**(17,065)**	**(9.9)**	**117,388**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	122,900	122,900	-	-	473,243
Transfer to Budget Stabilization Account	-	-	-	-	-	-	-
Transfer to Other Funds	419,500	43,740	1,093,514	850,350	243,164	28.6	404,748
Transfer to Revolving Fund	(7,279)	(10,989)	(12,787)	-	(12,787)	-	(9,808)
Advance:						-	
MediCal Provider Interim Payment	(1,000,000)	-	(1,000,000)	(1,000,000)	- (e)	-	1,000,000
State-County Property Tax						-	
Administration Program	(12,096)	(4,380)	(15,404)	-	(15,404)	-	18,682
Social Welfare Federal Fund	141,200	28,000	108,989	-	108,989	-	(63,763)
Local Governmental Entities	(60,000)	-	(30,913)	55,000	(85,913)	(156.2)	60,000
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	282,612	315,672	(33,060)	13,137	(46,197)	-	39,940
Total Nongovernmental	**(236,063)**	**372,043**	**233,239**	**41,387**	**191,852**	463.6	**1,923,042**
Total Disbursements	**$ 4,631,092**	**$ 12,684,015**	**$ 99,609,703**	**$ 99,387,175**	**$ 222,528**	**0.2**	**$ 96,266,248**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (1,071,100)	$ 948,200	$ (948,200)	$ 122,900	$ (1,071,100)	-	$ 473,243
Budget Stabilization Account	-	-	-	-	-	-	-
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	(3,432,596)	1,486,665	(1,486,665)	866,834	(2,353,499)	(271.5)	(7,631,669)
Revenue Anticipation Notes	(4,000,000)	(7,500,000)	-	-	-	-	-
Net Increase / (Decrease) Loans	**(8,503,696)**	**$ (5,065,135)**	**$ (2,434,865)**	**$ 989,734**	**$ (3,424,599)**	**(346.0)**	**$ (7,158,426)**

See notes on page B1.

(Concluded)

(THIS PAGE INTENTIONALLY LEFT BLANK)

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

August 2014

JOHN CHIANG
California State Controller

JOHN CHIANG
California State Controller

September 9, 2014

Users of the Statement of General Fund Cash Receipts and Disbursements:

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2014, through August 31, 2014. This statement reflects the State of California's General Fund cash position and compares actual receipts and disbursements for the 2014-15 fiscal year to cash flow estimates prepared by the Department of Finance (DOF) for the 2014-15 Budget Act. The statement is prepared in compliance with Provision 7 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 2014-15 fiscal year to cash flow estimates published in the 2014-15 Budget Act. These cash flow estimates are predicated on projections and assumptions made by the Department of Finance in preparation of the 2014-15 Budget Act.

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

Any questions concerning this report may be directed to Casandra Moore-Hudnall, Division Chief of Accounting and Reporting, by telephone at (916) 445-5834.

Sincerely,
Original signed by:

JOHN CHIANG
California State Controller

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2014-15 Budget Act
(Amounts in thousands)

	July 1 through August 31					
	2014					2013
	Actual	Estimate (a)	Actual Over or (Under) Estimate: Amount		%	Actual
GENERAL FUND BEGINNING CASH BALANCE	$ **1,921,629**	$ **1,921,629**	$ **-**		-	$ -
Add Receipts:						
Revenues	12,058,040	12,196,245	(138,205)	(e)	(1.1)	11,702,387
Nonrevenues	285,492	127,426	158,066		124.0	165,031
Total Receipts	12,343,532	12,323,671	19,861		0.2	11,867,418
Less Disbursements:						
State Operations	5,305,609	5,005,019	300,590		6.0	3,999,358
Local Assistance	17,468,991	18,755,257	(1,286,266)		(6.9)	18,742,014
Capital Outlay	6,810	134,409	(127,599)		(94.9)	25,547
Nongovernmental	(34,421)	411,395	(445,816)		(108.4)	(981,016)
Total Disbursements	22,746,989	24,306,080	(1,559,091)		(6.4)	21,785,903
Receipts Over / (Under) Disbursements	(10,403,457)	(11,982,409)	1,578,952		(13.2)	(9,918,485)
Net Increase / (Decrease) in Temporary Loans	8,481,828	10,060,780	(1,578,952)		(15.7)	9,918,485
GENERAL FUND ENDING CASH BALANCE	**-**	-	**-**			-
Special Fund for Economic Uncertainties	-	-	-		-	-
TOTAL CASH	$ **-**	$ -	$ **-**			$ -

BORROWABLE RESOURCES					
Available Borrowable Resources	$ 26,766,194	$ 23,476,664	$ 3,289,530	14.0	$ 27,560,040
Outstanding Loans (b)	8,481,828	10,060,780	(1,578,952)	(15.7)	12,353,350
Unused Borrowable Resources	$ 18,284,366	$ 13,415,884	$ 4,868,482	36.3	$ 15,206,690

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 2014-15 fiscal year was prepared by the Department of Finance for the 2014-15 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $8.5 billion is comprised of $8.5 billion of internal borrowing. Current balance is comprised of $0.0 billion carried forward from June 30, 2014, plus current year Net Increase/(Decrease) in Temporary Loans of $8.5 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) Includes ($343.3) million one-time adjustment for an under-allocation of sales and use tax due to local government in prior fiscal years for Public Safety and Local Revenue Realignment.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of August		July 1 through August 31				2013
			2014				
					Actual Over or (Under) Estimate		
	2014	2013	Actual	Estimate (a)	Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 32,622	$ 59,404	$ 96,678	$ 63,159	$ 33,519	53.1	$ 63,924
Corporation Tax	126,113	66,001	446,461	191,581	254,880	133.0	284,145
Cigarette Tax	1,030	1,123	14,656	14,770	(114)	(0.8)	8,451
Estate, Inheritance, and Gift Tax	415	3,389	742	-	742	-	3,833
Insurance Companies Tax	235,558	204,225	253,443	167,045	86,398	51.7	224,705
Personal Income Tax	3,934,824	3,721,021	8,002,523	7,714,154	288,369	3.7	7,362,339
Retail Sales and Use Taxes	2,259,235	2,700,669	3,179,050	3,834,474	(655,424) (e)	(17.1)	3,454,760
Vehicle License Fees	28	440	49	-	49	-	717
Pooled Money Investment Interest	234	3,226	1,917	3,062	(1,145)	(37.4)	4,178
Not Otherwise Classified	73,222	154,293	62,521	208,000	(145,479)	(69.9)	295,335
Total Revenues	**6,663,281**	**6,913,791**	**12,058,040**	**12,196,245**	**(138,205)**	**(1.1)**	**11,702,387**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	24,242	-	24,242	-	-
Transfers from Other Funds	26,760	21,678	135,618	16,310	119,308	731.5	36,408
Miscellaneous	111,903	109,164	125,632	111,116	14,516	13.1	128,623
Total Nonrevenues	**138,663**	**130,842**	**285,492**	**127,426**	**158,066**	**124.0**	**165,031**
Total Receipts	**$ 6,801,944**	**$ 7,044,633**	**$ 12,343,532**	**$ 12,323,671**	**$ 19,861**	**0.2**	**$ 11,867,418**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of August		July 1 through August 31				
			2014				2013
					Actual Over or (Under) Estimate		
	2014	2013	Actual	Estimate (a)	Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 189,640	$ 165,776	$ 404,947	$ 357,432	$ 47,515	13.3	$ 364,331
Business, Consumer Services and Housing	956	757	2,578	3,095	(517)	(16.7)	3,703
Transportation	15	(264)	15	-	15	-	39
Resources	80,486	112,717	200,793	226,123	(25,330)	(11.2)	207,012
Environmental Protection Agency	2,357	3,725	6,232	6,532	(300)	(4.6)	7,474
Health and Human Services:							
Health Care Services and Public Health	529,032	52,747	595,827	100,363	495,464	493.7	114,296
Department of State Hospitals	131,006	109,373	265,393	218,410	46,983	21.5	218,663
Other Health and Human Services	72,104	82,731	146,270	143,729	2,541	1.8	149,876
Education:							
University of California	228,498	23,650	512,261	705,040	(192,779)	(27.3)	79,350
State Universities and Colleges	235,040	204,450	479,586	609,941	(130,355)	(21.4)	448,279
Other Education	9,815	15,169	34,522	50,222	(15,700)	(31.3)	35,407
Dept. of Corrections and Rehabilitation	793,538	744,252	1,655,543	1,474,609	180,934	12.3	1,480,517
Governmental Operations	84,080	86,562	135,938	114,734	21,204	18.5	138,135
General Government	165,095	185,004	443,474	443,569	(95)	(0.0)	322,280
Public Employees Retirement System	(190,924)	(160,371)	108,514	169,617	(61,103)	(36.0)	112,926
Debt Service (d)	346,259	361,805	300,163	355,515	(55,352)	(15.6)	369,819
Interest on Loans	7,953	(52,749)	13,553	26,088	(12,535)	(48.0)	(52,749)
Total State Operations	**2,684,950**	**1,935,334**	**5,305,609**	**5,005,019**	**300,590**	**6.0**	**3,999,358**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	2,201,135	4,159,154	8,768,420	9,184,799	(416,379)	(4.5)	10,131,924
Community Colleges	224,903	250,548	1,073,776	1,138,357	(64,581)	(5.7)	1,235,427
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	225,955	225,955	-	-	182,598
Other Education	504,279	136,911	733,828	586,125	147,703	25.2	444,657
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	50,075	29,290	50,087	59,335	(9,248)	(15.6)	45,053
Dept. of Alcohol and Drug Program	-	-	210	-	210	-	-
Health Care Services and Public Health:							
Medical Assistance Program	898,402	1,433,830	3,608,296	4,009,390	(401,094)	(10.0)	3,972,466
Other Health Care Services/Public Health	14,255	33,733	22,130	25,034	(2,904)	(11.6)	56,096
Developmental Services - Regional Centers	198,066	(172,306)	750,559	1,038,542	(287,983)	(27.7)	721,087
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	329,026	337,899	1,374,835	1,310,311	64,524	4.9	926,785
CalWORKs	96,488	180,730	35,938	73,732	(37,794)	(51.3)	328,813
Other Social Services	(790)	86,373	39,115	169,031	(129,916)	(76.9)	117,824
Tax Relief	-	-	-	-	-	-	-
Other Local Assistance	363,081	290,520	785,842	934,646	(148,804)	(15.9)	579,284
Total Local Assistance	**4,878,920**	**6,766,682**	**17,468,991**	**18,755,257**	**(1,286,266)**	**(6.9)**	**18,742,014**

See notes on page A1.

(Continued)

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

	Month of August		July 1 through August 31				
			2014				2013
	2014	2013	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**6,044**	**3,272**	**6,810**	**134,409**	**(127,599)**	**(94.9)**	**25,547**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	-	-	-	-
Transfer to Budget Stabilization Account	-	-	-	-	-	-	-
Transfer to Other Funds	(140,358)	47,872	390,931	685,528	(294,597)	(43.0)	326,394
Transfer to Revolving Fund	12	45,256	1,074	-	1,074	-	7,053
Advance:							
MediCal Provider Interim Payment	-	-	-	-	-	-	(1,000,000)
State-County Property Tax Administration Program	(25,919)	-	2,342	-	2,342	-	29,209
Social Welfare Federal Fund	(22,156)	-	(146,156)	-	(146,156)	-	(28,000)
Local Governmental Entities	-	-	-	-	-	-	-
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	-	(315,672)	(282,612)	(274,133)	(8,479)	3.1	(315,672)
Total Nongovernmental	**(188,421)**	**(222,544)**	**(34,421)**	**411,395**	**(445,816)**	(108.4)	**(981,016)**
Total Disbursements	**$ 7,381,493**	**$ 8,482,744**	**$ 22,746,989**	**$ 24,306,080**	**$ (1,559,091)**	**(6.4)**	**$ 21,785,903**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ -	$ -	$ 1,046,858	$ 1,071,100	$ (24,242)	(2.3)	$ -
Budget Stabilization Account	-	-	-	-	-	-	-
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	579,549	(4,061,889)	7,434,970	8,989,680	(1,554,710)	(17.3)	4,418,485
Revenue Anticipation Notes	-	5,500,000	-	-	-	-	5,500,000
Net Increase / (Decrease) Loans	**579,549**	**$ 1,438,111**	**$ 8,481,828**	**$ 10,060,780**	**$ (1,578,952)**	**(15.7)**	**$ 9,918,485**

See notes on page A1.

(Concluded)

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

	July 1 through August 31			
	General Fund		Special Funds	
	2014	2013	2014	2013
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 96,678	$ 63,924	$ -	$ -
Corporation Tax	446,461	284,145	-	-
Cigarette Tax	14,656	8,451	134,229	80,032
Estate, Inheritance, and Gift Tax	742	3,833	-	-
Insurance Companies Tax	253,443	224,705	248,143	197,723
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	934,439	903,759
Diesel & Liquid Petroleum Gas	-	-	48,301	48,654
Jet Fuel Tax	-	-	580	649
Vehicle License Fees	49	717	407,094	399,656
Motor Vehicle Registration and Other Fees	-	-	771,792	781,086
Personal Income Tax	8,002,523	7,362,339	146,137	140,852
Retail Sales and Use Taxes	3,179,050	3,454,760	2,206,296	2,035,522
Pooled Money Investment Interest	1,917	4,178	18	27
Total Major Taxes, Licenses, and Investment Income	**11,995,519**	**11,407,052**	**4,897,029**	**4,587,960**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	436	602	8,496	11,031
Electrical Energy Tax	-	-	133,352	132,661
Private Rail Car Tax	-	-	-	-
Penalties on Traffic Violations	-	-	6,800	6,884
Health Care Receipts	46	17	-	-
Revenues from State Lands	73,959	73,242	-	-
Abandoned Property	(107,165)	3,400	-	-
Trial Court Revenues	8,165	8,867	195,094	206,172
Horse Racing Fees	220	178	1,599	1,904
Cap and Trade	-	-	-	-
Miscellaneous	86,860	209,029	1,297,050	1,608,232
Not Otherwise Classified	**62,521**	**295,335**	**1,642,391**	**1,966,884**
Total Revenues, All Governmental Cost Funds	**$ 12,058,040**	**$ 11,702,387**	**$ 6,539,420**	**$ 6,554,844**

See notes on page A1.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX B

THE BOOK-ENTRY ONLY SYSTEM

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

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

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

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their

purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

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

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest and other payments with respect to the Bonds to Direct Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Bonds and other related transactions by and between DTC, the Direct Participants, the Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Direct Participants, the Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the Participants, as the case may be. The State Treasurer will not have any responsibility or obligation to Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Bonds.

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

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

The State Treasurer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). If the State Treasurer determines not to continue the DTC book-entry only system, or DTC discontinues providing its services with respect to the Bonds and the State Treasurer does not select another qualified securities depository, the State will deliver physical Bond certificates to the Beneficial Owners. The Bonds may thereafter be transferred upon the books of the State Treasurer by the registered owners, in person or by authorized attorney, upon surrender of Bonds at the Office of the State Treasurer in Sacramento, California, accompanied by delivery of an executed instrument of transfer in a form approved by the State Treasurer and upon payment of any charges provided for in the Resolutions. Certificated bonds may be exchanged for Bonds of other authorized denominations of the same aggregate principal amount and maturity at the Office of the State Treasurer in Sacramento, California, upon payment of any charges provided for in the Resolutions. No transfer or exchange of Bonds will be made by the State Treasurer during the period between the record date and the next Interest Payment Date.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered as of October 7, 2014, by the Treasurer of the State of California (the "State Treasurer") in connection with the issuance of (i) $882,055,000 aggregate principal amount of State of California Various Purpose General Obligation Bonds (the "Construction Bonds"), (ii) $300,000,000 aggregate principal amount of State of California Various Purpose General Obligation Bonds (Green Bonds) (the "Green Bonds"), (iii) $987,585,000 aggregate principal amount of State of California Various Purpose General Obligation Refunding Bonds (the "Refunding Bonds"), and (iv) $200,000,000 aggregate principal amount of State of California General Obligation Bonds (Mandatory Put Bonds) (the "Mandatory Put Bonds," and together with the Construction Bonds, the Green Bonds and the Refunding Bonds, the "Bonds") as authorized by various acts of the State of California legislature (the "Acts"). The Bonds are being issued pursuant to resolutions of finance committees (the "Resolutions") designated under the Acts. Pursuant to the Resolutions, the State Treasurer, on behalf of the State of California (the "State"), covenants and agrees as follows:

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

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

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

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

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

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

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

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

"Official Statement" shall mean the official statement relating to the Bonds, dated September 23, 2014.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" shall mean the Securities and Exchange Commission.

"State" shall mean the State of California.

Section 3. Provision of Annual Reports.

(a) The State Treasurer on behalf of the State shall, or shall cause the Dissemination Agent to, not later than April 1 of each year in which the Bonds are outstanding, commencing with the report for the 2013-14 fiscal year (which is due not later than April 1, 2015), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the State may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date in accordance with Section 4(a). If the State's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f). The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to said date, the State Treasurer shall provide the Annual Report to the Dissemination Agent (if other than the State Treasurer). If the State Treasurer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the State Treasurer shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the State Treasurer) file a report with the State Treasurer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. Content of Annual Reports. The Annual Report shall contain or include by reference the following:

(a) The audited Basic Financial Statements of the State for the fiscal year ended on the previous June 30, prepared in accordance with generally accepted accounting principles promulgated to apply to government entities from time to time by the Governmental Accounting Standards Board. If the State's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) Financial information relating to the State's General Fund budget for the fiscal year ended on the previous June 30 and information concerning the State budget for the fiscal year in which the

Annual Report is issued. Such information shall describe the sources of revenues, the principal categories of expenditures, and changes in fund balances, a summary of expected State revenues and budgeted expenditures, and significant assumptions relating to revenue and expenditure expectations; including updating the following tables which appear under the caption APPENDIX A—"THE STATE OF CALIFORNIA—CURRENT STATE BUDGET" in the Official Statement:

Tables Entitled

Statement of Estimated Revenues, Expenditures, and Changes in Fund Balance—General Fund

General Fund Revenue by Sources and Expenditures

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

Tables Entitled

Outstanding State Debt

Authorized and Outstanding General Obligation Bonds

General Obligation and Revenue Bonds—Summary of Debt Service Requirements

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

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

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

Schedule of Debt Service Requirements for Special Revenue Fund—Self Liquidating Bonds—Variable Rate

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

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

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

State Agency Revenue Bonds and Conduit Financing

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

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

Section 5. Reporting of Significant Events.

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

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties;

3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;

5. Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

6. Tender offers;

7. Defeasances;

8. Rating changes; or

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

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

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

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

2. Modifications to rights of Bond holders;

3. Optional, unscheduled or contingent Bond calls;

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

5. Non-payment related defaults;

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

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

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

(d) The State Treasurer shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3(a), as provided in Section 3(b).

(e) Whenever the State Treasurer obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the State Treasurer shall determine if such event would be material under applicable federal securities laws.

(f) Any notice required to be given pursuant to subsection (a) or (b) above shall be filed with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notice of the Listed Event described in subsection (b)(3) need not be given under this subsection any earlier than the notice of the underlying event is given to Holders of affected Bonds pursuant to the Resolutions.

Section 6. Termination of Reporting Obligation. The State's obligations under Sections 3, 4 and 5 of this Disclosure Certificate shall terminate upon the maturity, legal defeasance, prior redemption or acceleration of all of the outstanding Bonds or if less than all the Bonds are defeased, with respect to those Bonds. If such termination occurs prior to the final maturity of the Bonds, the State Treasurer shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

Section 7. Dissemination Agent. The State Treasurer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out the obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State Treasurer pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the State Treasurer shall be the Dissemination Agent. The initial Dissemination Agent shall be the State Treasurer.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the State Treasurer may amend any provision of this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 3(a), 4, 5(a), (b), (d) or (f), or 8(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of 60 percent of the Bonds outstanding or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds. The State also may amend this Disclosure Certificate without approval by the Holders to the extent permitted by rule, order or other official pronouncement of the SEC.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the State Treasurer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the State. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the State Treasurer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State Treasurer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State Treasurer shall not have any obligation under this Disclosure Certificate to update such information or include it in any Annual Report or future notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the State or State Treasurer to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the State or State Treasurer to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the State or State Treasurer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity (except the right of the Dissemination Agent or any Holder or Beneficial Owner to enforce the provisions of this Disclosure Certificate on behalf of the Holders). This Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

Section 12. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the State Treasurer shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof, and the Holders of the Bonds shall retain all the benefits afforded to them hereunder. The State Treasurer hereby declares that he would have executed and delivered this Disclosure Certificate and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 13. Governing Law. The laws of the State shall govern this Disclosure Certificate, the interpretation thereof and any right or liability arising hereunder. Any action or proceeding to enforce or interpret any provision of this Disclosure Certificate shall be brought, commenced or prosecuted in any courts of the State located in Sacramento County, California.

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

By: ______________________________

Deputy Treasurer
For California State Treasurer Bill Lockyer

CONTINUING DISCLOSURE EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	STATE OF CALIFORNIA
Name of Bond Issue:	STATE OF CALIFORNIA Various Purpose General Obligation Bonds Various Purpose General Obligation Bonds (Green Bonds) Various Purpose General Obligation Refunding Bonds General Obligation Bonds (Mandatory Put Bonds)
Date of Issuance:	October 7, 2014

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the Issuer, dated the Date of Issuance. [The Issuer anticipates that the Annual Report will be filed by _____________.]

Dated:

STATE OF CALIFORNIA

By ___________[to be signed only if filed]__________

APPENDIX D

PROPOSED FORMS OF LEGAL OPINIONS

FORM OF FINAL OPINION OF BOND COUNSEL

[Closing Date]

The Honorable Bill Lockyer
State Treasurer
Sacramento, California

$2,369,640,000
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS

$882,055,000 VARIOUS PURPOSE GENERAL OBLIGATION BONDS	$300,000,000 VARIOUS PURPOSE GENERAL OBLIGATION BONDS (GREEN BONDS)
$987,585,000 VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS	$200,000,000 GENERAL OBLIGATION BONDS (MANDATORY PUT BONDS)

(Final Opinion)

We have acted as Bond Counsel to the State of California (the "State") in connection with the issuance by the State of (i) $882,055,000 aggregate principal amount of State of California Various Purpose General Obligation Bonds (the "Construction Bonds"), (ii) $300,000,000 aggregate principal amount of State of California Various Purpose General Obligation Bonds (Green Bonds) (the "Green Bonds"), (iii) $987,585,000 aggregate principal amount of State of California Various Purpose General Obligation Refunding Bonds (the "Refunding Bonds"), and (iv) $200,000,000 aggregate principal amount of State of California General Obligation Bonds (Mandatory Put Bonds) (the "Mandatory Put Bonds," and together with the Construction Bonds, the Green Bonds and the Refunding Bonds, the "Bonds"). The Bonds are dated October 7, 2014. All the bond acts under which the Bonds are issued are identified in Schedule A hereto, which is incorporated by reference. The Bonds are authorized pursuant to the respective bond acts identified in Schedule A (collectively, the "Laws") and are issued pursuant to Part 3 of Division 4 of Title 2 of the California Government Code and to resolutions (the "Resolutions") adopted by the respective finance committees designated under the Laws.

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

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

We call attention to the fact that the rights and obligations under the Bonds, the Resolutions and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against the State. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The State has lawful authority for the issuance of the Bonds, and the Bonds constitute valid and binding general obligations of the State payable in accordance with the Laws from the General Fund of the State. The full faith and credit of the State are pledged to the punctual payment of the principal of and interest on the Bonds as the principal and interest become due and payable.

2. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Bonds is exempt from State personal income taxes. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on the Bonds.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

Per

SCHEDULE A

$882,055,000
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

FINANCE COMMITTEE	BOND ACT	NAME OF BONDS (STATE OF CALIFORNIA)	SERIES	PRINCIPAL AMOUNT
Children's Hospital Bond Act Finance Committee	Children's Hospital Bond Act of 2008	Children's Hospital Bonds	G	$25,225,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	AJ	$278,140,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	AL	$274,415,000
Housing Finance Committee	Housing and Emergency Shelter Trust Fund Act of 2002	Housing and Emergency Shelter Trust Fund Bonds	U	$1,315,000
Housing Finance Committee	Housing and Emergency Shelter Trust Fund Act of 2006	Housing and Emergency Shelter Trust Fund Bonds	L	$59,730,000
Higher Education Facilities Finance Committee	Kindergarten-University Public Education Facilities Bond Act of 2006	Kindergarten-University Public Education Facilities Bonds	AS	$185,000
State School Building Finance Committee	Kindergarten-University Public Education Facilities Bond Act of 2006	Kindergarten-University Public Education Facilities Bonds	AR	$43,310,000
Higher Education Facilities Finance Committee	Public Education Facilities Bond Act of 1996	Public Education Facilities Bonds	CQ	$2,325,000
High-Speed Passenger Train Finance Committee	Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century	Safe, Reliable High-Speed Passenger Train Bonds	H	$197,410,000

$300,000,000
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS
(GREEN BONDS)

FINANCE COMMITTEE	BOND ACT	NAME OF BONDS (STATE OF CALIFORNIA)	SERIES	PRINCIPAL AMOUNT
Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	AK	$247,245,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	AM	$43,780,000
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Finance Committee	Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006	Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bonds	Q	$8,975,000

$987,585,000
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS

FINANCE COMMITTEE	BOND ACT	NAME OF BONDS (STATE OF CALIFORNIA)	SERIES	PRINCIPAL AMOUNT
State School Building Finance Committee	1990 School Facilities Bond Act	School Facilities Bonds	AH	$5,200,000
State School Building Finance Committee	1992 School Facilities Bond Act	School Facilities Bonds	BE	$9,990,000
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act Finance Committee	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Bonds	AM	$45,800,000
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act Finance Committee	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Bonds	AN	$27,740,000
California Library Construction and Renovation Finance Committee	California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	Reading and Literacy Improvement and Public Library Construction and Renovation Bonds	AD	$2,795,000
Higher Education Facilities Finance Committee	Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Class Size Reduction Kindergarten-University Public Education Facilities Bonds	DO	$50,515,000
Higher Education Facilities Finance Committee	Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Class Size Reduction Kindergarten-University Public Education Facilities Bonds	DP	$41,205,000
Transportation Improvement Finance Committee	Clean Air and Transportation Improvement Bond Act of 1990	Clean Air and Transportation Improvement Bonds	CF	$3,730,000
1988 County Correctional Facility Capital Expenditure and Youth Facility Finance Committee	County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	County Correctional Facility Capital Expenditure and Youth Facility Bonds	AN	$4,370,000
Earthquake Safety and Public Buildings Rehabilitation Finance Committee	Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	Earthquake Safety and Public Buildings Rehabilitation Bonds	AK	$600,000
Higher Education Facilities Finance Committee	Higher Education Facilities Bond Act of June 1990	Higher Education Facilities Bonds	BC	$1,705,000

FINANCE COMMITTEE	BOND ACT	NAME OF BONDS (STATE OF CALIFORNIA)	SERIES	PRINCIPAL AMOUNT
Higher Education Facilities Finance Committee	Higher Education Facilities Bond Act of June 1992	Higher Education Facilities Bonds	BI	$12,910,000
Higher Education Facilities Finance Committee	Kindergarten-University Public Education Facilities Bond Act of 2002	Kindergarten-University Public Education Facilities Bonds	CD	$61,450,000
Higher Education Facilities Finance Committee	Kindergarten-University Public Education Facilities Bond Act of 2002	Kindergarten-University Public Education Facilities Bonds	CE	$103,850,000
State School Building Finance Committee	Kindergarten-University Public Education Facilities Bond Act of 2002	Kindergarten-University Public Education Facilities Bonds	CG	$147,540,000
State School Building Finance Committee	Kindergarten-University Public Education Facilities Bond Act of 2002	Kindergarten-University Public Education Facilities Bonds	CH	$74,945,000
Higher Education Facilities Finance Committee	Kindergarten-University Public Education Facilities Bond Act of 2004	Kindergarten-University Public Education Facilities Bonds	BK	$4,710,000
State School Building Finance Committee	Kindergarten-University Public Education Facilities Bond Act of 2004	Kindergarten-University Public Education Facilities Bonds	BJ	$15,850,000
1988 Prison Construction Committee	New Prison Construction Bond Act of 1988	New Prison Construction Bonds	AN	$2,790,000
1990 Prison Construction Committee	New Prison Construction Bond Act of 1990	New Prison Construction Bond Act of 1990	AP	$1,665,000
Passenger Rail Finance Committee	Passenger Rail and Clean Air Bond Act of 1990	Passenger Rail and Clean Air Bonds	AN	$1,725,000
State School Building Finance Committee	Public Education Facilities Bond Act of 1996	Public Education Facilities Bonds	CR	$2,405,000
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds	BJ	$77,340,000
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds	BK	$65,345,000

FINANCE COMMITTEE	BOND ACT	NAME OF BONDS (STATE OF CALIFORNIA)	SERIES	PRINCIPAL AMOUNT
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bonds	BB	$45,105,000
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bonds	BC	$41,400,000
Safe, Clean, Reliable Water Supply Finance Committee	Safe, Clean, Reliable Water Supply Act	Safe, Clean, Reliable Water Supply Bonds	BH	$6,215,000
State School Building Finance Committee	School Facilities Bond Act of 1990	School Facilities Bonds	AN	$8,935,000
State School Building Finance Committee	School Facilities Bond Act of 1992	School Facilities Bonds	BL	$28,105,000
Seismic Retrofit Finance Committee	Seismic Retrofit Bond Act of 1996	Seismic Retrofit Bonds	BH	$7,635,000
Seismic Retrofit Finance Committee	Seismic Retrofit Bond Act of 1996	Seismic Retrofit Bonds	BI	$5,610,000
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 Finance Committee	Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	Water Security, Clean Drinking Water, Coastal and Beach Protection Bonds	AQ	$78,405,000

$200,000,000
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS
(MANDATORY PUT BONDS)

FINANCE COMMITTEE	BOND ACT	NAME OF BONDS (STATE OF CALIFORNIA)	SERIES	PRINCIPAL AMOUNT
Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	2014A	$200,000,000

FORM OF OPINION OF THE ATTORNEY GENERAL
[Closing Date]

STATE OF CALIFORNIA

$882,055,000
Various Purpose General Obligation Bonds

$300,000,000
Various Purpose General Obligation Bonds
(Green Bonds)

$987,585,000
Various Purpose General Obligation Refunding Bonds

$200,000,000
General Obligations Bonds
(Mandatory Put Bonds)

The Honorable Bill Lockyer
State Treasurer
Sacramento, California

We have acted as counsel to the State of California (the "State") in connection with the issuance by the State of (i) $882,055,000 aggregate principal amount of State of California Various Purpose General Obligation Bonds (the "Construction Bonds"), (ii) $300,000,000 aggregate principal amount of State Of California Various Purpose General Obligation Bonds (Green Bonds) (the "Green Bonds"), (iii) $987,585,000 aggregate principal amount of State of California Various Purpose General Obligation Refunding Bonds (the "Refunding Bonds"), and (iv) $200,000,000 State of California General Obligations Bonds (Mandatory Put Bonds) (the "Mandatory Put Bonds," and together with the Construction Bonds, the Green Bonds and the Refunding Bonds, the "Bonds"), all dated October 7, 2014, and issued as forty-five (45) separate series under the bond acts identified in Schedule A hereto, which is incorporated by reference. The Bonds are authorized pursuant to the respective bond acts identified in Schedule A (collectively, the "Laws") and are issued pursuant to Chapter 4 of Part 3 of Division 4 of Title 2 of the California Government Code and to resolutions (the "Resolutions") adopted by the respective finance committees designated under the Laws.

In such connection, we have examined the record of proceedings submitted to us relative to the issuance of the Bonds, including the Resolutions, certifications of officials of the State, and such other documents and matters deemed necessary by us to render the opinions set forth herein, although in doing so, we have not undertaken to verify independently and have assumed the accuracy of the factual matters represented, warranted or certified therein.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof and we disclaim any obligation to update this letter. We have neither undertaken to determine, nor to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. We have assumed the genuineness of all documents and signatures presented to us, the conformity to original documents and certificates of all documents and certificates submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents and certificates. Furthermore, we have assumed compliance with the agreements and covenants contained in the Resolutions.

We call attention to the fact that the rights and obligations under the Bonds and the Resolutions and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations contained in state law regarding legal remedies against the State. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, severability or waiver provisions contained in the foregoing documents. We express no opinion as to whether interest on the Bonds is excluded from gross income for federal income tax purposes or exempt from state personal income taxes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated September 23, 2014, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the State has lawful authority for the issuance of the Bonds, and the Bonds constitute the valid and binding general obligations of the State payable in accordance with the Laws from the General Fund of the State. The full faith and credit of the State are pledged to the punctual payment of the principal of and interest on the Bonds, as the principal and interest become due and payable.

Sincerely,

Deputy Attorney General

For KAMALA D. HARRIS
Attorney General

SCHEDULE A

$882,055,000
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS

FINANCE COMMITTEE	BOND ACT	NAME OF BONDS (STATE OF CALIFORNIA)	SERIES	PRINCIPAL AMOUNT
Children's Hospital Bond Act Finance Committee	Children's Hospital Bond Act of 2008	Children's Hospital Bonds	G	$25,225,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	AJ	$278,140,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	AL	$274,415,000
Housing Finance Committee	Housing and Emergency Shelter Trust Fund Act of 2002	Housing and Emergency Shelter Trust Fund Bonds	U	$1,315,000
Housing Finance Committee	Housing and Emergency Shelter Trust Fund Act of 2006	Housing and Emergency Shelter Trust Fund Bonds	L	$59,730,000
Higher Education Facilities Finance Committee	Kindergarten-University Public Education Facilities Bond Act of 2006	Kindergarten-University Public Education Facilities Bonds	AS	$185,000
State School Building Finance Committee	Kindergarten-University Public Education Facilities Bond Act of 2006	Kindergarten-University Public Education Facilities Bonds	AR	$43,310,000
Higher Education Facilities Finance Committee	Public Education Facilities Bond Act of 1996	Public Education Facilities Bonds	CQ	$2,325,000
High-Speed Passenger Train Finance Committee	Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century	Safe, Reliable High-Speed Passenger Train Bonds	H	$197,410,000

$300,000,000
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION BONDS
(GREEN BONDS)

FINANCE COMMITTEE	BOND ACT	NAME OF BONDS (STATE OF CALIFORNIA)	SERIES	PRINCIPAL AMOUNT
Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	AK	$247,245,000
Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	AM	$43,780,000
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Finance Committee	Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006	Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bonds	Q	$8,975,000

$987,585,000
STATE OF CALIFORNIA
VARIOUS PURPOSE GENERAL OBLIGATION REFUNDING BONDS

FINANCE COMMITTEE	BOND ACT	NAME OF BONDS (STATE OF CALIFORNIA)	SERIES	PRINCIPAL AMOUNT
State School Building Finance Committee	1990 School Facilities Bond Act	School Facilities Bonds	AH	$5,200,000
State School Building Finance Committee	1992 School Facilities Bond Act	School Facilities Bonds	BE	$9,990,000
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act Finance Committee	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Bonds	AM	$45,800,000
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act Finance Committee	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Bonds	AN	$27,740,000
California Library Construction and Renovation Finance Committee	California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	Reading and Literacy Improvement and Public Library Construction and Renovation Bonds	AD	$2,795,000
Higher Education Facilities Finance Committee	Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Class Size Reduction Kindergarten-University Public Education Facilities Bonds	DO	$50,515,000
Higher Education Facilities Finance Committee	Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998	Class Size Reduction Kindergarten-University Public Education Facilities Bonds	DP	$41,205,000
Transportation Improvement Finance Committee	Clean Air and Transportation Improvement Bond Act of 1990	Clean Air and Transportation Improvement Bonds	CF	$3,730,000
1988 County Correctional Facility Capital Expenditure and Youth Facility Finance Committee	County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	County Correctional Facility Capital Expenditure and Youth Facility Bonds	AN	$4,370,000
Earthquake Safety and Public Buildings Rehabilitation Finance Committee	Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	Earthquake Safety and Public Buildings Rehabilitation Bonds	AK	$600,000
Higher Education Facilities Finance Committee	Higher Education Facilities Bond Act of June 1990	Higher Education Facilities Bonds	BC	$1,705,000

FINANCE COMMITTEE	BOND ACT	NAME OF BONDS (STATE OF CALIFORNIA)	SERIES	PRINCIPAL AMOUNT
Higher Education Facilities Finance Committee	Higher Education Facilities Bond Act of June 1992	Higher Education Facilities Bonds	BI	$12,910,000
Higher Education Facilities Finance Committee	Kindergarten-University Public Education Facilities Bond Act of 2002	Kindergarten-University Public Education Facilities Bonds	CD	$61,450,000
Higher Education Facilities Finance Committee	Kindergarten-University Public Education Facilities Bond Act of 2002	Kindergarten-University Public Education Facilities Bonds	CE	$103,850,000
State School Building Finance Committee	Kindergarten-University Public Education Facilities Bond Act of 2002	Kindergarten-University Public Education Facilities Bonds	CG	$147,540,000
State School Building Finance Committee	Kindergarten-University Public Education Facilities Bond Act of 2002	Kindergarten-University Public Education Facilities Bonds	CH	$74,945,000
Higher Education Facilities Finance Committee	Kindergarten-University Public Education Facilities Bond Act of 2004	Kindergarten-University Public Education Facilities Bonds	BK	$4,710,000
State School Building Finance Committee	Kindergarten-University Public Education Facilities Bond Act of 2004	Kindergarten-University Public Education Facilities Bonds	BJ	$15,850,000
1988 Prison Construction Committee	New Prison Construction Bond Act of 1988	New Prison Construction Bonds	AN	$2,790,000
1990 Prison Construction Committee	New Prison Construction Bond Act of 1990	New Prison Construction Bond Act of 1990	AP	$1,665,000
Passenger Rail Finance Committee	Passenger Rail and Clean Air Bond Act of 1990	Passenger Rail and Clean Air Bonds	AN	$1,725,000
State School Building Finance Committee	Public Education Facilities Bond Act of 1996	Public Education Facilities Bonds	CR	$2,405,000
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds	BJ	$77,340,000
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Finance Committee	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bonds	BK	$65,345,000

FINANCE COMMITTEE	BOND ACT	NAME OF BONDS (STATE OF CALIFORNIA)	SERIES	PRINCIPAL AMOUNT
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bonds	BB	$45,105,000
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection (Villaraigosa-Keeley Act) Finance Committee	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (the Villaraigosa-Keeley Act)	Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bonds	BC	$41,400,000
Safe, Clean, Reliable Water Supply Finance Committee	Safe, Clean, Reliable Water Supply Act	Safe, Clean, Reliable Water Supply Bonds	BH	$6,215,000
State School Building Finance Committee	School Facilities Bond Act of 1990	School Facilities Bonds	AN	$8,935,000
State School Building Finance Committee	School Facilities Bond Act of 1992	School Facilities Bonds	BL	$28,105,000
Seismic Retrofit Finance Committee	Seismic Retrofit Bond Act of 1996	Seismic Retrofit Bonds	BH	$7,635,000
Seismic Retrofit Finance Committee	Seismic Retrofit Bond Act of 1996	Seismic Retrofit Bonds	BI	$5,610,000
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 Finance Committee	Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	Water Security, Clean Drinking Water, Coastal and Beach Protection Bonds	AQ	$78,405,000

$200,000,000
STATE OF CALIFORNIA
GENERAL OBLIGATION BONDS
(MANDATORY PUT BONDS)

FINANCE COMMITTEE	BOND ACT	NAME OF BONDS (STATE OF CALIFORNIA)	SERIES	PRINCIPAL AMOUNT
Highway Safety, Traffic Reduction, Air Quality, and Port Security Committee	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	Highway Safety, Traffic Reduction, Air Quality, and Port Security Bonds	2014A	$200,000,000

APPENDIX E

LETTERS FROM CERTAIN UNDERWRITERS

(THIS PAGE INTENTIONALLY LEFT BLANK)

September 11, 2014

Ms. Katie Carroll
Deputy Treasurer
Office of the Treasurer of the State of California
915 Capitol Mall, Room 110
Sacramento, CA 95814

RE: State of California – Various Purpose General Obligation Bonds (the “Bonds”)

Dear Mrs. Carroll:

Citigroup Global Markets Inc. is providing the following language for inclusion in the Offering Statement.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. (“UBSFS”). Under the distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for their selling efforts with respect to the Bonds.

Citigroup Global Markets Inc.

August 21, 2014

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

Re: September 2014 State of California Various Purpose General Obligation Bonds and General Obligation Refunding Bonds (the "Bonds")

Dear Mr. Fowler:

Wells Fargo Bank, National Association ("WFBNA"), one of the underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC ("WFSLLC") and Wells Fargo Institutional Securities, LLC ("WFIS"), for the distribution of municipal securities offerings, including the Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

Wells Fargo Bank, National Association

September 4, 2014

Blake Flowler
Director
Public Finance Division
Office of the California State Treasurer
915 Capitol Mall C-15
Sacramento, CA 95814
Email: Blake.Fowler@treasurer.ca.gov

CC: Jamie Teves-Fuentes, jteves-fuentes@treasurer.ca.gov
Kristie Fung, kfung@treasurer.ca.gov

Re: Various Purpose General Obligation Bonds, September 2014 Sale

Dear Mr. Fowler:

Academy Securities Inc, Co-Managing Underwriter of State of California Various Purpose General Obligation Bonds, September 2014 Sale, intends to enter into distribution agreements (the "Distribution Agreements") with E*Trade Securities LLC, World First Financial Services, Higgins Capital Management, Inc., Ridgeway & Conger Inc, and, The ISC Group Inc, for the retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to these Distribution Agreements (if applicable for this transaction), Academy Securities, Inc. may share a portion of its underwriting compensation with these firms.

ACADEMY SECURITIES, INC.

August 19, 2014

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

RE: State of California Various Purpose General Obligation Bonds, September 2014 (the "Bonds")

Dear Mr. Fowler:

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

J.P. MORGAN SECURITIES LLC

MISCHLER FINANCIAL GROUP

A Service

Disabled

Veterans

Business

Enterprise

August 22, 2014

Mr. Blake Fowler
Director
Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 110
Sacramento, CA 95814

Re: State of California: Various Purpose General Obligation Bonds (September 2014)

Dear Mr. Fowler:

Mischler Financial Group, Inc. ("Mischler"), one of the underwriters of the above referenced bonds (the "Bonds"), has entered into separate distribution agreements (each a "Distribution Agreement") with Northern Trust Securities, ("Northern") and TD Ameritrade ("TDA") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Distribution Agreement, each of Northern and TDA may purchase Bonds from Mischler at the original issue prices less a negotiated portion of the takedown applicable to any Bonds such firm sells.

Sincerely

Mischler Financial Group, Inc.

1111 Bayside Drive, Suite 100
Corona Del Mar, CA 92625
Tel (949) 720-0640
Tel (800) 820-0640
Fax (949) 720-0229
www.mischlerfinancial.com

Morgan Stanley

August 15, 2014

Mr. Blake Fowler
Director of Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 110
Sacramento, CA 95814

RE: State of California Various Purpose General Obligation Bonds, September 2014 Sale

Dear Mr. Fowler:

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

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

Morgan Stanley & Co. LLC

PiperJaffray®

August 22, 2014

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

RE: STATE OF CALIFORNIA GENERAL OBLIGATION BONDS – SEPTEMBER 2014

Dear Mr. Fowler:

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

Piper Jaffray & Co., one of the Underwriters of the Bonds, has entered into a distribution agreement ("Distribution Agreement") with UnionBanc Investment Securities LLC ("UnionBanc") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Distribution Agreement, UnionBanc will purchase Bonds from Piper Jaffray at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that UnionBank sells.

Sincerely,

Piper Jaffray & Co.

Siebert Brandford Shank & Co., L.L.C.

August 22, 2014

State of California
State Treasurer's Office
Public Finance Division
915 Capitol Mall, Room 110
Sacramento, CA 95814

Attn: Mr. Blake Fowler, Director of Public Finance Division, State Treasurer's Office

Re: Additional Disclosures by Underwriter/Co-Managing Underwriter
Pursuant to MSRB Rule G-17
Various Purpose General Obligation Bonds (Negotiated), September 2014

Dear Mr. Fowler:

We are writing to provide you, as Director of the Public Finance Division within the State Treasurer's Office (Issuer), with additional disclosures relating to the captioned bond issue ("Bonds"), as required by the Municipal Securities Rulemaking Board ("MSRB") Rule G-17 as set forth in MSRB Notice 2012-25 (May 7, 2012)[1], as a supplement to the letter you have received from Wells Fargo Bank and Citigroup Global Markets Inc. regarding the same matter.

I. Disclosures Concerning the Underwriters' Compensation:

Siebert Brandford Shank & Co., L.L.C., one of the Underwriters of the Bonds, has entered into a separate agreement with Credit Suisse Securities USA LLC for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreement, if applicable to the Bonds, Siebert Brandford Shank & Co., L.L.C. will share a portion of its underwriting compensation with respect to the Bonds, with Credit Suisse Securities USA LLC.

We look forward to working with you in connection with the issuance of the Bonds.

Sincerely,

Lisa A Smith

Lisa Smith
Siebert Brandford Shank & Co., L.L.C.
523 West Sixth Street, Suite 703
Los Angeles, CA 90014
lsmith@sbsco.com

CC: Jamie Teves-Fuentes, State Treasurer's Office
Kristie Fung, State Treasurer's Office

1 Interpretive Notice Concerning the Application of MSRB Rule G-17 to Underwriters of Municipal Securities (effective August 2, 2012).

August 25, 2014

Mr. Blake Fowler, Director, Public Finance Division
Office of the Treasurer of the State of California
Executive Office
915 Capitol Mall, Room 110
Sacramento CA, 95814

RE: State of California September 2014 GO Sale

Dear Mr. Fowler:

The Williams Capital Group, L.P., a Co-Managing Underwriter on the State of California September 2014 GO Sale, has entered into a negotiated dealer agreements ("Dealer Agreements") with E*Trade Securities LLC and TD Ameritrade for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Dealer Agreements (if applicable to this transaction), E*Trade Securities LLC and TD Ameritrade may purchase bonds from Williams Capital at the original issue price less a negotiated portion of the selling concession applicable to any bonds that such firm sells.

The Williams Capital Group, L.P.

THE WILLIAMS CAPITAL GROUP, L.P.
650 Fifth Avenue, 11th Floor, New York, NY 10019 Telephone 212.830.4500 Facsimile 212.830.4545

August 20, 2014

Blake Fowler
Director, Public Finance Division
Office of the Treasure of the State of California
915 Capitol Mall, Room 110
Sacramento, California 95814

RE: State of California Upcoming September 2014 GO Bond transaction

Dear Blake:

Backstrom McCarley Berry & Co., LLC ("BMcB"), a member of the selling group on the upcoming State of California GO Bond transaction, has entered into a Distribution Agreement with D.A. Davidson, Inc. to augment our institutional and retail marketing capabilities, for the distribution of certain securities offerings, including the upcoming California GO September 2014 transaction at the original issue price. Pursuant to our distribution agreement D.A. Davidson, Inc. may purchase Bonds from BMcB at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that they sell.

We very much appreciate the opportunity to serve the as a selling group member on the September State of California GO bond transaction. We would be happy to discuss this agreement with you should you should have any questions.

Backstrom McCarley Berry & Co., LLC

Don Backstrom

By: Don Backstrom
Managing Director & Principal

Cc: lberry@bmcbco.com
kfung@treasurer.ca.gov
jteves-fuentes@treasurer.ca.gov

GREAT PACIFIC SECURITIES

August 18, 2014

Mr. Blake Fowler
Director, Public Finance Division
Office of the Treasurer of the State of California
915Capitol Mall, Room 216
Sacramento, CA 95814

RE: State of California September 2014 GO Sale

Dear Mr. Fowler:

Great Pacific Securities ("GPS"), a member for the selling group for the proposed issue listed above, has entered into a negotiated dealer agreement (the "Dealer Agreement") with SumRidge Partners LLC ("SumRidge") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Dealer Agreement (if applicable to this transaction), SumRidge will purchase Bonds from GPS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that SumRidge sells.

Great Pacific Securities

151 Kalmus Drive, Suite H8 ▪ Costa Mesa, California ▪ 92626 ▪ Phone: (714) 619-3000 ▪ Fax: (714) 619-3019
E-mail: info@greatpac.com ▪ Member NASD/SIPC/MSRB

Loop Capital

12100 Wilshire Blvd., Suite 430
Los Angeles, CA 90025
T 310.442.1200 **F** 310.442.1208
Toll Free 888.294.8898

www.loopcapital.com

August 20, 2014

Mr. Blake Fowler
Director, Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 110
Sacramento, CA 95814

Re: State of California September 2014 General Obligation Bond Sale (the "Bonds")

Dear Mr. Fowler:

Loop Capital Markets LLC ("LCM"), one of the Underwriters of the Bonds, has entered into a distribution agreement (the "Distribution Agreement") with Deutsche Bank Securities Inc. ("DBS") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Distribution Agreement (if applicable to this transaction), DBS will purchase Bonds from LCM at the original issue prices less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Sincerely,

Loop Capital Markets LLC

PRAGER & CO., LLC

INVESTMENT BANKERS

August 18, 2014

Mr. Blake Fowler
Director
Office of the Treasurer of the State of California
915 Capitol Mall, Room 110
Sacramento, CA 95814

Re: State of California General Obligation Bonds

Dear Mr. Fowler:

Prager & Co., LLC, as a member of the selling group for the State of California General Obligation Bonds ("the Bonds"), has entered into a distribution agreement (the "Distribution Agreement") with HSBC Securities for the retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to the Distribution Agreement (if applicable for this transaction), Prager & Co., LLC may share a portion of its underwriting compensation with respect to the Bonds, with HSBC Securities.

Sincerely,
PRAGER & CO., LLC

One Maritime Plaza Suite 1000 San Francisco CA 94111 415.403.1900 wwww.prager.com

APPENDIX F

AUDITED BASIC FINANCIAL STATEMENTS OF
THE STATE OF CALIFORNIA
FOR THE YEAR ENDED JUNE 30, 2013

(THIS PAGE INTENTIONALLY LEFT BLANK)

State of California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

Controller *John Chiang*

California State Controller's Office

STATE OF CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended
June 30, 2013

Prepared by
The Office of the State Controller

JOHN CHIANG
California State Controller

Contents

STATISTICAL SECTION

This page intentionally left blank.

Introductory Section

JOHN CHIANG
California State Controller

JOHN CHIANG
California State Controller

April 21, 2014

To the Citizens, Governor, and Members of the Legislature of the State of California:

I am pleased to submit the State of California Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. This report meets the requirements of Government Code section 12460 for an annual report prepared strictly in accordance with accounting principles generally accepted in the United States of America (GAAP) and contains information to help readers gain a reasonable understanding of the State's financial activities.

The State's management assumes responsibility for the accuracy, completeness, and fairness of information presented in the CAFR, including all disclosures, based upon a comprehensive framework of internal controls established for this purpose. The internal control structure is designed to provide reasonable, but not absolute, assurance that the financial statements are free of material misstatements. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislature and Governor.

The California State Auditor has issued an unqualified opinion on the financial statements for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States.

The State of California is also required to undergo an annual single audit in conformity with the provisions of the United States Office of Management and Budget's Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. This report is issued separately.

The State's Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and contains an introduction, overview, and analysis of the financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

The Profile of the Government

The State of California was admitted to the Union on September 9, 1850. The State's population, per the 2010 census, is more than 37 million residents. The State's government is divided into three branches: Executive, Legislative, and Judicial. Executive power is vested in the Governor. Other members of the executive branch include the Lieutenant Governor, Attorney General, Secretary of State, State Treasurer, State Controller, Insurance Commissioner, and the State Superintendent of Public Instruction. All officers of the executive branch are elected to a four-year term. The Legislative branch of government is the State's law-making authority, and is made up of two houses: the Senate and the Assembly. The Judicial branch is charged with interpreting the laws of the State of California. It provides settlement of disputes between parties in controversy, determines the guilt or innocence of those accused of violating laws, and protects the rights of Californians.

California's government includes control agencies that help to regulate internal governmental operations. These include the State Controller's Office, the State's independent fiscal watchdog, which ensures that the State's budget is spent properly, offers fiscal guidance to local governments, and uncovers fraud and abuse of taxpayer dollars. The Department of Finance is part of the Executive branch of government; it establishes fiscal policies to carry out the State's programs and serves as the Governor's chief fiscal policy advisor. The California State Auditor promotes the efficient and effective management of public funds through independent evaluations of state and local governments.

The State of California provides a wide range of services to its citizens, including social services, health and human services; kindergarten through 12th grades (K-12) and higher education and business and transportation, consumer services, general government, and correctional programs. The State is also financially accountable for legally-separate entities (component units) that provide post-education programs, promote agricultural activities and financial assistance to small business, and finance coastal and inland urban waterfront restoration projects. These component units are separately reported in the State's financial statements. The State, through its related organizations (organizations for which primary government is not financially accountable), provides services such as the operation of the statewide energy transmission grid; earthquake insurance for homeowners and renters; workers' compensation insurance; health insurance for individuals, families, and employees of small businesses; financing for pollution control facilities, and for acquiring, constructing, and equipping health facilities; and loans to students attending public and private nonprofit colleges and universities. The financial information of these institutions is not included in the State's financial statements.

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

Overview of the State

The State of California is ranked first in population and third in land area in the U.S., and contains some of the most renowned resources and riches in the world. It is home to the most productive agricultural counties in the nation, with more than 80,000 farms and ranches contributing more than $44 billion annually to its agricultural industry. California has the largest and most diverse natural and cultural heritage of any state in the nation. In 2011, California's national parks generated nearly $1.2 billion in economic benefit to the State from non-local visitor spending. California's Gross Domestic Product (GDP) makes up more than 13% of the United States' total GDP and ranks in the top ten in the world economy. The five largest sectors of California's economy in terms of jobs are trade, transportation, and utilities; government; professional and business services; education and health services; and leisure and hospitality.

Financial Condition

Overview of State Economy for 2013

The U.S. economy completed its fourth year of recovery as California ended its fiscal year on June 30, 2013. National growth was slow, with real gross domestic product (GDP) up a modest 1.6%. Despite limited support from the rest of the country, a rebound in California's housing market, tourism, and other key sectors allowed the State to post a solid gain for the year.

California's job market improved significantly, with nonfarm employment in June 2013 increasing by 1.5%, or 220,000 jobs over the prior year. Job gains were widespread, with particularly large numerical and percentage increases in construction, leisure and hospitality, business and professional services, private education, and health care.

The public sector and manufacturing were the primary areas showing job losses. The general improvement in the labor market was strong enough to push the unemployment rate down more than two full percentage points, from 10.6% in June 2012 to 8.5% as of June 2013. California ended the fiscal year on June 30, 2013, with solid economic progress. While more growth is needed to drive the jobless rate lower and improve incomes for all, substantial gains are being achieved.

Long-term Financial Planning

The following are some of the long-term financial planning initiatives that California's government has instituted or intends to institute in upcoming years that will impact the State's long-term financial goals.

- Proposition 98, approved by voters in November 1988, funds preschools, K-12 education, the California Community Colleges, and other state education programs. The Governor's 2013-14 Budget provides $2.7 billion in additional funding, a 5% increase from the revised current-year level of $56.2 billion from Proposition 98. Refer to the MD&A for details.

- The California Department of Transportation has undertaken several major projects for the next five years approximating more than $4.5 billion. These include high-occupancy vehicle lanes, and the reconstruction, rehabilitation, widening, and realignment of several highways and state routes.

- The Governor has proposed a $23 billion plan to build infrastructure that will carry water to the Bay Area and Southern California to better serve the cities and farms in the State. Twin tunnels would carry water from Northern California to the South, reducing Delta pumping, helping to restore the Delta ecosystem and provide a more reliable source of water.

- A proposal for a constitutional amendment to strengthen California's Budget Stabilization Fund, known as the rainy day fund, will be placed on the ballot by members of the California State Assembly in November of 2014. The goal is to increase the size of the State's rainy day fund from 5% of General Fund revenue to 10%, and to set limits on how the funds are used.

Budget Outlook

2013-14 Fiscal Year

California's 2013-14 Budget was enacted on June 27, 2013. The Budget presents a multi-year balanced budget plan, maintains a $1.1 billion reserve, and pays down budgetary debt. The General Fund revenues and transfers are estimated to be $97.9 billion, with estimated expenditures of $96.3 billion, resulting in a surplus of $1.6 billion at the end of the 2013-14 fiscal year.

2014-15 Fiscal Year

The Governor released his proposed 2014-15 Budget on January 10, 2014, initiating a multi-year plan that is balanced, pays off past budgetary debt, and saves for the future. Using targeted expenditures, the Budget continues last year's investments in education and health and human services; while making new investments in programs designed to reduce global warming and ensure a sustainable water policy. The Budget commits $670 million in new General Fund spending to expand Medi-Cal benefits; increases the minimum wage to $10 per hour by 2016; boosts grant funding for CalWORKS; and spends $64.6 billion in deferred maintenance on California's aging infrastructure over five years. An additional $815 million is targeted for state parks, local streets and roads, K-12 schools, courts, prisons, hospitals, and other state facilities. Budgetary borrowing will be reduced by $12 billion this year, with the goal of eliminating borrowing by fiscal year 2017-18. Spending cuts and voter-approved temporary taxes will provide a $20 billion reduction in the annual deficit. The Budget will repay the $100 million Cap and Trade loan, $340 million in transportation loans, and $1.6 billion in Economic Recovery Bonds issued since 2001. One-time revenues will be used to strengthen the Budget Stabilization Fund (also known as the Rainy Day Fund) instead of using those revenues for permanent programs; and a constitutional amendment to strengthen the Fund will mitigate long-term liabilities and potential future decreases in revenue.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of California for its comprehensive annual financial report for the fiscal year ended June 30, 2012. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the State Controller's Office. We wish to thank all government departments for their assistance in providing the data necessary to prepare this report. Credit also is due to the California State Auditor and their audit staff for their continuing support for maintaining the highest standards of professionalism in the management of the State's finances.

Sincerely,

Original signed by:

JOHN CHIANG
California State Controller

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2012

Jeffrey R. Emer

Executive Director/CEO

Principal Officials of the State of California

Executive Branch

Edmund G. Brown, Jr.
Governor

Gavin Newsom
Lieutenant Governor

John Chiang
State Controller

Kamala D. Harris
Attorney General

Bill Lockyer
State Treasurer

Debra Bowen
Secretary of State

Tom Torlakson
Superintendent of Public Instruction

Dave Jones
Insurance Commissioner

Board of Equalization
Betty T. Yee, Member, First District
George Runner, Member, Second District
Michelle Steel, Member, Third District
Jerome E. Horton, Member, Fourth District

Legislative Branch

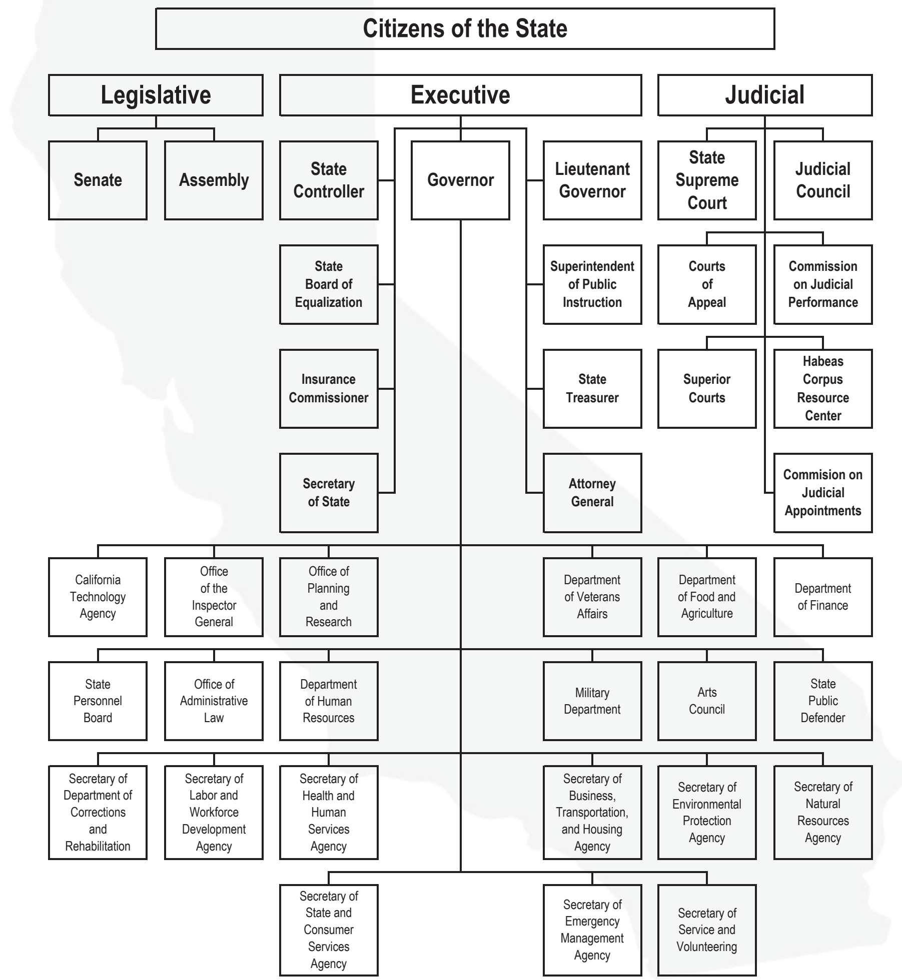
Darrell Steinberg
President pro Tempore, Senate

John A. Pérez
Speaker of the Assembly

Judicial Branch

Tani Cantil-Sakauye
Chief Justice, State Supreme Court

Organization Chart of the State of California



This page intentionally left blank.

Financial Section

California State Auditor

Elaine M. Howle State Auditor
Doug Cordiner Chief Deputy

Independent Auditor's Report

THE GOVERNOR AND THE LEGISLATURE OF THE
STATE OF CALIFORNIA

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 86 percent of the assets and deferred outflows, and 32 percent of the revenues of the business-type activities.

- The University of California and the California Housing Finance Agency that represent 93 percent of the assets and deferred outflows, and 92 percent of the revenues of the discretely presented component units.

Fund Financial Statements

- The following major enterprise funds: Electric Power fund, Water Resources fund, Public Building Construction fund, State Lottery fund, and California State University fund.

- The Golden State Tobacco Securitization Corporation, the Public Employees' Retirement, the State Teachers' Retirement, the State Water Pollution Control, and the 1943 Veterans Farm and Home Building funds, that represent 85 percent of the assets and deferred outflows, and 51 percent of the additions, revenues and other financing sources of the aggregate remaining fund information.

- The discretely presented component units noted above.

555 Capitol Mall, Suite 300 Sacramento, CA 95814 916.445.0255 916.327.0019 fax www.auditor.ca.gov

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

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United State of America require that the discussion and analysis by management, schedule of funding progress, infrastructure information, budgetary comparison information, reconciliation of budgetary and GAAP-basis fund balances, and related notes be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, combining financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from, and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures as described above, and the reports of other auditors, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

CALIFORNIA STATE AUDITOR

John F. Collins II

JOHN F. COLLINS II, CPA
Deputy State Auditor

April 16, 2014

Management's Discussion and Analysis

The following Management's Discussion and Analysis is a required supplement to the State of California's financial statements. It describes and analyzes the financial position of the State, providing an overview of the State's activities for the year ended June 30, 2013. There were significant accounting changes and restatements in fiscal year 2012-13 which are described in Note 1L. All comparisons between fiscal year 2012 and 2013 are based on restated amounts for fiscal year 2012. We encourage readers to consider the information we present here in conjunction with the information presented in the Controller's letter of transmittal at the front of this report and in the State's financial statements and notes, which follow this section.

Financial Highlights – Primary Government

Government-wide Highlights

During the 2012-13 fiscal year, California made solid economic progress and ended on more stable fiscal footing. The State's general revenues increased by $14.6 billion (13.9%) over the prior year. Expenses for the State's governmental activities also increased but were less than revenues received, resulting in a $8.5 billion decrease in governmental activities' net deficit position. Total revenues and transfers for the State's business-type activities surpassed expenses by $1.4 billion in fiscal year 2012-13. Revenues exceeded expenses resulting in a 70.9% decrease in the total net deficit position for governmental and business-type activities over the 2011-12 fiscal year.

Net Position – The primary government's net deficit position as of June 30, 2013, was $4.1 billion. After the total net deficit position is reduced by $86.6 billion for net investment in capital assets and by $29.5 billion for restricted net position, the resulting unrestricted net position totals a negative $120.2 billion. Restricted net position is dedicated for specified uses and is not available to fund current activities. Almost half of the negative $120.2 billion consists of $59.1 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. The bonded debt reduces the unrestricted net position; however, local governments, not the State, record the capital assets that would offset this reduction.

Fund Highlights

Governmental Funds – As of June 30, 2013, the primary government's governmental funds reported a combined ending fund balance of $12.2 billion, an increase of $8.0 billion from the prior fiscal year. The unrestricted fund balance, comprised of committed, assigned, and unassigned balances, was negative $12.2 billion. The nonspendable and restricted fund balances were $155 million and $24.3 billion, respectively.

Proprietary Funds – As of June 30, 2013, the primary government's proprietary funds reported combined ending net position of $4.3 billion, an increase of $1.0 billion from the prior fiscal year. After the total net position is reduced by $1.8 billion for net investment in capital assets, expendable restrictions of $5.2 billion, and nonexpendable restrictions of $21 million, the unrestricted net position totals a negative $2.7 billion.

Noncurrent Assets and Liabilities

As of June 30, 2013, the primary government's noncurrent assets totaled $145.1 billion, of which $118.6 billion is related to capital assets. State highway infrastructure assets of $64.6 billion represent the largest portion of the State's capital assets.

The primary government's noncurrent liabilities totaled $164.3 billion, which consists of $80.1 billion in general obligation bonds, $31.7 billion in revenue bonds, and $52.5 billion in all other noncurrent liabilities. During the 2012-13 fiscal year, the primary government's noncurrent liabilities increased by $626 million (0.4%) over the prior fiscal year. This increase was primarily the result of a $3.5 billion decrease in loans payable, an increase of $3.3 billion in net other postemployment benefits obligations, an increase of $563 million for revenue bonds payable and an increase of $502 million for certificates of participation, commercial paper, and other borrowings.

Overview of the Financial Statements

This discussion and analysis is an introduction to the section presenting the State's basic financial statements, which includes four components: (1) government-wide financial statements, (2) fund financial statements, (3) discretely presented component units financial statements, and (4) notes to the financial statements. This report also contains required supplementary information and combining financial statements and schedules.

Government-wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the State's finances. The government-wide financial statements do not include fiduciary programs and activities of the primary government and component units because fiduciary resources are not available to support state programs.

To help readers assess the State's economic condition at the end of the fiscal year, the statements provide both short-term and long-term information about the State's financial position. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, similar to methods used by most businesses. These statements take into account all revenues and expenses connected with the fiscal year, regardless of when the State received or paid the cash. The government-wide financial statements include two statements: the Statement of Net Position and the Statement of Activities.

- The *Statement of Net Position* presents all of the State's assets and liabilities and reports the difference between the two as net position. Over time, increases or decreases in net position indicate whether the financial position of the State is improving or deteriorating.

- The *Statement of Activities* presents information showing how the State's net position changed during the most recent fiscal year. The State reports changes in net position as soon as the event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, this statement reports revenues and expenses for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

The government-wide financial statements separate into different columns the three types of state programs and activities: governmental activities, business-type activities, and component units.

- *Governmental activities* are mostly supported by taxes, such as personal income and sales and use taxes, and intergovernmental revenues, primarily federal grants. Most services and expenses normally associated with state government fall into this activity category, including health and human services, education (public kindergarten through 12th grade [K-12] schools and institutions of higher education), business and transportation, correctional programs, general government, resources, state and consumer services, and interest on long-term debt.

- *Business-type activities* typically recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business-type activities of the State of California include providing unemployment insurance programs, providing housing loans to California veterans, providing water to local water districts, providing building aid to school districts, providing services to California State University students, leasing public assets, selling California State Lottery tickets, and selling electric power. These activities are carried out with minimal financial assistance from the governmental activities or general revenues of the State.

- *Component units* are organizations that are legally separate from the State, but are at the same time related to the State financially (i.e., the State is financially accountable for them) or the nature of their relationship with the State is so significant that their exclusion would cause the State's financial statements to be misleading or incomplete. The State's financial statements include the information for blended, fiduciary, and discretely presented component units.

  - *Blended component units*, although legally separate entities, are in substance a part of the primary government's operations. Therefore, for reporting purposes, the State integrates data from blended component units into the appropriate funds. The Golden State Tobacco Securitization Corporation and certain building authorities that are blended component units of the State are included in the governmental activities.

  - *Fiduciary component units* are legally separate from the primary government but, due to their fiduciary nature, are included with the primary government's fiduciary funds. The Public Employees' Retirement System and the State Teachers' Retirement System are fiduciary component units that are included with the State's pension and other employee benefit trust funds, which are not included in the government-wide financial statements.

  - *Discretely presented component units* are legally separate from the primary government and provide services to entities and individuals outside the primary government. The activities of discretely presented component units are presented in a single column in the government-wide financial statements.

Information regarding obtaining financial statements of the individual component units is available from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

Fund Financial Statements

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State of California, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal and contractual requirements. Following are general descriptions of the three types of funds:

- *Governmental funds* are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements. This approach is known as the *flow of current financial resources measurement* focus and the *modified accrual basis of accounting*. These governmental fund statements provide a detailed short-term view of the State's finances, enabling readers to determine whether adequate financial resources exist to meet the State's current needs.

  Because governmental fund financial statements provide a narrower focus than do government-wide financial statements, it is useful to compare governmental fund statements to the governmental activities information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Reconciliations located on the pages immediately following the fund statements show the differences between the government-wide statements and the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances. Primary differences between the government-wide and fund statements relate to noncurrent assets, such as land and buildings, and noncurrent liabilities, such as bonded debt and amounts owed for compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund-based statements.

- *Proprietary funds* show activities that operate more like those found in the private sector. The State of California has two proprietary fund types: enterprise funds and internal service funds.

  - *Enterprise funds* record activities for which a fee is charged to external users; they are presented as business-type activities in the government-wide financial statements.

  - *Internal service funds* accumulate and allocate costs internally among the State of California's various functions. For example, internal service funds provide information technology, printing, fleet management, and architectural services primarily for state departments. As a result, their activity is considered governmental.

- *Fiduciary funds* account for resources held for the benefit of parties outside the State. Fiduciary funds and the activities of fiduciary component units are not reflected in the government-wide financial statements because the resources of these funds are not available to support State of California programs. The accounting used for fiduciary funds and similar component units is similar to that used for proprietary funds.

Discretely Presented Component Units Financial Statements

The State has financial accountability for discretely presented component units, which have certain independent qualities and operate in a similar manner as private-sector businesses. The activities of the discretely presented component units are classified as enterprise activities.

Notes to the Financial Statements

The notes to the financial statements in this publication provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements, which describe particular accounts in more detail, are located immediately following the discretely presented component units' financial statements.

Required Supplementary Information

A section of required supplementary information follows the notes to the basic financial statements in this publication. This section includes a schedule of funding progress for certain pension and other postemployment benefit trust funds, information on infrastructure assets based on the modified approach, a budgetary comparison schedule, and a reconciliation of the budgetary basis and the GAAP basis fund balances for the major governmental funds presented in the governmental fund financial statements.

Combining Financial Statements and Schedules

The Combining Financial Statements and Schedules – Nonmajor and Other Funds section presents combining statements that provide separate financial statements for nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor component units. The basic financial statements present only summary information for these activities.

Government-wide Financial Analysis

Net Position

The primary government's combined net deficit position (governmental and business-type activities) decreased by 70.9%, from $14.0 billion as restated at June 30, 2012, to $4.1 billion a year later.

The primary government's $86.6 billion investment in capital assets, such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets) comprise a significant portion of its net position. This amount of capital assets is net of any outstanding debt used to acquire those assets. The State uses capital assets when providing services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, the resources needed to repay this debt must come from other sources because the State cannot use the capital assets themselves to pay off the liabilities.

Another $29.5 billion of the primary government's net position represents resources that are externally restricted as to how they may be used, such as resources pledged to debt service. Internally imposed earmarking of resources is not presented in this publication as restricted net position. As of June 30, 2013, governmental activities reported an unrestricted net deficit of $117.4 billion and business type activities showed an unrestricted net deficit of $2.8 billion.

A large portion of the unrestricted net deficit of governmental activities consists of $59.1 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. Because the State does not own these capital assets, neither the assets nor the related bonded debt is included in the portion of net position reported as "net investment in capital assets." Instead, the bonded debt is reported as a non-current liability that reduces the State's unrestricted net deficit. Readers can expect to see a continued deficit in the unrestricted section of net position of governmental activities as long as the State has significant outstanding obligations for school districts and other local governmental entities.

Table 1 presents condensed financial information derived from the Statement of Net Position for the primary government.

Table 1

Net Position – Primary Government
June 30, 2012 and 2013
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
ASSETS						
Current and other assets	$ 55,358	$ 52,262	$ 34,996	$ 35,025	$ 90,354	$ 87,287
Capital assets	108,668	104,757	9,959	8,871	118,627	113,628
Total assets	**164,026**	**157,019**	**44,955**	**43,896**	**208,981**	**200,915**
DEFERRED OUTFLOWS OF RESOURCES	**911**	**963**	**480**	**363**	**1,391**	**1,326**
Total assets and deferred outflows of resources	**$164,937**	**$157,982**	**$ 45,435**	**$44,259**	**$210,372**	**$202,241**
LIABILITIES						
Noncurrent liabilities	$ 128,052	$ 126,896	$ 36,282	$ 36,812	$ 164,334	$ 163,708
Other liabilities	44,863	47,587	4,616	4,763	49,479	52,350
Total liabilities	**172,915**	**174,483**	**40,898**	**41,575**	**213,813**	**216,058**
DEFERRED INFLOWS OF RESOURCES	**159**	**147**	**471**	**—**	**630**	**147**
Total liabilities and deferred inflows of resources	**173,074**	**174,630**	**41,369**	**41,575**	**214,443**	**216,205**
NET POSITION						
Net investment in capital assets	84,931	80,769	1,719	1,561	86,650	82,330
Restricted	24,316	24,872	5,172	4,593	29,488	29,465
Unrestricted	(117,384)	(122,289)	(2,825)	(3,470)	(120,209)	(125,759)
Total net position (deficit)	**(8,137)**	**(16,648)**	**4,066**	**2,684**	**(4,071)**	**(13,964)**
Total liabilities, deferred inflows of resources, and net position	**$ 164,937**	**$ 157,982**	**$ 45,435**	**$ 44,259**	**$ 210,372**	**$ 202,241**

Changes in Net Position

The expenses of the primary government totaled $224.9 billion for the year ended June 30, 2013. Of this amount, $115.5 billion (51.4%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving $109.4 billion to be funded with general revenues (mainly taxes). The primary government's general revenues of $119.3 billion were more than the residual expenses. As a result, the total net deficit position decreased by $9.9 billion, or 70.9%.

Table 2 presents condensed financial information derived from the Statement of Activities for the primary government.

Table 2

Changes in Net Position – Primary Government
Years ended June 30, 2012 and 2013
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
REVENUES						
Program Revenues:						
Charges for services	$ 23,102	$ 19,813	$ 28,379	$ 31,981	$ 51,481	$ 51,794
Operating grants and contributions	60,944	58,577	1,323	1,250	62,267	59,827
Capital grants and contributions	1,669	2,193	142	—	1,811	2,193
General Revenues:						
Taxes	118,645	104,256	—	—	118,645	104,256
Investment and interest	57	72	—	—	57	72
Miscellaneous	552	372	—	—	552	372
Total revenues	**204,969**	**185,283**	**29,844**	**33,231**	**234,813**	**218,514**
EXPENSES						
Program Expenses:						
General government	15,390	12,607	—	—	15,390	12,607
Education	50,586	51,288	—	—	50,586	51,288
Health and human services	94,070	89,940	—	—	94,070	89,940
Resources	5,671	5,951	—	—	5,671	5,951
State and consumer services	1,475	1,241	—	—	1,475	1,241
Business and transportation	12,836	13,720	—	—	12,836	13,720
Correctional programs	10,082	10,344	—	—	10,082	10,344
Interest on long-term debt	4,350	4,560	—	64	4,350	4,624
Electric Power	—	—	488	915	488	915
Water Resources	—	—	1,127	1,048	1,127	1,048
Public Buildings Construction	—	—	410	404	410	404
State Lottery	—	—	4,499	4,432	4,499	4,432
Unemployment Programs	—	—	17,599	21,112	17,599	21,112
California State University System	—	—	6,197	6,114	6,197	6,114
Nonmajor enterprise	—	—	140	184	140	184
Total expenses	**194,460**	**189,651**	**30,460**	**34,273**	**224,920**	**223,924**
Excess (deficiency) before transfers	**10,509**	**(4,368)**	**(616)**	**(1,042)**	**9,893**	**(5,410)**
Transfers	(1,998)	(2,031)	1,998	2,031	—	—
Change in net position	**8,511**	**(6,399)**	**1,382**	**989**	**9,893**	**(5,410)**
Net position, beginning (restated)	**(16,648)**	**(10,249)**	**2,684**	**1,695**	**(13,964)**	**(8,554)**
Net position (deficits), ending	**$ (8,137)**	**$ (16,648)**	**$ 4,066**	**$ 2,684**	**$ (4,071)**	**$ (13,964)**

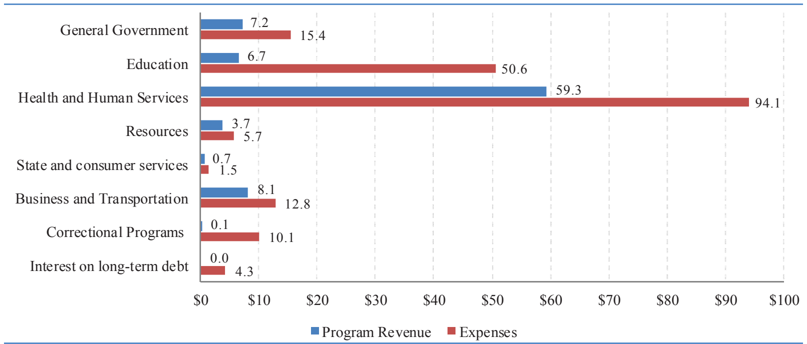
Governmental Activities

Governmental activities' expenses and transfers totaled $196.5 billion. Program revenues totaling $85.7 billion, including $62.6 billion received in federal grants, funded 43.6% of expenses and transfers, leaving $110.8 billion to be funded with general revenues (mainly taxes). General revenues for governmental activities totaled $119.3 billion and the governmental activities' total net deficit position decrease of $16.6 billion at the end of fiscal year 2011-12 to $8.1 billion for the year ended June 30, 2013, a decrease of $8.5 billion (51.1%).

Chart 1 presents a comparison of governmental activities' expenses by program, with related revenues.

Chart 1

Expenses and Program Revenues – Governmental Activities
Year ended June 30, 2013
(amounts in billions)



For the year ended June 30, 2013, total state tax revenues collected for governmental activities increased by $14.4 billion (14.6%) over the prior year. Personal income taxes increased by $13.1 billion (24.2%) as a result of improving California employment rates; the passage of Proposition 30, which increased personal income tax on earnings above $250,000 and increased capital gains taxes from a surging stock market; and increasing home prices. The state sales and use tax collection increased by $2.6 billion (8.4%) due to the 0.25% increase in the sales tax resulting from the passage of Proposition 30, increased consumer spending, increased consumer confidence in the improving economy, and a reduction in the unemployment rate which resulted in more disposable income for California households. However, corporate taxes decreased by $1.3 billion (15.5%).

Overall expenses for governmental activities increased by $4.8 billion (2.5%) from the prior year. The largest increase of expenditures, $4.1 billion (4.6%), was attributable to health and human services, the majority of which is attributable to the Department of Health Care Services, which includes Medi-Cal services. The 2012-13 fiscal year budget proposed an increase of $9.3 billion over the 2011-12 Budget for Medi-Cal services. The growth in spending for the Department of Health Care Services was due to an increased caseload, the increased utilization of services, and the rising costs of those services. General government expenditures increased by $2.8 billion (22.1%), the largest portion of which was attributable to Local Government financing.

Charts 2 and 3 present the percentage of total expenses for each governmental activities program and the percentage of total revenues by source.

Chart 2

Expenses by Program
Year ended June 30, 2013
(as a percent)

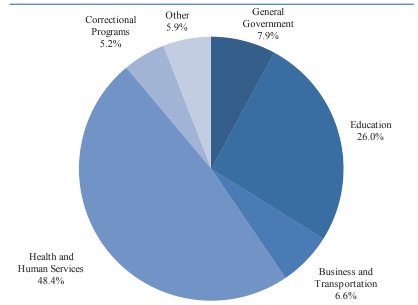
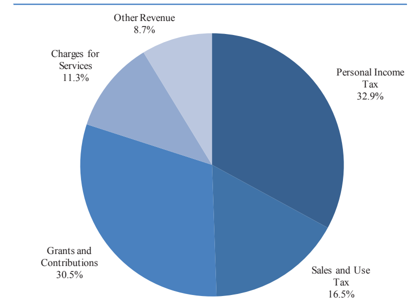


Chart 3

Revenues by Source
Year ended June 30, 2013
(as a percent)



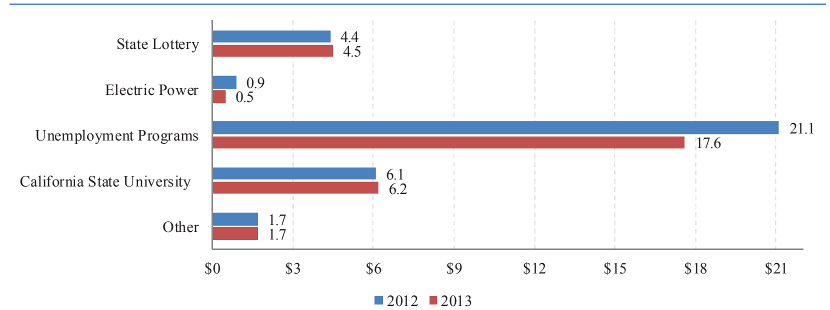
Business-type Activities

Business-type activities expenses totaled $30.5 billion. Program revenues of $29.9 billion, primarily generated from charges for services, and $2.0 billion in transfers were sufficient to cover these expenses. Consequently, business-type activities' total net position increased by $1.4 billion, or 51.5%, during the year ended June 30, 2013.

Chart 4 presents a two-year comparison of the expenses of the State's business-type activities.

Chart 4

Expenses – Business-type Activities – Two-year Comparison
Years ended June 30, 2012 and 2013
(amounts in billions)



Fund Financial Analysis

The State's governmental funds had an $8.0 billion increase in fund balance over the prior year's restated ending fund balance. Some proprietary funds' net position increased, as their revenues exceeded expenses for the fiscal year 2012-13. The Unemployment Programs Fund incurred the largest decrease in net deficit position of $999 million.

Governmental Funds

The governmental funds' Balance Sheet reported $64.2 billion in assets, $51.9 billion in liabilities and deferred inflows of resources, and $12.2 billion in fund balance as of June 30, 2013. Total assets of governmental funds decreased by 1.7%, while total liabilities decreased by 18.6%, primarily resulting in a total fund balance increase of 8.0 billion (190.4%) over the prior fiscal year. This is the result of decrease in liabilities of governmental fund by $11.4 billion. In prior years, the General Fund had to rely heavily on internal borrowing from the State's other funds to meet its payment obligations. However, by June 30, 2013, long-term borrowing had decreased by $4.1 billion to $6.5 billion.

Within the governmental funds' total fund balance, $155 million is classified as nonspendable because this amount consists of long-term interfund receivables and loans receivable, or due to legal or contractual requirements. Additionally, $24.3 billion is classified as restricted for specific programs by external constraints such as debt covenants and contractual obligations, or by constitutional provisions or enabling legislation. Furthermore, of the total fund balance, $2.3 billion is classified as committed for specific purposes and $209 million is classified as assigned for specific purposes. The unassigned balance of the governmental funds is a negative $14.8 billion.

The Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds reports $204.9 billion in revenues, $202.1 billion in expenditures, and a net $5.2 billion in receipts from other financing sources. The ending fund balance of the governmental funds for the year ended June 30, 2013, was $12.2 billion, a $8.0 billion increase over the prior year's restated ending fund balance of $4.2 billion. The reason for the change in the fund balance was a net decrease in liabilities from the prior year.

Personal income taxes, which account for 56.9% of tax revenues and 32.9% of total governmental fund revenues, increased by $13.0 billion from the prior fiscal year. Sales and use taxes, which account for 28.6% of tax revenues and 16.5% of total governmental fund revenues, increased by $2.7 billion over the prior fiscal year. Corporation taxes, which account for 6.1% of tax revenues and 3.5% of total governmental fund revenues, decreased by $1.3 billion from the prior fiscal year. Governmental fund expenditures increased by $6.5 billion over the prior fiscal year. General obligation bonds and commercial paper of $4.0 billion were issued during the 2012-13 fiscal year; however, this was $127 million less than the amount issued in the prior fiscal year.

The State's major governmental funds are the General Fund, the Federal Fund, the Transportation Fund, and the Environmental and Natural Resources Fund. The General Fund ended the fiscal year with a fund deficit of $14.3 billion. The Federal Fund, the Transportation Fund, and the Environmental and Natural Resources Fund ended the fiscal year with fund balances of $198 million, $7.2 billion, and $7.8 billion, respectively. The nonmajor governmental funds ended the year with a total fund balance of $11.3 billion.

General Fund: As shown on the Balance Sheet, the General Fund (the State's main operating fund) ended the fiscal year with assets and deferred outflows of resources of $15.6 billion; liabilities and deferred inflows of resources of $29.9 billion; and nonspendable, restricted, and committed fund balances of $140 million, $179 million, and $23 million, respectively, leaving the General Fund with a negative unassigned fund balance of $14.6 billion. Total assets and deferred outflows of resources of the General Fund increased by $1.3 billion (8.9%) over the prior fiscal year while the total liabilities and deferred inflows of resources of the General Fund decreased by $7.4 billion (19.9%). Total fund deficit decreased by $8.7 billion (37.9%).

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds, the General Fund had an excess of revenues over expenditures of $9.3 billion ($99.4 billion in revenues and $90.1 billion in expenditures). Approximately 94.5% of General Fund revenue ($93.9 billion) is derived from the State's largest three taxes – personal income taxes ($66.2 billion), sales and use taxes ($20.4 billion), and corporation taxes ($7.3 billion). A total of $175 million in revenue is included in the General Fund in compliance with GASB, Statement 54. These revenues are not considered General Fund revenues for any budgetary purposes or for the Budgetary/Legal Basis Annual Report. Most of these revenues ($170 million) are from unemployment programs.

During the 2012-13 fiscal year, total General Fund revenue increased by $12.8 billion (14.8%). This is primarily a result of the net increase in personal income taxes of $12.6 billion (23.6%). Revenue from sales and use taxes also increased by $1.8 billion (9.7%) However, corporation taxes decreased by $1.3 billion (15.7%).

General Fund expenditures increased by $1.8 billion (2.1%). The largest increase was in general government program expenditures which were up $1.6 billion over the prior year. The General Fund's ending fund balance for the year ended June 30, 2013 was a negative $14.3 billion, a decrease of $8.4 billion from the prior year's restated ending fund deficit of $22.7 billion.

Federal Fund: This fund reports federal grant revenues and related expenditures to support the grant programs. The largest of these programs is health and human services, which accounted for $49.7 billion (80.4%) of the total $61.8 billion in fund expenditures. The Medical Assistance program and the Temporary Assistance for Needy Families program are included in this program area. Education programs also constituted a large part of the Federal Fund expenditures amounting to $6.6 billion (10.7%). The Federal Fund's revenues increased by $1.8 billion, which was approximately the same amount of increase in combined expenditures and transfers, resulting in a $37 million fund balance increase from the prior year's ending fund balance of $161 million.

Transportation Fund: This fund accounts for fuel taxes, bond proceeds, and other revenues used primarily for highway and passenger rail construction. The Transportation Fund's revenues increased by 0.6% and expenditures increased by 3.2%. Other financing sources provided net receipts of $2.0 billion. The Transportation Fund ended the fiscal year with a $7.2 billion fund balance, an increase of $504 million over the prior year.

Environmental and Natural Resources Fund: This fund accounts for fees, bond proceeds, and other revenues that are used for maintaining the State's natural resources and improving the environmental quality of its air, land, and water. Other financing sources provided net receipts of $440 million. The Environmental and Natural Resources Fund ended the fiscal year with a $7.8 billion fund balance, a decrease of $148 million (1.9%) from the prior year.

Proprietary Funds

Enterprise Funds: The total net position of the enterprise funds at June 30, 2013, was $4.1 billion—$1.4 billion greater than the prior year's restated ending net position of $2.7 billion. Some enterprise funds recorded an increase in net position during the 2012 13 fiscal year. The Unemployment Programs Fund had a decrease in its net deficit position of $999 million. The net position increased in Nonmajor Enterprise Funds ($203 million) and the Public Buildings Construction Fund ($198 million).

As shown on the Statement of Net Position of the proprietary funds, the total assets and deferred outflows of resources of the enterprise funds were $45.9 billion as of June 30, 2013. Of this amount, current assets totaled $14.1 billion, noncurrent assets totaled $31.3 billion and deferred outflows of resources totaled $480 million. The largest changes in asset account balances were a $1.6 billion increase in cash and pooled investments and a $834 million decrease in interfund receivables. The total liabilities and deferred inflows of resources of the enterprise funds were $41.9 billion. The largest liabilities of the enterprise funds are $24.1 billion of revenue bonds payable and $8.6 billion of noncurrent loans payable. During the 2012-13 fiscal year, the State continued to obtain loans from the U.S Department of Labor to cover deficits in the Unemployment Programs Fund. The balance due on these loans as of June 30, 2013, was $8.6 billion.

Total net position consisted of four segments: a nonexpendable restricted net position of $21 million, a restricted expendable net position of $5.2 billion, net investment in capital assets of $1.7 billion, and an unrestricted net deficit of $2.8 billion.

As shown on the Statement of Revenues, Expenses, and Changes in Fund Net Position of the proprietary funds, the enterprise funds ended the year with operating revenues of $27.4 billion, operating expenses of $27.8 billion, and net expenses from other transactions of $311 million. The largest sources of operating revenue were unemployment and disability insurance receipts of $18.6 billion in the Unemployment Programs Fund and lottery ticket sales of $4.4 billion collected by the State Lottery Fund. The unemployment and disability insurance receipts in the Unemployment Programs Fund decreased by $3.4 billion from $21.9 billion in fiscal year 2011-12. These receipts came primarily from the federal government unemployment account to pay unemployment and disability benefits. The largest operating expenses were distributions to beneficiaries of $17.3 billion by the Unemployment Programs Fund and personal services of $3.8 billion by the California State University Fund.

Internal Service Funds: The total net position of the internal service funds was $252 million as of June 30, 2013. The net position consists of two segments: net investment in capital assets of $127 million and unrestricted net position of $125 million.

Fiduciary Funds

The State of California has four types of fiduciary funds: private purpose trust funds, pension and other employee benefit trust funds, investment trust funds, and agency funds. The private purpose trust funds ended the fiscal year with net position of $5.2 billion. The pension and other employee benefit trust funds ended the fiscal year with net position of $443.2 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with net position of $21.2 billion. Agency funds act as clearing accounts and thus do not have a net position.

For the year ended June 30, 2013, the fiduciary funds' combined net position was $469.5 billion, a $41.7 billion increase from the prior-year net position. The net position increased primarily because contributions received and investment income in pension and other employee benefit trust funds exceeded payments made to participants.

The Economy for the Year Ending June 30, 2013

The U.S. economy completed its fourth year of recovery as California ended its fiscal year on June 30, 2013. National growth was slow, with real gross domestic product (GDP) up a modest 1.6%. Despite limited support from the rest of the country, a rebound in California's housing market, tourism, and other key sectors allowed the State to post a solid gain for the year.

California's total personal income reached $1.79 trillion in fiscal year 2012-13, accounting for more than one out of every eight dollars earned nationally. The state registered a 4.5% income rise during the year, beating the 3.5% rise in the nation as a whole.

Housing staged a sharp recovery, with a 33.5% surge in the median price of a single-family existing home over the 12 months ended June 2013. For the 2012-13 fiscal year, housing permits totaled 69,401 units, a 41.5% increase over the 49,041 permits issued in the prior year. Pent-up demand was evident in other areas as well. Auto sales, for example, increased sharply with registrations climbing 12.5% to 850,712 for the year in total.

California's job market improved significantly, with nonfarm employment in June 2013 220,000, or 1.5%, above the level of the prior year. Job gains were widespread, with particularly large numerical and percentage increases in construction, leisure and hospitality, business and professional services, education, and health care and social assistance. The public sector and manufacturing were the primary areas showing job losses. The general improvement in the labor market was strong enough to push the unemployment rate down more than two full percentage points, from 10.6% in June 2012 to 8.5% as of June 2013.

California ended its fiscal year on June 30, 2013, with solid economic progress. While more growth is needed to drive the jobless rate lower and improve incomes for all, substantial gains are being achieved.

General Fund Budget Highlights

The original General Fund budget of $97.6 billion was reduced by $720 million. This decrease is mainly the result of reductions in funding to education programs per Section 12.42 of the 2012 Budget Act, as well as other reductions in education and State and consumer services, and the increases in health and human services and other general government expenditures. The Judicial Branch absorbed $344 million of the increase in other general government expenditures. During the 2012-13 fiscal year, General Fund actual budgetary basis expenditures were $95.9 billion, $1.0 billion less than the final budgeted amounts.

Table 3 presents a summary of the General Fund original and final budgets.

Table 3

General Fund Original and Final Budgets
Year ended June 30, 2013
(amounts in millions)

	Original	Final	Increase/ (Decrease)
Budgeted amounts			
State and consumer services	$ 1,335	$ 682	$ (653)
Business and transportation	90	90	—
Resources	941	1,177	236
Health and human services	26,658	27,395	737
Correctional programs	8,821	8,700	(121)
Education	50,128	48,788	(1,340)
General government:			—
Tax relief	439	439	—
Debt service	4,436	4,439	3
Other general government	4,786	5,204	418
Total	**$ 97,634**	**$ 96,914**	**$ (720)**

Capital Assets and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounted to $118.6 billion (net of accumulated depreciation). This investment in capital assets includes land, state highway infrastructure, collections, buildings and other depreciable property, and construction in progress. Depreciable property includes buildings, improvements other than buildings, equipment, personal property, intangible assets, certain infrastructure assets, certain books, and other capitalized and depreciable property. Infrastructure assets, such as roads and bridges, are items that normally are immovable and can be preserved for a greater number of years than can most capital assets.

Table 4 presents a summary of the primary government's capital assets for governmental and business-type activities.

Table 4

Capital Assets
Year ended June 30, 2013
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Land	$ 17,602	$ 217	$ 17,819
State highway infrastructure	64,620	—	64,620
Collections – nondepreciable	23	6	29
Buildings and other depreciable property	25,614	11,264	36,878
Intangible assets – amortizable	986	174	1,160
Less: accumulated depreciation/amortization	(11,166)	(4,693)	(15,859)
Construction in progress	9,905	2,587	12,492
Intangible assets – nonamortizable	1,084	404	1,488
Total	**$ 108,668**	**$ 9,959**	**$ 118,627**

As of June 30, 2013, the State had $118.6 billion in net capital assets, of which $64.6 billion was state highway infrastructure. This total represents an increase of $2.1 billion in infrastructure capital assets from fiscal year 2011-12.

Note 7, Capital Assets, includes additional information on the State's capital assets.

Modified Approach for Infrastructure Assets

The State uses the modified approach to report the cost of its infrastructure assets (state roadways and bridges). Under the modified approach, the State does not report depreciation expense for its roads and bridges but capitalizes all costs that add to their capacity and efficiency. All maintenance and preservation costs are expensed and not capitalized. Under the modified approach, the State maintains an asset management system to demonstrate that the infrastructure is preserved at or above established condition levels. During the 2012-13 fiscal year, the actual amount spent on preservation was 23.5% of the estimated budgeted amount needed to maintain the infrastructure assets at the established condition levels. Although the amount spent fell short of the budgeted amount, the assessed conditions of the State's bridges and roadways are better than the established condition baselines. The State is responsible for maintaining 49,718 lane miles and 13,071 bridges.

The Required Supplementary Information includes additional information on how the State uses the modified approach for infrastructure assets; it also presents the established condition standards, condition assessments, and preservation costs.

Debt Administration

At June 30, 2013, the primary government had total bonded debt outstanding of $116.5 billion. Of this amount, $83.2 billion (71.4%) represents general obligation bonds, which are backed by the full faith and credit of the State. Included in the $83.2 billion of general obligation bonds is $5.2 billion of Economic Recovery bonds that are secured by a pledge of revenues derived from dedicated sales and use taxes. The current portion of general obligation bonds outstanding is $3.1 billion and the long-term portion is $80.1 billion. The remaining $33.3 billion (28.6%) of bonded debt outstanding represents revenue bonds, which are secured solely by specified revenue sources. The current portion of revenue bonds outstanding is $1.6 billion and the long-term portion is $31.7 billion.

Table 5 presents a summary of the primary government's long-term obligations for governmental and business-type activities.

Table 5

Long-term Obligations
Year ended June 30, 2013
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Government-wide noncurrent liabilities			
General obligation bonds	$ 79,306	$ 826	$ 80,132
Revenue bonds	7,581	24,079	31,660
Certificates of participation and commercial paper	530	77	607
Capital lease obligations	4,920	847	5,767
Net other postemployment benefits obligation	15,559	510	16,069
Proposition 98 funding guarantee	1,914	—	1,914
Mandated costs	6,697	—	6,697
Loans payable	—	8,585	8,585
Other noncurrent liabilities	11,545	1,358	12,903
Total noncurrent liabilities	128,052	36,282	164,334
Current portion of long-term obligations	4,182	2,244	6,426
Total long-term obligations	**$ 132,234**	**$ 38,526**	**$ 170,760**

During the year ended June 30, 2013, the primary government's total long-term obligations increased by $1.8 billion over the prior year's restated balance. Governmental activities net other postemployment benefits obligation had the largest increase ($3.1 billion), but other notable increases occurred in general obligation bonds payable, commercial paper payable, mandated costs, and capital lease obligations. The largest decrease was in loans payable ($3.5 billion). During the fiscal year, the State issued $3.3 billion in new general obligation bonds for public education facilities, transportation projects, housing and emergency shelters, various water and flood control projects, and to refund outstanding general obligation bonds and commercial paper. The net other postemployment benefits obligation increased because the State does not fully fund the annual cost of these benefits.

Note 10, Long-term Obligations, and Notes 11 through 17 include additional information on the State's long-term obligations.

In January 2013, Standard and Poor's raised its rating on the State's general obligation bond to "A" from "A-" citing the State's improved fiscal condition and cash position, and the State's projections of a structurally balanced budget through the next several years. During the fiscal year 2012-13, the ratings from the other two credit rating agencies remained unchanged as follows: Moody's Investors Service – "A1" and Fitch – "A-".

Recent Economic Condition and Future Budgets

Recent Economic Condition

California's economy continued to grow during the first six months of fiscal year 2013-14, which began on July 1, 2013. Employment expanded, the jobless rate fell, incomes grew, and the housing market strengthened. An improving economy also bolstered the State's financial position, with strong gains in the State's principal revenue sources.

During the first six months of fiscal year 2013-14, California added 153,000 to nonfarm payrolls. Compared with the prior year, nonfarm employment as of December 2013 was up by 236,000 jobs. The year-over-year 1.6% increase matched the gain recorded nationally.

California's jobless rate fell to a seasonally adjusted 8.3% in December 2013. This represented a 1.5 percentage point drop from the 9.8% recorded at the end of the prior year.

All major industry groups in the private sector added jobs in 2013. Construction hiring produced 29,000 new jobs in 2013, representing a gain of 4.8%. In contrast to the job gains in the private sector over the year, government payrolls contracted by 18,000, or 0.8%. Job losses occurred at the federal, state, and local level.

Total personal income in the State reached an annualized rate of $1.82 trillion in the third quarter of calendar year 2013, representing a gain of 3.4% over the prior year. Total wages and salaries advanced by 3.8%, while nonfarm proprietors' incomes jumped by 6.9%.

The housing market continued to strengthen in the July through December period of 2013. The supply of foreclosures and "short" sales (sales of homes at prices below the value of the mortgage) was at the lowest level since before the financial crisis of 2008. The median price of an existing single-family home reached $438,000 in California at the end of 2013, a gain of nearly 20% over the prior year's levels.

California's state coffers benefited from the economic gains as well as tax increases approved by voters in November 2012. Total General Fund revenues reached $42 billion in the first six months of fiscal year 2013-14. This represented a gain of $3.9 billion, or 10% over the first six months of the prior fiscal year. Personal income, sales taxes, and corporate revenues all contributed to the gain.

Risks, including higher interest rates, swings in stock prices, international instability, and the implications of California's drought persist; however, advances in technology, foreign trade, construction activity, and tourism bode well for the state's continued economic expansion.

California's 2013-14 Budget

California's 2013-14 Budget Act was enacted on June 27, 2013. The Budget Act appropriated $145.3 billion: $96.3 billion from the General Fund, $42.0 billion from special funds, and $7.0 billion from bond funds. The General Funds' budgeted expenditures increased $620 million (0.6%) over last year's General Fund budget. The General Fund's available resources were projected to be $97.1 billion, resulting in a projected reserve for economic uncertainties of $1.1 billion. General Fund revenues come predominantly from taxes, with personal income taxes expected to provide 62.6% of total revenue. California's major taxes (personal income, sales and use, and corporation taxes) are projected to supply approximately 95.1% of the General Fund's resources in the 2013-14 fiscal year.

Two years of significant reductions in state spending, combined with the first year of a temporary seven-year income tax increase and four-year sales tax increase, resulted in the State's most fiscally sound financial condition in over a decade. For the first time since fiscal year 2007-08, the State ended the prior fiscal year with a positive General Fund reserve balance, approximately $254 million, and is projected to end the 2013-14 fiscal

year with a reserve balance of $1.1 billion. Two significant aspects of the 2013-14 fiscal year budget are the substantial allocation of General Fund money to education, $50.6 billion (52.5%), and Health and Human Services, $28.1 billion (29.2%).

The Budget increased K-12 funding levels, boosting spending per student by $1,045 in 2013-14 and by $2,835 through 2016-17. Also included was a one-time allocation of $1.25 billion for implementation of the Common Core State Standards in K-12 schools. The 2013 Budget addressed previous cuts to higher education by increasing funding between $1,649 and $2,491 per student through 2016-17.

The spending plan for fiscal year 2013-14 includes $20.7 billion of General Fund money for health programs. This $1.2 billion increase over 2012-13 primarily addresses implementation of the Patient Protection and Affordable Care Act (ACA), as well as increases in caseload and the need for health services. The State of California elected to expand Medi-Cal eligibility to include over one million adults with incomes up to 133% of the federal poverty level. Federal funds totaling $1.7 billion will also be directed to providing health coverage to the expanded Medi-Cal population.

Another significant area of General Fund expenditures is the State's Judiciary and Criminal Justice programs. The General Fund provided $9.2 billion for Corrections and Rehabilitation and $1.2 billion for the Judicial Branch. The Budget also reflects increased employee compensation costs. An increase of $600 million from prior year mirrors increased costs associated with the end of state employee furloughs in June 2013. New bargaining agreements reached in fiscal year 2013-14 resulted in salary increases for much of the State's workforce, and rising health care costs have necessitated the need for the State to pay increased premiums for 14 of the state's 21 bargaining units, as well as the State's managerial and supervisorial employees.

The fiscal year 2013-14 Budget is part of a multiyear plan that is balanced and maintains a reserve. Since the passage of this Budget Act, state revenues have exceeded estimates used in preparing the Budget. As of December 1, 2013, revenues were $270 million more than projected. At the same time, disbursements were $126 million below forecast. The State's budget picture, in terms of the difference between receipts and disbursements, was at least $396 million better than expected.

California's 2014-15 Budget

The Governor released his proposed 2014-15 Budget on January 10, 2014. The proposed budget continues Governor Brown's multi-year financial plan for the State of California that is balanced, maintains a $1.0 million reserve, contributes to the Budget Stabilization Account, and pays down budgetary debt from past years. For the second consecutive year, the General Fund will begin the fiscal year with a surplus rather than a deficit. The General Fund began with a surplus balance of $2.5 billion at the beginning of fiscal year 2013-14; it is projected to begin fiscal year 2014-15 with a surplus of approximately $4.2 billion. The 2014-15 Budget directs $1.6 billion to the Budget Stabilization Account, to prepare for the State's next budget shortfall, as mandated by Proposition 58, the California Balanced Budget Act, which was approved by voters in 2004. The 2014-15 Budget also honors the California Balanced Budget Act by directing $1.6 billion to retire the remaining Economic Recovery Bonds that were approved by voters in 2004 and removing that debt obligation. The improving economy will allow California to adhere to the mandates of Proposition 58 and still provide a surplus for the State's General Fund going into the 2015-16 fiscal year.

The 2014-15 Governor's Budget projects that General Fund revenues and transfers will be $104.5 billion and expenditures will be approximately $106.8 billion, with an estimated $1.9 billion year-end balance. Proposed 2014-15 General Fund revenues and transfers are 4.4% more than the revised 2013-14 estimate of $100.1 billion, while the 2014-15 expenditures are 8.5% greater than the revised 2013-14 estimate of $98.5 billion.

Personal Income Tax, which is projected to increase by $5.5 billion (8.5%) compared to the prior year, represents the major component of the $5.9 billion General Fund revenue increase. Projected increases in Sales and Use Tax of $1.2 billion (5.0%) and Corporation Tax of $0.7 billion (8.9%) also contribute to the 5.9% increase in General Fund Revenue projections. Reflecting the Governor's intent to reinvest in education, the fiscal year 2014-15 budget expenditures of $106.8 billion include $45.2 billion (42.4%) for K-12 funding and $12.4 billion (11.6%) for higher education programs. The increased funding of education is attributable to the passage, in November 2012, of the Governor's initiative, Proposition 30, Temporary Taxes to Fund Education. The funding level for K-12 students is estimated to increase by more than $2,188 per student in 2014-15 over 2011-12 levels. Increased funding for higher education is intended to provide stable funding growth over multiple years and eliminate the need for further tuition increases in both the University of California and the California State University systems. Medi-Cal, the budget's second largest program, is projected to increase spending 4.1% from $16.2 billion in 2013-14 to $16.9 billion in 2014-15. Growth in Medi-Cal General Fund expenditures has been reduced through the use of other funding sources, including the Gross Premiums Tax (authorized from 2009-10 to 2012-13), the Managed Care Organization Tax (authorized in 2013-14), the Hospital Quality Assurance Fee (first authorized in 2011-12), and Medicaid waivers that allow claiming of federal funds for state-only health care costs. In addition, the Medi-Cal program was expanded in two ways. The mandatory expansion simplified eligibility, enrollment, and retention rules, making it easier to get on and stay on the program. The optional expansion extended eligibility to adults without children and parent and caretaker relatives with incomes up to 138% of the federal poverty level.

According to the Legislative Analyst's Office (LAO), California's nonpartisan fiscal and policy advisor, the State's budgetary condition is currently stronger than at any point in the past decade. The State's structural deficit has been corrected, with projected revenues greater than current spending commitments. Economic growth in future years is forecasted to continue. However, the LAO has stated that although the Governor's fiscal year 2014-15 budget projects a large surplus, the State's continued fiscal recovery is dependent on a number of assumptions, leaving open the possibility of an economic downturn and a return to operating deficits.

Requests for Information

The State Controller's Office designed this financial report to provide interested parties with a general overview of the State of California's finances. Address questions concerning the information provided in this report or requests for additional information to the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872. This report is also available on the Controller's Office website at www.sco.ca.gov.

This page intentionally left blank.

This page intentionally left blank.

Basic Financial Statements

This page intentionally left blank.

Government-wide Financial Statements

Statement of Net Position

June 30, 2013

(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and pooled investments	$ 20,761,086	$ 5,368,975	$ 26,130,061	$ 2,068,054
Amount on deposit with U.S. Treasury	—	39,963	39,963	—
Investments	645,053	2,235,832	2,880,885	5,821,945
Restricted assets:				
Cash and pooled investments	—	3,199,349	3,199,349	90,659
Investments	—	—	—	11,636
Due from other governments	—	20,448	20,448	—
Net investment in direct financing leases	—	474,005	474,005	—
Receivables (net)	14,660,902	1,938,215	16,599,117	3,943,566
Internal balances	(486,406)	486,406	—	—
Due from primary government	—	—	—	209,125
Due from other governments	13,562,020	362,014	13,924,034	438,815
Prepaid items	109,692	50,937	160,629	1,168
Inventories	84,910	17,975	102,885	185,991
Recoverable power costs (net)	—	111,000	111,000	—
Other current assets	201,636	14,000	215,636	279,558
Total current assets	49,538,893	14,319,119	63,858,012	13,050,517
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	—	1,041,986	1,041,986	34,218
Investments	—	406,401	406,401	14,498
Loans receivable	—	325,930	325,930	—
Investments	—	1,268,777	1,268,777	24,510,217
Net investment in direct financing leases	—	7,519,404	7,519,404	—
Receivables (net)	1,971,742	303,120	2,274,862	1,424,281
Loans receivable	3,832,981	3,765,274	7,598,255	4,936,915
Recoverable power costs (net)	—	5,083,000	5,083,000	—
Long-term prepaid charges	14,264	930,066	944,330	17,728
Capital assets:				
Land	17,602,055	216,888	17,818,943	970,706
State highway infrastructure	64,619,437	—	64,619,437	—
Collections – nondepreciable	22,645	6,051	28,696	362,373
Buildings and other depreciable property	25,613,649	11,264,411	36,878,060	41,343,421
Intangible assets – amortizable	986,184	174,045	1,160,229	674,542
Less: accumulated depreciation/amortization	(11,165,562)	(4,693,059)	(15,858,621)	(18,892,317)
Construction in progress	9,905,330	2,587,131	12,492,461	2,917,542
Intangible assets – nonamortizable	1,084,328	403,979	1,488,307	5,131
Other noncurrent assets	—	32,830	32,830	333,470
Total noncurrent assets	114,487,053	30,636,234	145,123,287	58,652,725
Total assets	**164,025,946**	**44,955,353**	**208,981,299**	**71,703,242**
DEFERRED OUTFLOWS OF RESOURCES	**911,178**	**480,308**	**1,391,486**	**177,546**
Total assets and deferred outflows of resources	**$ 164,937,124**	**$ 45,435,661**	**$ 210,372,785**	**$ 71,880,788**

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

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	$ 23,635,118	$ 557,290	$ 24,192,408	$ 2,442,417
Due to component units	209,125	—	209,125	—
Due to other governments	6,667,161	160,908	6,828,069	595
Revenues received in advance	1,417,508	292,745	1,710,253	1,057,211
Tax overpayments	5,780,193	—	5,780,193	—
Deposits	382,376	—	382,376	754,640
Contracts and notes payable	22	—	22	10,382
Unclaimed property liability	853,438	—	853,438	—
Interest payable	1,167,137	200,767	1,367,904	72,671
Securities lending obligations	—	—	—	1,468,772
Benefits payable	—	763,914	763,914	—
Current portion of long-term obligations	4,182,125	2,244,037	6,426,162	2,289,737
Other current liabilities	568,810	396,303	965,113	2,872,686
Total current liabilities	44,863,013	4,615,964	49,478,977	10,969,111
Noncurrent liabilities:				
Benefits payable	—	—	—	—
Loans payable	—	8,585,318	8,585,318	—
Lottery prizes and annuities	—	707,781	707,781	—
Compensated absences payable	4,115,601	189,208	4,304,809	249,007
Certificates of participation, commercial paper and other borrowings	530,499	77,220	607,719	63,170
Capital lease obligations	4,919,996	847,352	5,767,348	2,743,813
General obligation bonds payable	79,305,707	825,868	80,131,575	—
Revenue bonds payable	7,580,922	24,079,026	31,659,948	17,249,244
Net other postemployment benefits obligation	15,559,232	510,229	16,069,461	7,719,066
Pollution remediation obligation	973,957	15,107	989,064	66,523
Revenues received in advance	—	11,439	11,439	—
Other noncurrent liabilities	15,066,215	433,261	15,499,476	5,493,392
Total noncurrent liabilities	128,052,129	36,281,809	164,333,938	33,584,215
Total liabilities	**172,915,142**	**40,897,773**	**213,812,915**	**44,553,326**
DEFERRED INFLOWS OF RESOURCES	**158,942**	**471,436**	**630,378**	**34,056**
Total liabilities and deferred inflows of resources	**$ 173,074,084**	**$ 41,369,209**	**$ 214,443,293**	**$ 44,587,382**

(continued)

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

Statement of Net Position (continued)

June 30, 2013

(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
NET POSITION				
Net investment in capital assets	$ 84,931,030	$ 1,718,648	$ 86,649,678	$ 12,477,905
Restricted:				
Nonexpendable – endowments	—	20,627	20,627	4,784,010
Expendable:				
Endowments and gifts	—	—	—	8,156,534
Business and transportation	10,085,253	6,663	10,091,916	—
Resources	5,737,364	788,558	6,525,922	—
Health and human services	2,850,447	150,776	3,001,223	—
Education	917,534	68,520	986,054	1,723,537
General government	3,913,748	658,461	4,572,209	—
Unemployment programs	—	3,433,770	3,433,770	—
State and consumer services	808,465	31,011	839,476	—
Correctional programs	3,102	14,156	17,258	—
Indenture	—	—	—	347,318
Statute	—	—	—	1,348,884
Other purposes	—	—	—	21,814
Total expendable	24,315,913	5,151,915	29,467,828	11,598,087
Unrestricted	(117,383,903)	(2,824,738)	(120,208,641)	(1,566,596)
Total net position (deficit)	**(8,136,960)**	**4,066,452**	**(4,070,508)**	**27,293,406**
Total liabilities, deferred inflows of resources, and net position	**$ 164,937,124**	**$ 45,435,661**	**$ 210,372,785**	**$ 71,880,788**

(concluded)

This page intentionally left blank.

Statement of Activities

Year Ended June 30, 2013

(amounts in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position – Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units
Primary government								
Governmental activities:								
General government	$ 15,390,100	$ 6,196,586	$ 1,026,673	$ —	$ (8,166,841)		$ (8,166,841)	
Education	50,586,387	64,480	6,587,898	—	(43,934,009)		(43,934,009)	
Health and human services	94,069,749	8,761,781	50,490,448	—	(34,817,520)		(34,817,520)	
Resources	5,670,922	3,269,315	387,861	—	(2,013,746)		(2,013,746)	
State and consumer services	1,475,486	682,503	35,515	—	(757,468)		(757,468)	
Business and transportation	12,836,192	4,082,616	2,331,983	1,669,021	(4,752,572)		(4,752,572)	
Correctional programs	10,081,736	45,153	83,158	—	(9,953,425)		(9,953,425)	
Interest on long-term debt	4,349,632	—	—	—	(4,349,632)		(4,349,632)	
Total governmental activities	194,460,204	23,102,434	60,943,536	1,669,021	(108,745,213)		(108,745,213)	
Business-type activities:								
Electric Power	488,000	488,000	—	—		$ —	—	
Water Resources	1,127,195	1,127,195	—	—		—	—	
Public Buildings Construction	410,404	616,041	—	—		205,637	205,637	
State Lottery	4,499,451	4,445,921	—	—		(53,530)	(53,530)	
Unemployment Programs	17,599,219	18,597,962	—	—		998,743	998,743	
California State University	6,196,541	2,891,432	1,323,345	481		(1,981,283)	(1,981,283)	
High Technology Education	6,568	5,585	—	—		(983)	(983)	
State Water Pollution Control Revolving	3,698	60,173	—	141,823		198,298	198,298	
Housing Loan	70,356	66,050	—	—		(4,306)	(4,306)	
Other enterprise programs	58,578	80,540	—	—		21,962	21,962	
Total business-type activities	30,460,010	28,378,899	1,323,345	142,304		(615,462)	(615,462)	
Total primary government	**$ 224,920,214**	**$ 51,481,333**	**$ 62,266,881**	**$ 1,811,325**	**(108,745,213)**	**(615,462)**	**(109,360,675)**	
Component Units								
University of California	$ 27,630,059	$ 15,325,540	$ 7,655,258	$ 256,670				$ (4,392,591)
California Housing Finance Agency	432,710	39,976	38,624	—				(354,110)
Nonmajor component units	1,938,919	1,022,680	546,344	17,350				(352,545)
Total component units	**$ 30,001,688**	**$ 16,388,196**	**$ 8,240,226**	**$ 274,020**				**(5,099,246)**
General revenues:								
Personal income taxes					67,502,738	—	67,502,738	—
Sales and use taxes					33,839,065	—	33,839,065	—
Corporation taxes					7,289,910	—	7,289,910	—
Motor vehicle excise tax					5,219,605	—	5,219,605	—
Insurance taxes					2,295,579	—	2,295,579	—
Other taxes					2,498,248	—	2,498,248	—
Investment and interest (loss)					57,285	—	57,285	2,115,480
Escheat					551,580	—	551,580	—
Other					—	—	—	2,806,319
Transfers					(1,997,759)	1,997,759	—	—
Total general revenues and transfers					**117,256,251**	**1,997,759**	**119,254,010**	**4,921,799**
Change in net position					8,511,038	1,382,297	9,893,335	(177,447)
Net position – beginning					(16,647,998) *	2,684,155 *	**(13,963,843)** *	**27,470,853** *
Net position (deficit) – ending					**$ (8,136,960)**	**$ 4,066,452**	**$ (4,070,508)**	**$ 27,293,406**

* Restated

This page intentionally left blank.

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

Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2013
(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
ASSETS						
Cash and pooled investments	$ 847,892	$ 273,649	$ 2,874,361	$ 5,795,662	$ 10,028,511	$ 19,820,075
Investments	—	—	—	—	645,053	645,053
Receivables (net)	12,650,495	950	1,060,292	505,457	2,296,978	16,514,172
Due from other funds	764,705	—	1,165,809	437,182	1,385,006	3,752,702
Due from other governments	1,151,555	11,805,801	78,522	56,924	461,258	13,554,060
Interfund receivables	53,767	—	3,610,076	535,477	1,668,970	5,868,290
Loans receivable	165,643	186,236	—	1,023,710	2,457,392	3,832,981
Other assets	11,538	96,907	86,567	—	6,624	201,636
Total assets	**15,645,595**	**12,363,543**	**8,875,627**	**8,354,412**	**18,949,792**	**64,188,969**
DEFERRED OUTFLOWS OF RESOURCES	—	—	—	—	—	—
Total assets and deferred outflows of resources	**$ 15,645,595**	**$ 12,363,543**	**$ 8,875,627**	**$ 8,354,412**	**$ 18,949,792**	**$ 64,188,969**
LIABILITIES						
Accounts payable	$ 1,657,644	$ 1,229,107	$ 416,912	$ 328,034	$ 985,702	$ 4,617,399
Due to other funds	11,661,164	8,338,802	167,876	16,766	2,103,637	22,288,245
Due to component units	169,215	—	909	2,011	36,988	209,123
Due to other governments	703,684	2,498,737	450,840	26,668	3,040,211	6,720,140
Interfund payables	6,435,046	—	2,648	10,979	6,117	6,454,790
Revenues received in advance	717,370	76,533	60,155	143,835	89,586	1,087,479
Tax overpayments	5,780,193	—	—	—	—	5,780,193
Deposits	2,194	—	4,518	325	374,578	381,615
Interest payable	—	4,123	—	—	126,633	130,756
Unclaimed property liability	853,438	—	—	—	—	853,438
General obligation bonds payable	—	—	—	—	500,470	500,470
Other liabilities	550,494	18,288	284,387	7,918	156,323	1,017,410
Total liabilities	**28,530,442**	**12,165,590**	**1,388,245**	**536,536**	**7,420,245**	**50,041,058**
DEFERRED INFLOWS OF RESOURCES	**1,369,609**	—	**256,685**	—	**272,641**	**1,898,935**
Total liabilities and deferred inflows of resources	**29,900,051**	**12,165,590**	**1,644,930**	**536,536**	**7,692,886**	**51,939,993**
FUND BALANCES						
Nonspendable	140,107	—	—	—	15,022	155,129
Restricted	178,643	197,953	7,190,847	6,962,098	9,786,372	24,315,913
Committed	22,879	—	49,410	863,648	1,404,977	2,340,914
Assigned	—	—	—	—	209,171	209,171
Unassigned	(14,596,085)	—	(9,560)	(7,870)	(158,636)	(14,772,151)
Total fund balances (deficit)	**(14,254,456)**	**197,953**	**7,230,697**	**7,817,876**	**11,256,906**	**12,248,976**
Total liabilities, deferred inflows of resources, and fund balances	**$ 15,645,595**	**$ 12,363,543**	**$ 8,875,627**	**$ 8,354,412**	**$ 18,949,792**	**$ 64,188,969**

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

(amounts in thousands)

Total fund balances – governmental funds			**$ 12,248,976**
Amounts reported for governmental activities in the Statement of Net Position are different from those in the Governmental Funds Balance Sheet because:			
• The following capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:			
Land	17,599,743		
State highway infrastructure	64,619,437		
Collections – nondepreciable	22,645		
Buildings and other depreciable property	24,979,827		
Intangible assets – amortizable	927,119		
Less: accumulated depreciation/amortization	(10,636,790)		
Construction in progress	9,904,097		
Intangible assets – nonamortizable	1,054,970		
			108,471,048
• State revenues that will be collected after year end, but are not available soon enough to pay for the current period expenditures and therefore are considered deferred inflows of resources in the funds.			1,898,935
• Internal service funds are used by management to charge the costs of certain activities, such as architectural, procurement, and technology services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.			252,264
• Bond discounts and premiums are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Position.			(2,786,776)
• Deferred inflows and outflows of resources resulting from bond refunding gains and losses, respectively, are amortized over the life of the bonds are not reported in the funds.			825,043
• General obligation bonds and related accrued interest totaling $80,222,803, revenue bonds totaling $7,591,779, and certificates of participation and commercial paper totaling $538,593 are not due and payable in the current period and, therefore, are not reported in the funds.			(88,353,175)
• The following liabilities are not due and payable in the current period; therefore, adjustments to these liabilities are not reported in the funds:			
Compensated absences	(3,956,714)		
Capital leases	(5,319,487)		
Net other postemployment benefits obligation	(15,193,946)		
Mandated costs	(6,696,590)		
Workers' compensation	(3,059,052)		
Proposition 98 funding guarantee	(1,914,064)		
Net pension obligation	(3,278,775)		
Pollution remediation obligations	(1,009,216)		
Other noncurrent liabilities	(265,431)		
			(40,693,275)
Net position of governmental activities			**$ (8,136,960)**

This page intentionally left blank.

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2013
(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
REVENUES						
Personal income taxes	$ 66,220,132	$ —	$ —	$ —	$ 1,204,444	$ 67,424,576
Sales and use taxes	20,429,772	—	640,106	—	12,800,083	33,869,961
Corporation taxes	7,261,910	—	—	—	—	7,261,910
Motor vehicle excise taxes	—	—	5,219,605	—	—	5,219,605
Insurance taxes	2,262,567	—	—	—	33,012	2,295,579
Other taxes	691,790	—	5,277	160,135	1,567,982	2,425,184
Intergovernmental	—	62,612,526	—	—	1,806,282	64,418,808
Licenses and permits	15,063	—	3,887,067	362,343	2,394,605	6,659,078
Charges for services	259,560	—	126,207	110,142	245,292	741,201
Fees	631,376	—	18,670	2,368,994	6,519,913	9,538,953
Penalties	151,782	30	50,227	30,763	901,349	1,134,151
Investment and interest	29,624	—	9,936	48,212	48,156	135,928
Escheat	551,580	—	—	—	—	551,580
Other	873,997	—	71,048	415,107	1,867,195	3,227,347
Total revenues	**99,379,153**	**62,612,556**	**10,028,143**	**3,495,696**	**29,388,313**	**204,903,861**
EXPENDITURES						
Current:						
General government	5,179,368	1,040,178	216,304	83,985	9,228,234	15,748,069
Education	41,556,256	6,587,056	2,407	6,628	1,540,416	49,692,763
Health and human services	28,164,652	49,667,993	2,708	72,696	16,713,581	94,621,630
Resources	1,144,918	364,516	234,150	3,360,639	214,109	5,318,332
State and consumer services	657,983	35,432	97,866	59,907	408,204	1,259,392
Business and transportation	5,978	3,895,122	10,708,313	7,395	391,863	15,008,671
Correctional programs	8,301,061	80,362	—	—	1,299,663	9,681,086
Capital outlay	710,440	—	314	223,610	287,978	1,222,342
Debt service:						
Bond and commercial paper retirement	1,297,473	70,990	265,085	245,228	3,310,374	5,189,150
Interest and fiscal charges	3,096,851	13,306	7,756	23,913	1,221,434	4,363,260
Total expenditures	**90,114,980**	**61,754,955**	**11,534,903**	**4,084,001**	**34,615,856**	**202,104,695**
Excess (deficiency) of revenues over (under) expenditures	9,264,173	857,601	(1,506,760)	(588,305)	(5,227,543)	2,799,166
OTHER FINANCING SOURCES (USES)						
General obligation bonds and commerical paper issued	—	—	2,539,270	46,740	1,452,085	4,038,095
Refunding debt issued	—	—	318,385	563,970	3,524,010	4,406,365
Payment to refund long-term debt	—	—	(101,880)	(405,160)	(2,440,605)	(2,947,645)
Premium on bonds issued	379,293	—	48,499	78,964	457,455	964,211
Remarketing bonds issued	—	—	—	—	228,000	228,000
Payment to remarketing agent	—	—	—	—	(226,968)	(226,968)
Capital leases	710,440	—	—	—	—	710,440
Transfers in	1,011,257	—	3,995	187,423	1,755,087	2,957,762
Transfers out	(2,890,451)	(820,967)	(797,402)	(31,984)	(357,950)	(4,898,754)
Total other financing sources (uses)	**(789,461)**	**(820,967)**	**2,010,867**	**439,953**	**4,391,114**	**5,231,506**
Net change in fund balances	8,474,712	36,634	504,107	(148,352)	(836,429)	8,030,672
Fund balances (deficit) – beginning	**(22,729,168)** *	**161,319**	**6,726,590**	**7,966,228** *	**12,093,335** *	**4,218,304** *
Fund balances (deficit) – ending	**$ (14,254,456)**	**$ 197,953**	**$ 7,230,697**	**$ 7,817,876**	**$ 11,256,906**	**$ 12,248,976**

* Restated

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

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

(amounts in thousands)

Net change in fund balances – total governmental funds		**$ 8,030,672**
Amounts reported for governmental activities in the Statement of Activities are different from those in the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds because:		
• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current year, these amounts are:		
Depreciation expense, net of asset disposal	(360,351)	
Disposal of assets	(2,159,283)	
Purchase of assets	6,406,086	
		3,886,452
• Some revenues in the Statement of Activities do not provide current financial resources, and therefore, are unavailable in governmental funds. Revenues related to prior periods that became available during the current period are reported in the governmental funds. This amount is the net adjustment.		65,143
• Internal service funds are used by management to charge the costs of certain activities, such as architectural, procurement, and technology services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.		(252,219)
• Bonds and other noncurrent financing instruments provide current financial resources to governmental funds in the form of debt, which increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. The following amounts represent the difference between proceeds and repayments:		
General obligation bonds	(1,001,934)	
Revenue bonds	237,312	
Certificates of participation and commercial paper	(492,315)	
		(1,256,937)
• The following expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Compensated absences	(294,632)	
Capital leases	(383,286)	
Net other postemployment benefits obligation	(3,010,788)	
Mandated costs	(362,729)	
Workers' compensation	(237,549)	
Loans payable	2,032,275	
Proposition 98 funding guarantee	333,612	
Net pension obligation	(97,172)	
Pollution remediation obligations	33,831	
Other noncurrent liabilities	24,365	
		(1,962,073)
Change in net position of governmental activities		**$ 8,511,038**

This page intentionally left blank.

Statement of Net Position

Proprietary Funds

June 30, 2013

(amounts in thousands)

	Business-type Activities – Enterprise Funds								Governmental Activities
	Electric Power	Water Resources	Public Buildings Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
ASSETS									
Current assets:									
Cash and pooled investments	$ —	$ 544,738	$ —	$ 342,925	$ 3,135,982	$ 533,042	$ 812,288	$ 5,368,975	$ 941,011
Amount on deposit with U.S. Treasury	—	—	—	—	39,963	—	—	39,963	—
Investments	—	—	—	133,867	—	2,101,965	—	2,235,832	—
Restricted assets:									
Cash and pooled investments	764,000	—	2,400,778	—	—	—	34,571	3,199,349	—
Due from other governments	—	—	—	—	—	—	20,448	20,448	—
Net investment in direct financing leases	—	—	443,707	—	—	10,992	19,306	474,005	—
Receivables (net)	—	92,373	197,801	362,744	1,275,655	161,990	46,115	2,136,678	45,665
Due from other funds	4,000	899	30,134	277	22,416	436	2,332	60,494	310,889
Due from other governments	—	20,227	—	—	137,425	—	204,361	362,013	7,964
Prepaid items	—	—	—	5,768	5,223	39,945	1	50,937	109,692
Inventories	—	7,413	—	7,863	—	—	2,699	17,975	84,910
Recoverable power costs (net)	111,000	—	—	—	—	—	—	111,000	—
Other current assets	14,000	—	—	—	—	—	—	14,000	—
Total current assets	893,000	665,650	3,072,420	853,444	4,616,664	2,848,370	1,142,121	14,091,669	1,500,131
Noncurrent assets:									
Restricted assets:									
Cash and pooled investments	637,000	76,825	328,122	—	—	39	—	1,041,986	—
Investments	300,000	74,001	21,738	—	—	—	10,662	406,401	—
Loans receivable	—	—	—	—	—	—	325,930	325,930	—
Investments	—	—	—	828,347	—	417,729	22,701	1,268,777	—
Net investment in direct financing leases	—	—	7,148,043	—	—	371,361	—	7,519,404	—
Receivables	—	—	—	—	30,476	272,644	—	303,120	—
Interfund receivables	—	91,517	—	—	611,690	—	5,600	708,807	16,975
Loans receivable	—	16,468	—	—	—	87,171	3,661,635	3,765,274	—
Recoverable power costs (net)	5,083,000	—	—	—	—	—	—	5,083,000	—
Long-term prepaid charges	—	897,370	10,912	19,413	—	—	2,371	930,066	—
Capital assets:									
Land	—	136,797	—	6,469	—	72,350	1,272	216,888	2,312
Collections – nondepreciable	—	—	—	—	—	6,051	—	6,051	—
Buildings and other depreciable property	—	4,880,380	—	142,820	17,726	6,205,510	17,975	11,264,411	633,822
Intangible assets – amortizable	—	36,768	—	—	12,279	123,648	1,350	174,045	59,065
Less: accumulated depreciation/amortization	—	(2,366,429)	—	(67,038)	(9,052)	(2,233,612)	(16,928)	(4,693,059)	(528,772)
Construction in progress	—	498,350	1,701,212	—	—	387,569	—	2,587,131	1,233
Intangible assets – nonamortizable	—	142,099	—	—	255,008	6,691	181	403,979	29,358
Other noncurrent assets	—	—	—	—	—	17,329	15,501	32,830	—
Total noncurrent assets	6,020,000	4,484,146	9,210,027	930,011	918,127	5,734,480	4,048,250	31,345,041	213,993
Total assets	**6,913,000**	**5,149,796**	**12,282,447**	**1,783,455**	**5,534,791**	**8,582,850**	**5,190,371**	**45,436,710**	**1,714,124**
DEFERRED OUTFLOWS OF RESOURCES	**106,000**	**124,591**	**213,937**	**—**	**—**	**32,020**	**3,760**	**480,308**	**—**
Total assets and deferred outflows of resources	**$ 7,019,000**	**$ 5,274,387**	**$ 12,496,384**	**$ 1,783,455**	**$ 5,534,791**	**$ 8,614,870**	**$ 5,194,131**	**$ 45,917,018**	**$ 1,714,124**

(continued)

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

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

Statement of Net Position (continued)

Proprietary Funds

June 30, 2013

(amounts in thousands)

	Business-type Activities – Enterprise Funds								Governmental Activities
	Electric Power	Water Resources	Public Buildings Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
LIABILITIES									
Current liabilities:									
Accounts payable	$ 9,000	$ 106,490	$ 200,200	$ 60,505	$ 7,200	$ 169,394	$ 4,120	$ 556,909	$ 264,732
Due to other funds	—	49,172	19,421	375,155	35,056	—	2,934	481,738	107,471
Due to component units	—	—	—	—	—	—	—	—	2
Due to other governments	—	98,753	11,782	—	50,313	—	60	160,908	1,280
Revenues received in advance	—	—	5,790	3,141	39,060	244,712	42	292,745	331,582
Deposits	—	—	—	—	—	—	—	—	761
Contracts and notes payable	—	—	—	—	—	—	—	—	10,715
Interest payable	52,000	13,741	122,314	—	—	—	12,712	200,767	—
Benefits payable	—	—	—	—	763,914	—	—	763,914	—
Current portion of long-term obligations	702,000	192,872	534,853	491,123	—	284,978	38,211	2,244,037	17,985
Other current liabilities	2,000	—	—	—	44,718	349,569	16	396,303	9,113
Total current liabilities	765,000	461,028	894,360	929,924	940,261	1,048,653	58,095	5,097,321	743,641
Noncurrent liabilities:									
Interfund payables	—	—	—	—	—	—	—	—	139,282
Loans payable	—	—	—	—	8,585,318	—	—	8,585,318	—
Lottery prizes and annuities	—	—	—	707,781	—	—	—	707,781	—
Compensated absences payable	487	33,305	—	7,816	55,296	89,528	2,776	189,208	162,900
Certificates of participation, commercial paper, and other borrowings	—	50,505	—	—	—	26,715	—	77,220	—
Capital lease obligations	—	—	—	—	—	847,352	—	847,352	—
General obligation bonds payable	—	241,835	—	—	—	—	584,033	825,868	—
Revenue bonds payable	6,249,000	2,479,684	11,221,620	—	—	3,649,307	479,415	24,079,026	—
Net other postemployment benefits obligation	4,513	140,470	—	33,788	105,661	219,018	6,779	510,229	365,286
Pollution remediation obligations	—	15,107	—	—	—	—	—	15,107	—
Revenues received in advance	—	—	—	—	—	11,439	—	11,439	—
Other noncurrent liabilities	—	175,589	—	2,078	—	180,234	75,360	433,261	50,751
Total noncurrent liabilities	6,254,000	3,136,495	11,221,620	751,463	8,746,275	5,023,593	1,148,363	36,281,809	718,219
Total liabilities	**7,019,000**	**3,597,523**	**12,115,980**	**1,681,387**	**9,686,536**	**6,072,246**	**1,206,458**	**41,379,130**	**1,461,860**
DEFERRED INFLOWS OF RESOURCES	—	471,436	—	—	—	—	—	471,436	—
Total liabilities and deferred inflows of resources	**$ 7,019,000**	**$ 4,068,959**	**$ 12,115,980**	**$ 1,681,387**	**$ 9,686,536**	**$ 6,072,246**	**$ 1,206,458**	**$ 41,850,566**	**$ 1,461,860**

(continued)

Statement of Net Position (continued)

Proprietary Funds

June 30, 2013

(amounts in thousands)

			Business-type Activities – Enterprise Funds						Governmental Activities
	Electric Power	**Water Resources**	**Public Buildings Construction**	**State Lottery**	**Unemployment Programs**	**California State University**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
NET POSITION									
Investment in capital assets	$ —	$ 785,460	$ —	$ 82,252	$ 275,960	$ 572,160	$ 2,816	$ 1,718,648	$ 127,459
Restricted:									
Nonexpendable – endowments	—	—	—	—	—	20,627	—	20,627	—
Expendable:									
Construction	—	419,968	373,608	—	—	20,567	—	814,143	—
Debt service	—	—	6,796	—	—	3,819	190,146	200,761	—
Security for revenue bonds	—	—	—	—	—	—	346,377	346,377	—
Lottery	—	—	—	102,068	—	—	—	102,068	—
Unemployment programs	—	—	—	—	3,433,769	—	—	3,433,769	—
Other purposes	—	—	—	—	—	44,134	210,662	254,796	—
Total expendable	—	419,968	380,404	102,068	3,433,769	68,520	747,185	5,151,914	—
Unrestricted	—	—	—	(82,252)	(7,861,474)	1,881,317	3,237,672	(2,824,737)	124,805
Total net position (deficit)	**—**	**1,205,428**	**380,404**	**102,068**	**(4,151,745)**	**2,542,624**	**3,987,673**	**4,066,452**	**252,264**
Total liabilities, deferred inflows of resources, and net position	**$ 7,019,000**	**$ 5,274,387**	**$ 12,496,384**	**$ 1,783,455**	**$ 5,534,791**	**$ 8,614,870**	**$ 5,194,131**	**$ 45,917,018**	**$ 1,714,124**

(concluded)

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

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

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds

Year Ended June 30, 2013

(amounts in thousands)

	Electric Power	Water Resources	Public Buildings Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
			Business-type Activities – Enterprise Funds						Governmental Activities
OPERATING REVENUES									
Unemployment and disability insurance	$ —	$ —	$ —	$ —	$ 18,590,498	$ —	$ —	$ 18,590,498	$ —
Lottery ticket sales	—	—	—	4,445,873	—	—	—	4,445,873	—
Power sales	(402,000)	146,277	—	—	—	—	—	(255,723)	—
Student tuition and fees	—	—	—	—	—	2,081,251	—	2,081,251	—
Services and sales	—	980,918	—	—	—	437,981	92,695	1,511,594	2,327,546
Investment and interest	—	—	1,628	—	—	—	108,593	110,221	—
Rent	—	—	468,618	—	—	—	7,241	475,859	—
Grants and contracts	—	—	—	—	—	91,361	—	91,361	—
Other	—	—	145,795	—	—	187,155	2,139	335,089	—
Total operating revenues	**(402,000)**	**1,127,195**	**616,041**	**4,445,873**	**18,590,498**	**2,797,748**	**210,668**	**27,386,023**	**2,327,546**
OPERATING EXPENSES									
Lottery prizes	—	—	—	2,652,095	—	—	—	2,652,095	—
Power purchases (net of recoverable power costs)	(426,000)	258,899	—	—	—	—	—	(167,101)	—
Personal services	—	273,393	—	56,781	188,418	3,837,959	13,980	4,370,531	863,255
Supplies	—	—	—	13,581	63	1,089,908	—	1,103,552	10,411
Services and charges	18,000	290,345	13,479	456,647	85,773	—	63,847	928,091	1,599,644
Depreciation	—	85,236	—	5,980	1,636	249,917	551	343,320	49,162
Scholarships and fellowships	—	—	—	—	—	826,933	—	826,933	—
Distributions to beneficiaries	—	—	—	—	17,323,329	—	—	17,323,329	—
Interest expense	—	—	395,073	—	—	—	54,192	449,265	—
Amortization (recovery) of long-term prepaid charges	—	—	1,852	—	—	—	255	2,107	—
Other	—	—	—	—	—	—	871	871	—
Total operating expenses	**(408,000)**	**907,873**	**410,404**	**3,185,084**	**17,599,219**	**6,004,717**	**133,696**	**27,832,993**	**2,522,472**
Operating income (loss)	6,000	219,322	205,637	1,260,789	991,279	(3,206,969)	76,972	(446,970)	(194,926)
NONOPERATING REVENUES (EXPENSES)									
Donations and grants	—	—	—	—	—	1,323,345	—	1,323,345	—
Private gifts	—	—	—	—	—	47,861	—	47,861	—
Investment and interest income	890,000	—	—	—	7,464	41,522	1,661	940,647	765
Interest expense and fiscal charges	(896,000)	(53,492)	—	(52,309)	—	(191,824)	(533)	(1,194,158)	(394)
Lottery payments for education	—	—	—	(1,262,058)	—	—	—	(1,262,058)	—
Other	—	(165,830)	—	48	—	4,301	(4,952)	(166,433)	(897)
Total nonoperating revenues (expenses)	**(6,000)**	**(219,322)**	**—**	**(1,314,319)**	**7,464**	**1,225,205**	**(3,824)**	**(310,796)**	**(526)**
Income (loss) before capital contributions and transfers	—	—	205,637	(53,530)	998,743	(1,981,764)	73,148	(757,766)	(195,452)
Capital contributions	—	—	—	—	—	481	141,823	142,304	—
Transfers in	—	—	202	—	—	2,034,055	—	2,034,257	4,730
Transfers out	—	—	(8,172)	—	—	(16,540)	(11,786)	(36,498)	(61,497)
Change in net position	—	—	197,667	(53,530)	998,743	36,232	203,185	1,382,297	(252,219)
Total net position (deficit) – beginning	**—**	**1,205,428**	**182,737** *	**155,598**	**(5,150,488)**	**2,506,392** *	**3,784,488** *	**2,684,155** *	**504,483**
Total net position (deficit) – ending	**$ —**	**$ 1,205,428**	**$ 380,404**	**$ 102,068**	**$ (4,151,745)**	**$ 2,542,624**	**$ 3,987,673**	**$ 4,066,452**	**$ 252,264**

* Restated

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

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

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2013

(amounts in thousands)

	Business-type Activities – Enterprise Funds								Governmental Activities
	Electric Power	Water Resources	Public Buildings Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers/employers	$ (371,000)	$ 1,088,771	$ 844,190	$ 4,407,307	$ 18,343,035	$ 2,495,410	$ 367,013	$ 27,174,726	$ 2,487,452
Receipts from interfund services provided	—	—	—	—	4,723	—	418	5,141	40,781
Payments to suppliers	(73,000)	(438,273)	(3,894)	(185,080)	(78,639)	(1,089,009)	(67,487)	(1,935,382)	(1,489,656)
Payments to employees	(6,000)	(273,393)	—	(43,282)	(157,691)	(3,782,921)	(10,993)	(4,274,280)	(769,523)
Payments for interfund services used	—	—	—	(18,752)	(9,613)	(1,124)	(519)	(30,008)	(203,270)
Payments for Lottery prizes	—	—	—	(2,929,425)	—	—	—	(2,929,425)	—
Claims paid to other than employees	—	—	—	(302,965)	(17,285,755)	—	—	(17,588,720)	—
Other receipts (payments)	21,000	2,709	(256,203)	142,755	53,598	(600,141)	(27,430)	(663,712)	(11,631)
Net cash provided by (used in) operating activities	**(429,000)**	**379,814**	**584,093**	**1,070,558**	**869,658**	**(2,977,785)**	**261,002**	**(241,660)**	**54,153**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Changes in interfund payables and loans payable	—	—	—	—	(691,850)	(422)	5	(692,267)	(612)
Receipts of bond charges	869,000	—	—	—	—	—	—	869,000	—
Retirement of general obligation bonds	—	—	—	—	—	—	(286,894)	(286,894)	—
Retirement of revenue bonds	(574,000)	—	—	—	—	—	(78,755)	(652,755)	—
Interest paid on operating debt	(341,000)	—	—	—	—	—	—	(341,000)	(3)
Transfers in	—	—	202	—	—	1,986,671	—	1,986,873	4,730
Transfers out	—	—	(8,172)	—	—	—	(15,987)	(24,159)	(61,497)
Grants received / (provided)	—	—	—	—	—	1,491,288	—	1,491,288	—
Lottery payments for education	—	—	—	(1,187,366)	—	—	—	(1,187,366)	—
Net cash provided by (used in) noncapital financing activities	**(46,000)**	**—**	**(7,970)**	**(1,187,366)**	**(691,850)**	**3,477,537**	**(381,631)**	**1,162,720**	**(57,382)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Changes in interfund payables and loans payable	—	—	—	—	—	—	189	189	—
Acquisition of capital assets	—	(200,249)	(1,370,049)	(3,102)	(52,889)	(416,056)	(692)	(2,043,037)	(60,928)
Proceeds from sale of capital assets	—	—	—	4	—	236	47	287	1,349
Proceeds from notes payable and commercial paper	—	121,961	—	—	—	19,585	—	141,546	—
Principal paid on notes payable and commercial paper	—	(100,239)	—	—	—	—	—	(100,239)	(10,912)
Proceeds from capital leases	—	—	—	—	—	22,601	—	22,601	—
Payment on capital debt and leases	—	—	—	—	—	(370,200)	—	(370,200)	—
Retirement of general obligation bonds	—	(59,455)	—	—	—	—	—	(59,455)	—
Proceeds from revenue bonds	—	899,887	1,274,119	—	—	564,631	—	2,738,637	—
Retirement of revenue bonds	—	(756,280)	(554,985)	—	—	(313,843)	—	(1,625,108)	—
Interest paid	—	(160,668)	—	—	—	—	—	(160,668)	(392)
Grants received	—	—	—	—	—	21,380	216,705	238,085	—
Net cash provided by (used in) capital and related financing activities	**—**	**(255,043)**	**(650,915)**	**(3,098)**	**(52,889)**	**(471,666)**	**216,249**	**(1,217,362)**	**(70,883)**
CASH FLOWS FROM INVESTING ACTIVITIES									
Purchase of investments	—	(302,608)	—	(119,590)	—	(12,283,345)	—	(12,705,543)	—
Proceeds from maturity and sale of investments	—	302,608	—	275,316	17,101	12,178,674	6,559	12,780,258	—
Change in interfund receivables and loans receivable	—	2,674	—	93,928	901,244	121,176	33,400	1,152,422	281,065
Earnings (loss) on investments	11,000	8,468	—	23,800	7,464	43,148	1,709	95,589	823
Net cash provided by (used in) investing activities	**11,000**	**11,142**	**—**	**273,454**	**925,809**	**59,653**	**41,668**	**1,322,726**	**281,888**
Net increase (decrease) in cash and pooled investments	(464,000)	135,913	(74,792)	153,548	1,050,728	87,739	137,288	1,026,424	207,776
Cash and pooled investments – beginning	**1,865,000**	**485,650**	**2,803,692**	**189,377**	**2,085,254**	**445,342**	**709,571**	**8,583,886**	**733,235**
Cash and pooled investments – ending	**$ 1,401,000**	**$ 621,563**	**$ 2,728,900**	**$ 342,925**	**$ 3,135,982**	**$ 533,081**	**$ 846,859**	**$ 9,610,310**	**$ 941,011**

(continued)

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2013

(amounts in thousands)

			Business-type Activities – Enterprise Funds						Governmental Activities
	Electric Power	Water Resources	Public Buildings Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES									
Operating income (loss)	$ 6,000	$ 219,322	$ 205,637	$ 1,260,789	$ 991,279	$ (3,206,969)	$ 76,972	$ (446,970)	$ (194,926)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:									
Interest expense on operating debt	—	—	—	—	—	—	—	—	(114)
Depreciation	—	85,236	—	5,980	1,636	249,917	551	343,320	49,162
Provisions and allowances	—	—	—	(11,426)	—	—	—	(11,426)	—
Accretion of capital appreciation bonds	—	—	—	—	—	—	3,936	3,936	—
Amortization of premiums and discounts	—	—	(28,468)	—	—	—	47	(28,421)	—
Amortization of long-term prepaid charges	—	9,362	22,679	—	—	—	4,359	36,400	—
Other	—	2,709	1,523	99	—	—	(6,874)	(2,543)	—
Change in assets and liabilities:									
Receivables	—	18,274	—	(48,165)	23,262	(58,027)	1,699	(62,957)	88,163
Due from other funds	—	—	(23,295)	—	14,469	(1,124)	5,865	(4,085)	(124,743)
Due from other governments	—	(4,440)	—	—	81,942	—	1,036	78,538	1,120
Prepaid items	—	—	—	(18,356)	—	(68,303)	11	(86,648)	(6,909)
Inventories	—	22,240	—	84	—	—	593	22,917	6,454
Net investment in direct financing leases	—	—	399,823	—	—	—	19,342	419,165	—
Recoverable power costs (net)	(421,000)	—	—	—	—	—	—	(421,000)	—
Other current assets	35,000	—	—	—	180	—	4,201	39,381	43
Loans receivable	—	—	—	—	—	—	184,463	184,463	—
Other noncurrent assets	—	—	—	(3,553)	—	—	—	(3,553)	—
Accounts payable	(49,000)	55,258	175	17,699	7,197	11,654	(2,070)	40,913	108,193
Due to other funds	—	15,148	(361)	(5,671)	6,350	—	(2,453)	13,013	(23,771)
Due to component units	—	—	—	—	—	—	—	—	(1,032)
Due to other governments	—	(43,295)	(323)	—	1,501	—	(302)	(42,419)	1,218
Deposits	—	—	—	—	—	762	(71)	691	(6,922)
Interest payable	—	—	6,690	—	—	—	(100)	6,590	296
Other current liabilities	—	—	—	580	(55,734)	59,198	(7,574)	(3,530)	5,566
Interfund payables	—	—	—	—	—	—	—	—	(29)
Current portion of revenues received in advance	—	—	13	311	(270,725)	—	(9)	(270,410)	58,584
Benefits payable	—	—	—	—	37,574	5,505	82	43,161	36,187
Lottery prizes and annuities	—	—	—	(134,695)	—	—	—	(134,695)	—
Compensated absences payable	—	—	—	—	9,354	1,217	100	10,671	17,543
Long-term portion of revenue received in advance	—	—	—	—	—	(16,202)	(212)	(16,414)	—
Other noncurrent liabilities	—	—	—	6,882	21,373	44,587	(22,590)	50,252	40,070
Total adjustments	(435,000)	160,492	378,456	(190,231)	(121,621)	229,184	184,030	205,310	249,079
Net cash provided by (used in) operating activities	**$ (429,000)**	**$ 379,814**	**$ 584,093**	**$ 1,070,558**	**$ 869,658**	**$ (2,977,785)**	**$ 261,002**	**$ (241,660)**	**$ 54,153**
									(concluded)
Noncash investing, capital, and financing activities									
Interest accreted on annuitized prizes	$ —	$ —	$ —	$ 49,777	$ —	$ —	$ —	$ 49,777	$ —
Interest accreted on zero coupon bonds	—	—	—	16,035	—	—	—	16,035	—
Unclaimed Lottery prizes directly allocated to Education Fund	—	—	—	22,313	—	—	—	22,313	—
Unrealized gain (loss) on investment	—	—	—	(42,158)	—	—	—	(42,158)	—
Amortization of prepaid interest related to capital lease obligations	—	—	—	—	—	2,795	—	2,795	—
Contributed capital assets	—	—	—	—	—	19,015	—	19,015	—
Acquisition of capital assets through capital lease	—	—	—	—	—	1,390	—	1,390	—
Change in accrued capital assets purchases	—	—	—	—	—	(5,889)	—	(5,889)	—
Gifts in-kind	—	—	—	—	—	502	—	502	—
Amortization of loss on debt refundings	—	—	—	—	—	10,594	—	10,594	—
Amortization of bond premium and discount	—	36,885	—	—	—	(8,199)	—	28,686	—
Principal retirements of long-term debt on proceeds received from issuance of bonds	—	632,125	—	—	—	—	—	632,125	—
Other miscellaneous noncash transactions	—	—	—	—	—	5,259	—	5,259	15,144

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

Statement of Fiduciary Net Position

Fiduciary Funds and Similar Component Units

June 30, 2013
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment	Agency
ASSETS				
Cash and pooled investments	$ 99,345	$ 4,640,690	$ 21,193,406	$ 3,968,545
Investments, at fair value:				
Short-term	—	8,741,312	—	—
Equity securities	2,600,359	227,650,389	—	—
Debt securities	1,591,782	84,719,163	—	—
Real estate	165,882	51,196,862	—	—
Other	698,174	66,268,645	—	—
Securities lending collateral	—	40,497,424	—	—
Total investments	5,056,197	479,073,795	—	—
Receivables (net)	6,014	5,127,682	32,164	1,477,731
Due from other funds	2	482,303	—	18,271,064
Due from other governments	—	18,018	—	21,048
Prepaid items	—	—	—	12,033
Interfund receivables	—	—	—	—
Loans receivable	—	23,042	—	7,153
Other assets	210,418	949,551	—	87
Total assets	**5,371,976**	**490,315,081**	**21,225,570**	**23,757,661**
DEFERRED OUTFLOWS OF RESOURCES	—	—	—	—
Total assets and deferred outflows of resources	**5,371,976**	**490,315,081**	**21,225,570**	**$ 23,757,661**
LIABILITIES				
Accounts payable	6,372	2,597,584	382	$ 10,084,927
Due to other governments	—	79	13,088	11,702,335
Tax overpayments	—	—	—	684
Benefits payable	—	2,488,929	—	220,767
Revenues received in advance	—	—	—	18,501
Deposits	210,418	—	—	989,518
Securities lending obligations	—	40,272,852	—	—
Loans payable	—	937,494	—	—
Other liabilities	530	837,652	—	740,929
Total liabilities	**217,320**	**47,134,590**	**13,470**	**23,757,661**
DEFERRED INFLOWS OF RESOURCES	—	—	—	—
Total liabilities and deferred inflows of resources	**217,320**	**47,134,590**	**13,470**	**$ 23,757,661**
NET POSITION				
Held in trust for pension benefits, pool participants, and other purposes	**$ 5,154,656**	**$ 443,180,491**	**$ 21,212,100**	

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

Statement of Changes in Fiduciary Net Position

Fiduciary Funds and Similar Component Units

Year Ended June 30, 2013
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment
ADDITIONS			
Contributions:			
Employer	$ —	$ 13,025,787	$ —
Plan member	—	7,049,253	—
Total contributions	—	20,075,040	—
Investment income:			
Net appreciation (depreciation) in fair value of investments	288,283	44,767,618	—
Interest, dividends, and other investment income	165,302	10,666,103	64,143
Less: investment expense	(4,519)	(3,039,584)	—
Net investment income	449,066	52,394,137	64,143
Receipts from depositors	2,525,632	—	22,937,870
Other	—	22,988	—
Total additions	**2,974,698**	**72,492,165**	**23,002,013**
DEDUCTIONS			
Distributions paid and payable to participants	—	28,743,752	62,497
Refunds of contributions	—	430,234	—
Administrative expense	1	587,692	1,646
Interest expense	—	187,084	—
Payments to and for depositors	2,485,162	673,609	23,609,233
Total deductions	**2,485,163**	**30,622,371**	**23,673,376**
Change in net position	489,535	41,869,794	(671,363)
Net position – beginning	**4,665,121**	**401,310,697** *	**21,883,463**
Net position – ending	**$ 5,154,656**	**$ 443,180,491**	**$ 21,212,100**

* Restated

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

This page intentionally left blank.

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

Discretely Presented Component Units Financial Statements

Statement of Net Position

Discretely Presented Component Units – Enterprise Activity

June 30, 2013

(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
ASSETS				
Current assets:				
Cash and pooled investments	$ 334,008	$ 1,273,366	$ 460,680	$ 2,068,054
Investments	5,294,206	137,625	390,114	5,821,945
Restricted assets:				
Cash and pooled investments	—	—	90,659	90,659
Investments	—	—	11,636	11,636
Receivables (net)	3,432,089	209,477	302,000	3,943,566
Due from primary government	209,112	—	13	209,125
Due from other governments	438,815	—	—	438,815
Prepaid items	—	409	759	1,168
Inventories	185,991	—	—	185,991
Other current assets	235,440	4,100	40,018	279,558
Total current assets	10,129,661	1,624,977	1,295,879	13,050,517
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	—	—	34,218	34,218
Investments	—	—	14,498	14,498
Investments	22,431,417	489,991	1,588,809	24,510,217
Receivables (net)	1,139,619	—	284,662	1,424,281
Loans receivable	—	4,631,407	305,508	4,936,915
Long-term prepaid charges	—	17,728	—	17,728
Capital assets:				
Land	840,050	—	130,656	970,706
Collections – nondepreciable	354,109	—	8,264	362,373
Buildings and other depreciable property	39,381,859	2,104	1,959,458	41,343,421
Intangible assets – amortizable	654,373	—	20,169	674,542
Less: accumulated depreciation/amortization	(17,948,712)	(1,142)	(942,463)	(18,892,317)
Construction in progress	2,898,206	—	19,336	2,917,542
Intangible assets – nonamortizable	—	—	5,131	5,131
Other noncurrent assets	268,614	20,556	44,300	333,470
Total noncurrent assets	50,019,535	5,160,644	3,472,546	58,652,725
Total assets	**60,149,196**	**6,785,621**	**4,768,425**	**71,703,242**
DEFERRED OUTFLOWS OF RESOURCES	**45,758**	**126,717**	**5,071**	**177,546**
Total assets and deferred outflows of resources	**$ 60,194,954**	**$ 6,912,338**	**$ 4,773,496**	**$ 71,880,788**

(continued)

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

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

Statement of Net Position (continued)

Discretely Presented Component Units – Enterprise Activity

June 30, 2013
(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
LIABILITIES				
Current liabilities:				
Accounts payable	$ 2,231,145	$ 116,555	$ 94,717	$ 2,442,417
Due to other governments	—	595	—	595
Revenues received in advance	994,580	—	62,631	1,057,211
Deposits	509,090	244,112	1,438	754,640
Contracts and notes payable	—	2,888	7,494	10,382
Interest payable	—	70,690	1,981	72,671
Securities lending obligations	1,468,772	—	—	1,468,772
Benefits payable	—	—	—	—
Current portion of long-term obligations	2,072,009	110,346	107,382	2,289,737
Other current liabilities	2,748,119	85	124,482	2,872,686
Total current liabilities	10,023,715	545,271	400,125	10,969,111
Noncurrent liabilities:				
Compensated absences payable	237,331	—	11,676	249,007
Certificates of participation, commercial paper, and other borrowings	—	—	63,170	63,170
Capital lease obligations	2,394,586	—	349,227	2,743,813
Revenue bonds payable	12,091,416	4,791,094	366,734	17,249,244
Net other postemployment benefits obligation	7,577,366	18,685	123,015	7,719,066
Pollution remediation obligation	66,523	—	—	66,523
Other noncurrent liabilities	4,876,948	250,587	365,857	5,493,392
Total noncurrent liabilities	27,244,170	5,060,366	1,279,679	33,584,215
Total liabilities	**37,267,885**	**5,605,637**	**1,679,804**	**44,553,326**
DEFERRED INFLOWS OF RESOURCES	**31,575**	**—**	**2,481**	**34,056**
Total liabilities and deferred inflows of resources	**37,299,460**	**5,605,637**	**1,682,285**	**44,587,382**
NET POSITION				
Investment in capital assets	11,954,384	980	522,541	12,477,905
Restricted:				
Nonexpendable – endowments	3,916,721	—	867,289	4,784,010
Expendable:				
Endowments and gifts	8,149,631	—	6,903	8,156,534
Education	947,426	—	776,111	1,723,537
Indenture	—	347,318	—	347,318
Employee benefits	—	—	—	—
Workers' compensation liability	—	—	—	—
Statute	—	1,070,365	278,519	1,348,884
Other purposes	—	—	21,814	21,814
Total expendable	9,097,057	1,417,683	1,083,347	11,598,087
Unrestricted	(2,072,668)	(111,962)	618,034	(1,566,596)
Total net position	**22,895,494**	**1,306,701**	**3,091,211**	**27,293,406**
Total liabilities, deferred inflows of resources, and net position	**$ 60,194,954**	**$ 6,912,338**	**$ 4,773,496**	**$ 71,880,788**

(concluded)

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

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

Statement of Activities

Discretely Presented Component Units – Enterprise Activity

Year Ended June 30, 2013
(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
OPERATING EXPENSES				
Personal services	$ 17,299,665	$ 29,853	$ 463,575	$ 17,793,093
Scholarships and fellowships	591,610	—	51,153	642,763
Supplies	2,465,149	—	9,326	2,474,475
Services and charges	281,276	50,472	1,241,747	1,573,495
Department of Energy laboratories	1,026,088	—	—	1,026,088
Depreciation	1,555,254	284	69,848	1,625,386
Distributions to beneficiaries	—	—	—	—
Interest expense and fiscal charges	669,538	171,835	38,253	879,626
Amortization of long-term prepaid charges	—	68,613	—	68,613
Grants provided	286,222	—	—	286,222
Other	3,455,257	111,653	65,017	3,631,927
Total operating expenses	**27,630,059**	**432,710**	**1,938,919**	**30,001,688**
PROGRAM REVENUES				
Charges for services	15,325,540	39,976	1,022,680	16,388,196
Operating grants and contributions	7,655,258	38,624	546,344	8,240,226
Capital grants and contributions	256,670	—	17,350	274,020
Total program revenues	**23,237,468**	**78,600**	**1,586,374**	**24,902,442**
Net revenues (expenses)	(4,392,591)	(354,110)	(352,545)	(5,099,246)
GENERAL REVENUES				
Investment and interest income (loss)	1,687,977	264,168	163,335	2,115,480
Other	2,355,795	39,275	411,249	2,806,319
Total general revenues	**4,043,772**	**303,443**	**574,584**	**4,921,799**
Change in net position	(348,819)	(50,667)	222,039	(177,447)
Net position – beginning	**23,244,313** *	**1,357,368**	**2,869,172** *	**27,470,853** *
Net position – ending	**$ 22,895,494**	**$ 1,306,701**	**$ 3,091,211**	**$ 27,293,406**

* Restated

This page intentionally left blank.

Notes to the Financial Statements – Index

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The provisions of the following Governmental Accounting Standards Board (GASB) Statements have been implemented for the year ended June 30, 2013:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements; improves financial reporting by addressing issues relating to service concession arrangements which are a type of public-private or public-public partnership;*

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34; modifies certain requirements for inclusion of component units (legally separate organizations) in the financial reporting entity;*

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements*; *improves financial reporting by contributing to GASB's efforts to codify all sources of GAAP for state and local governments so that they derive from a single source;*

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; *provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and their effect on government's net position; and*

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities; establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.*

A. Reporting Entity

These financial statements present the primary government of the State and its component units. The **primary government** consists of all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from the State. **Component units** are organizations that are legally separate from the State, but for which the State is financially accountable or organizations whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading. Following is information on the blended, fiduciary, and discretely presented component units of the State.

1. Blended Component Units

Blended component units, although legally separate entities, are in substance part of the primary government's operations. Therefore, data from these blended component units are integrated into the appropriate funds for reporting purposes.

Building authorities are blended component units because they have been created through the use of joint exercise-of-powers agreements with various cities to finance the construction of state buildings. The building authorities are reported as capital projects funds. As a result, capital lease arrangements between the building authorities and the State have been eliminated from the financial statements. Instead, only the underlying capital assets and the debt used to acquire them are reported in the government-wide financial statements. For information regarding obtaining copies of the financial statements of the building authorities, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

The *Golden State Tobacco Securitization Corporation (GSTSC)* is a not-for-profit corporation established through legislation in September 2002 solely for the purpose of purchasing Tobacco Settlement Revenues from the State. The five voting members of the State Public Works Board serve ex officio as the directors of the corporation. GSTSC is authorized to issue bonds as necessary to provide sufficient funds for carrying out its purpose. GSTSC is reported in the combining statements in the Nonmajor Governmental Funds section as a special revenue fund. For information regarding obtaining copies of the financial statements of GSTSC, contact the Department of Finance, Natural Resources, Energy, Environmental, and Capital Outlay Section, 915 L Street, 9th Floor, Sacramento, California 94814.

2. Fiduciary Component Units

The State has two legally separate fiduciary component units that administer pension and other employee benefit trust funds. The State appoints a voting majority of the board members of both plans which, due to their fiduciary nature, are presented in the Fiduciary Fund Statements as pension and other employee benefit trust funds, along with other primary government fiduciary funds.

The *California Public Employees' Retirement System (CalPERS)* administers pension plans for state employees, non-teaching school employees, and employees of California public agencies. Its Board of Administration has plenary authority and fiduciary responsibility for the investment of monies and the administration of the plan. CalPERS administers the following seven pension and other employee benefits trust funds: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, the Legislators' Retirement Fund, the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the Public Agency Deferred Compensation Plan, and the public employee Supplemental Contributions Program Fund. Copies of CalPERS' separately issued financial statements may be obtained in writing from the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229-2703.

The *California State Teachers' Retirement System (CalSTRS)* administers pension benefit plans for California public school teachers and certain other employees of the public school system. The State is financially accountable for CalSTRS. CalSTRS administers four pension and other employee benefit trust funds, the Defined Benefit Program, the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. Copies of CalSTRS' separately issued financial statements may be obtained from the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, California 95851-0275.

3. Discretely Presented Component Units

Enterprise activity of discretely presented component units is reported in a separate column in the government-wide financial statements. Discretely presented component units are legally separate from the primary government and primarily provide services to entities and individuals outside the primary government. Discretely presented component units that report enterprise activity include the University of California, the California Housing Finance Agency, and nonmajor component units.

The *University of California* was founded in 1868 as a public, state-supported, land grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by a governing board, the Regents of the University of California (Regents). The University of California is a component unit of the State because the State appoints a voting majority of the Regents and provides financial assistance to the University. The University of California offers defined benefit pension plans and defined contribution pension plans to its employees through the University of California Retirement System (UCRS), a fiduciary responsibility of the Regents. The financial information of the UCRS is not included in the financial statements of this report due to its fiduciary nature. Copies of the University of California's financial statements may be obtained from the University of California, 1111 Franklin Street, Oakland, California 94607-5200.

The *California Housing Finance Agency (CalHFA)* was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act, as amended. CalHFA's purpose is financing the housing needs of persons and families of low and moderate income. It is a component unit of the State because the State appoints a voting majority of CalHFA's governing board and appoints the executive director who administers the day-to-day operations. Copies of CalHFA's financial statements may be obtained from the California Housing Finance Agency, P.O. Box 4034, Sacramento, California 95812.

State legislation created various nonmajor component units to provide certain services outside the primary government and to provide certain private and public entities with a low-cost source of financing for programs deemed to be in the public interest. California State University auxiliary organizations are considered component units because they exist entirely or almost entirely for the direct benefit of the universities. The remaining nonmajor component units are considered component units because the majority of members of their governing boards are appointed by or are members of the primary government, and the primary government can impose its will on the entity or the entity provides a specific financial benefit to or imposes a financial burden on the primary government. For information regarding obtaining copies of the financial statements of these component units, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

The nonmajor component units are:

The *California Alternative Energy and Advanced Transportation Financing Authority*, which provides financing for alternative energy and advanced transportation technologies;

The *California Infrastructure and Economic Development Bank*, which provides financing for business development and public improvements;

California State University auxiliary organizations, which provide services primarily to university students through foundations, associated student organizations, student unions, food service entities, book stores, and similar organizations;

District agricultural associations, which exhibit all of the industries, industrial enterprises, resources, and products of the state (the district agricultural association's financial report is as of and for the year ended December 31, 2012);

The Public Employees' Contingency Reserve, which provides health benefit plans for state employees and annuitants;

The *University of California Hastings College of the Law*, which was established as the law department of the University of California to provide legal education programs and operates independently under its own board of directors. The college has a discretely presented component unit, the Foundation, which provides private sources of funds for academic programs, scholarships, and faculty research;

The *State Assistance Fund for Enterprise, Business and Industrial Development Corporation*, which provides financial assistance to small business; and

The *California Urban Waterfront Area Restoration Financing Authority*, which provides financing for coastal and inland urban waterfront restoration projects.

The following entities were previously reported as Component Units but have been reclassified as Related Organization due to changes in their reporting requirements pursuant to implementation of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34:*

1. State Compensation Insurance Fund
2. California Pollution Control Financing Authority
3. California Health Facilities Financing Authority
4. California School Finance Authority
5. California Educational Facilities Authority

4. Joint Venture

A joint venture is an entity resulting from a contractual arrangement; it is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. In such an arrangement, the participants retain an ongoing financial interest or an ongoing financial responsibility in the entity. These entities are not part of the primary government or a component unit.

The State participates in a joint venture called the *Capitol Area Development Authority (CADA)*. CADA was created in 1978 by the joint exercise of powers agreement between the primary government and the City of Sacramento for the location of state buildings and other improvements. CADA is a public entity, separate from the primary government and the city, and is administered by a board of five members: two appointed by the primary government, two appointed by the city, and one appointed by the affirmative vote of at least three of the other four members of the board. The primary government designates the chairperson of the board. Although the primary government does not have an equity interest in CADA, it does have an ongoing financial interest. The primary government subsidizes CADA's operations by leasing land to CADA without consideration; however, the primary government is not obligated to do so. At June 30, 2013, CADA had total assets of $33 million, total liabilities of $20 million, and total net position of $13 million. Total revenues for the fiscal year were $10 million and expenses were $11 million, resulting in a decrease in net position of $400 thousand. Because the primary government does not have equity interest in CADA, CADA's financial information is not included in the financial statements of this report. Separately issued financial statements may be obtained from the Capitol Area Development Authority, 1522 14th Street, Sacramento, California 95814-5958.

5. Related Organizations

A related organization is an organization for which a primary government is accountable because that government appoints a voting majority of the organization's governing board, but for which it is not financially accountable.

Chapter 854 of the Statutes of 1996 created an *Independent System Operator (ISO)*, a state-chartered, nonprofit market institution. The ISO provides centralized control of the statewide electrical transmission grid to ensure the efficient use and reliable operation of the transmission system. The ISO is governed by a five-member board, the members of which are appointed by the Governor and confirmed by the Senate. The State's accountability for this institution does not extend beyond making the initial oversight board appointments. Because the primary government is not financially accountable for the ISO, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the ISO, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

The *California Earthquake Authority (CEA)*, a legally separate organization, offers earthquake insurance for California homeowners, renters, condominium owners, and mobile home owners. A three-member board of state-elected officials governs the CEA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CEA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CEA, contact the California Earthquake Authority, 801 K Street, Suite 1000, Sacramento, California 95814.

The *State Compensation Insurance Fund* (*State Fund*) was established by the State of California through legislation enacted in 1913 to provide an available market for workers' compensation insurance to employees located in California. State Fund operates in competition with other insurance carriers to serve California businesses. The State appoints all eleven members of the State Fund's governing board. The State's accountability for this institution does not extend beyond making the initial oversight board appointments. Because the primary government is not financially accountable for the State Fund, the financial information of this institution is not included in the financial statement of this report. For information regarding obtaining copies of the financial statements of the State Fund, contact State Compensation Insurance Fund, 333 Bush Street, 8th Floor, San Francisco, California 94104.

The *California Health Benefit Exchange (the Exchange),* an independent public entity, offers new health insurance to individuals, families, and small businesses. A five-member board of state-elected officials governs the Exchange. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the Exchange, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the Exchange, contact Covered California, P.O. Box 989725, West Sacramento, California 95798-9725.

The *California Pollution Control Financing Authority (CPCFA)* was created through the California Pollution Control Financing Authority Act of 1972. The CPCFA is a legally separate entity that provides financing for pollution control facilities. A three-member board of state-elected officials governs the CPCFA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CPCFA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CPCFA, contact the State Treasurer's Office, 915 Capitol Mall, Room 457, Sacramento, California 95814.

The *California Health Facilities Financing Authority (CHFFA)* was established by the State of California through legislation enacted in 1979. The CHFFA is a legally separate entity that provides financing for the construction, equipping, and acquisition of health facilities. A nine-member board of state-elected officials and appointees govern the CHFFA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CHFFA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CHFFA, contact the State Treasurer's Office, 915 Capitol Mall, Suite 590, Sacramento, California 95814.

The *California Educational Facilities Authority (CEFA)* was created by the Board of Control Approval in 1974. The CEFA is a legally separate entity established to issue revenue bonds to finance loans for students attending public and private colleges and universities, and to assist private educational institutions of higher learning in financing the expansion and construction of educational facilities. A five-member board of state-elected officials and appointees govern the CEFA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CEFA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements for the CEFA, contact the State Treasurer's Office, 915 Capitol Mall, Suite 590, Sacramento, California 95814.

The *California School Finance Authority (CSFA)* was created in 1985. The CSFA is a legally separate entity that provides loans to school and community college districts to assist them in obtaining equipment and facilities. A three-member board of state officials governs the CSFA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CSFA, the financial information for this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CSFA, contact the State Treasurer's Office, 304 South Broadway, Suite 550, Los Angeles, California 90013.

B. Government-wide and Fund Financial Statements

Government-wide financial statements (the Statement of Net Position and the Statement of Activities) give information on all the nonfiduciary activities of the primary government and its component units. The primary government is reported separately from legally separate component units for which the State is financially accountable. Within the primary government, the State's governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The effect of interfund activity has been removed from the statements, with the exception of amounts between governmental and business-type activities, which are presented as internal balances and transfers. Centralized services provided by the General Fund for other funds are charged as direct costs to the funds that received those services. Also, the General Fund recovers the cost of centralized services provided to federal programs from the federal government.

The Statement of Net Position reports all of the financial and capital resources of the government as a whole in a format in which assets and deferred outflows of resources equal liabilities and deferred inflows of resources, plus net position. The Statement of Activities demonstrates the degree to which the expenses of a given function are offset by program revenues. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items that are not program-related are reported as general revenues.

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The State maintains the minimum number of funds consistent with legal and managerial requirements. Fiduciary funds, although excluded from the government-wide statements, are included in the fund financial statements. Major governmental and enterprise funds are reported in separate columns in the fund financial statements. Nonmajor governmental and proprietary funds are grouped into separate columns. Discretely presented component unit statements, which follow the fiduciary fund statements, also separately report the enterprise activity of the major discretely presented component units. In this report, the enterprise activity of nonmajor discretely presented component units is grouped in a separate column.

Governmental fund types are used primarily to account for activities primarily supported by taxes, grants, and similar revenue sources.

The State reports the following major governmental funds:

The *General Fund* is the main operating fund of the State. It accounts for transactions related to resources obtained and used for those services that do not need to be accounted for in another fund.

The *Federal Fund* accounts for the receipt and use of grants, entitlements, and shared revenues received from the federal government.

The *Transportation Fund* accounts for fuel taxes, including the State's diesel, motor vehicle, and fuel use taxes; bond proceeds; automobile registration fees; and other revenues that are used for transportation purposes, including highway and passenger rail construction and transportation safety programs.

The *Environmental and Natural Resources Fund* accounts for fees, bond proceeds, and other revenues that are used for maintaining the State's natural resources and improving the environmental quality of its air, land, and water.

Proprietary fund types focus on the determination of operating income, changes in net position, financial position, and cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For its proprietary funds, the State applies all applicable GASB pronouncements. The State adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* during the year ending June 30, 2013.

The State has two proprietary fund types: enterprise funds and internal service funds.

Enterprise funds record business-type activity for which a fee is charged to external users for goods and services. In addition, the State is required to report activities as enterprise funds in the context of the activity's principal revenue sources when any of the following criteria are met:

- The activity's debt is secured solely by fees and charges of the activity;
- There is a legal requirement to recover costs; or
- The pricing policies of fees and charges are designed to recover costs.

The State reports the following major enterprise funds:

The *Electric Power Fund* accounts for the acquisition and resale of electric power to retail end-use customers.

The *Water Resources Fund* accounts for charges to local water districts and the sale of excess power to public utilities.

The *Public Buildings Construction Fund* accounts for rental charges from the lease of public assets.

The *State Lottery Fund* accounts for the sale of California State Lottery (Lottery) tickets and the Lottery's payments for education.

The *Unemployment Programs Fund* accounts for employer and worker contributions used for payments of unemployment insurance and disability benefits.

The *California State University Fund* accounts for student fees and other receipts from gifts, bequests, donations, federal and state grants, and loans that are used for educational purposes.

Nonmajor enterprise funds account for additional operations that are financed and operated in a manner similar to private business enterprises.

Additionally, the State reports *internal service funds* as a proprietary fund type with governmental activity. Internal service funds account for goods or services provided to other agencies, departments, or governments on a cost-reimbursement basis. The goods and services provided include: architectural services, construction and improvements, printing and procurement services, goods produced by inmates of state prisons, data processing services, and administrative services related to water delivery. Internal service funds are included in the governmental activities at the government-wide level.

Fiduciary fund types are used to account for assets held by the State. The State acts as a trustee or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds, including fiduciary component units, are not included in the government-wide financial statements.

The State has the following four fiduciary fund types:

Private purpose trust funds account for all trust arrangements, other than those properly reported in pension or investment trust funds, whereby principal and income benefit individuals, private organizations, or other governments. The following are the State's largest private purpose trust funds:

The *Scholarshare Program Trust Fund* accounts for money received from participants to fund their beneficiaries' higher education expenses at certain postsecondary educational institutions.

The *Unclaimed Property Fund* accounts for unclaimed money and properties held in trust by the State. Unclaimed property is remitted to the General Fund where it can be used by the State until it is claimed.

Pension and other employee benefit trust funds of the primary government and fiduciary component units account for transactions, assets, liabilities, and net position available for plan benefits of the retirement systems and for other employee benefit programs.

An *investment trust fund* accounts for the deposits, withdrawals, and earnings of the Local Agency Investment Fund, an external investment pool for local governments and public agencies.

Agency funds account for assets held by the State, which acts as an agent for individuals, private organizations, or other governments. The following are the State's largest agency funds:

The *Receipting and Disbursing Fund* accounts for the collection and disbursement of revenues and receipts on behalf of local governments. This fund also accounts for receipts from numerous state funds, typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

The *Deposit Fund* accounts for various deposits, such as those from condemnation and litigation proceedings.

Discretely presented component units consist of certain organizations that have enterprise activity. The enterprise activity component units are the University of California, the California Housing Finance Agency, and nonmajor component units. In this report, all of the enterprise activity of the discretely presented

component units is reported in a separate column in the government-wide financial statements and on separate pages following the fund financial statements.

C. Measurement Focus and Basis of Accounting

1. Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when they are earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar transactions are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

2. Fund Financial Statements

The measurement focus and basis of accounting for the fund financial statements vary with the type of fund. **Governmental fund types** are presented using the current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets; the unreserved fund balance is a measure of available spendable resources.

The accounts of the governmental fund types are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. The State records revenue sources when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months. Principal tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and corporation taxes), as sales are made (consumption and use taxes), and as the taxable event occurs (miscellaneous taxes), net of estimated tax overpayments.

Proprietary fund types, the **investment trust fund**, **private purpose trust funds**, and **pension and other employee benefit trust funds** are accounted for using the economic resources measurement focus. **Agency funds** are custodial in nature and do not measure the results of operations.

The accounts of the proprietary fund types, the investment trust fund, private purpose trust funds, pension and other employee benefit trust funds, and agency funds are reported using the accrual basis of accounting. Under the accrual basis, most transactions are recorded when they occur, regardless of when cash is received or disbursed.

Lottery revenue and the related prize expenses are recognized when sales are made. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

For purposes of the Statement of Cash Flows, all cash and pooled investments in the State Treasurer's pooled investment program are considered to be cash and cash equivalents.

Discretely presented component units are accounted for using the economic resources measurement focus and the accrual basis of accounting.

D. Inventories

Inventories of supplies are reported at cost and inventories held for resale are stated at the lower of average cost or market. In the government-wide financial statements, inventories for both governmental and business-type activities are expensed when they are consumed and unused inventories are reported as an asset on the Statement of Net Position. In the fund financial statements, governmental funds report inventories as expenditures when purchased, and proprietary funds report inventories as expenditures when consumed. The discretely presented component units have inventory policies similar to those of the primary government.

E. Deposits and Investments

The State reports investments at fair value, as prescribed by GAAP. Additional information on the State's investments can be found in Note 3, Deposits and Investments.

F. Net Investment in Direct Financing Leases

The State Public Works Board, an agency that accounts for its activities as an enterprise fund, has entered into lease-purchase agreements with various other primary government agencies, the University of California, and certain local agencies. The payments from these leases are used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the cost of projects such as acquisition and construction of facilities and equipment. Upon expiration of these leases, title to the facilities and projects transfers to the primary government agency, the University of California, or the local agency. The State Public Works Board records the net investment in direct financing leases at the net present value of the minimum lease payments.

California State University Systems (CSU) accounts for its lease activities in the California State University Trust Fund, a major enterprise fund, has entered into 30-year capital lease agreements with certain auxiliary organizations. These agreements lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.

G. Long-term Prepaid Charges

The long-term prepaid charges account in the enterprise funds primarily represents operating and maintenance costs that will be recognized in the Water Resources Fund as expenses over the remaining life of long-term state water supply contracts. These costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as long-term prepaid charges. These charges are recognized when billed in the future years under the terms of water supply contracts. The long-term prepaid charges for the Public Buildings Construction Fund include prepaid insurance costs. Long-term prepaid charges are also included in the State Lottery Fund and nonmajor enterprise funds. These prepaid costs are incurred in connection with certain contracts that extend beyond a one-year period, which are amortized as expenses over the remaining life of the contracts.

Bond issuance costs were previously reported as deferred charges. Per GASB 65, these costs should be expensed as incurred, excluding the insurance costs. For fiscal year 2012-13, bond issuance costs are expensed in the State of California's financial statements.

H. Capital Assets

Capital assets are categorized into land, state highway infrastructure, collections, buildings and other depreciable property, intangible assets, and construction in progress. The buildings and other depreciable property account includes buildings, improvements other than buildings, equipment, certain infrastructure assets, certain books,

and other capitalized and depreciable property. Intangible assets include computer software, land use rights, patents, copyrights, and trademarks. The value of the capital assets, including the related accumulated depreciation and amortization, is reported in the applicable governmental, business-type, or component unit activities columns in the Government-wide Statement of Net Position.

The primary government has a large collection of historical and contemporary treasures that have important documentary and artistic value. These assets are not capitalized or depreciated because they are cultural resources and cannot reasonably be valued and/or the assets have inexhaustible useful lives. These treasures and works of art include furnishings, portraits and other paintings, books, statues, photographs, and miscellaneous artifacts. These collections meet the conditions for exemption from capitalization because the collections are: held for public exhibition, education, or research in furtherance of public service, rather than financial gain; protected, kept unencumbered, cared for, and preserved; and are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

In general, capital assets of the primary government are defined as assets that have a normal useful life of at least one year and a unit cost of at least $5,000. These assets are recorded at historical cost or estimated historical cost, including all costs related to the acquisition. Donated capital assets are recorded at the fair market value on the date the gift was received. Major capital asset outlays are capitalized as projects are constructed.

Buildings and other depreciable or amortizable capital assets are depreciated using the straight line method with no salvage value for governmental activities. Generally, buildings and other improvements are depreciated over 40 years, equipment is depreciated over five years, and intangible assets are amortized over 10 to 20 years. Depreciable or amortizable assets of business-type activities are depreciated or amortized using the straight-line method over their estimated useful or service lives, ranging from three to 100 years.

California has elected to use the modified approach for capitalizing the infrastructure assets of the state highway system. The state highway system is maintained by the California Department of Transportation. By using the modified approach, the infrastructure assets of the state highway system are not depreciated and all expenditures made for those assets, except for additions and improvements, are expensed in the period incurred. All additions and improvements made after June 30, 2001, are capitalized. All infrastructure assets that are related to projects completed prior to July 1, 2001, are recorded at the historical costs contained in annual reports of the American Association of State Highway and Transportation Officials and the Federal Highway Administration.

The capital assets of the discretely presented component units are reported at cost at the date of acquisition or at fair market value at the date of donation, in the case of gifts. They are depreciated or amortized over their estimated useful service lives.

I. Long-term Obligations

Long-term obligations consist of certain unmatured general obligation bonds, certain unmatured revenue bonds, capital lease obligations, certificates of participation, commercial paper, the net pension obligation of the pension and other employee benefit trust funds, the net other postemployment benefits obligation, the liability for employees' compensated absences and workers' compensation claims, pollution remediation obligations, amounts owed for lawsuits, reimbursement for costs mandated by the State, the outstanding Proposition 98 funding guarantee owed to schools, the liability for Lottery prizes and annuities, loans from other governments and fiduciary funds, and the primary government's share of the University of California pension liability that is due in more than one year. In the government-wide financial statements, current and noncurrent obligations are reported as liabilities in the applicable governmental activities, business-type activities, and component units columns of the Statement of Net Position.

Pollution remediation obligations are recorded by the State when one or more of the GASB Statement No. 49 obligating events have occurred and when a reasonable estimate of the remediation cost is available. These liabilities are measured using actual contract costs, where no change in cost is expected, or the expected cash flow technique. The remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation.

Bond premiums and discounts for business-type activities and component units are generally deferred and amortized over the life of the bonds. In these instances, bonds payable are reported net of the applicable premium and discount. Bond premiums and discounts for governmental activities are reported as other financing sources (uses) in the fund financial statements. However, in the government-wide financial statements, the bonds payable for governmental activities is reported net of the applicable unamortized premium and discount.

With approval in advance from the Legislature, certain authorities and state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds, building authorities, and agencies. The General Fund has no legal liability for payment of principal and interest on revenue bonds. With the exception of certain special revenue funds (Transportation and the Golden State Tobacco Securitization Corporation) and the building authorities' capital projects funds, the liability for revenue bonds is recorded in the respective fund.

J. Compensated Absences

The government-wide financial statements report both the current and the noncurrent liabilities for compensated absences, which are vested unpaid vacation, annual leave, and other paid leave programs. However, unused sick-leave balances are not included in the compensated absences because they do not vest to employees. In the fund financial statements for governmental funds, only the compensated absences for employees that have left state service and have unused reimbursable leave at year end would be included. The amounts of vested unpaid vacation and annual leave accumulated by state employees are accrued in proprietary funds when incurred. In the discretely presented component units, the compensated absences are accounted for in the same manner as in the proprietary funds of the primary government.

K. Net Position and Fund Balance

The difference between fund assets, deferred outflows of resources, liabilities, and deferred inflows of resources is called "net position" on the government-wide financial statements, the proprietary and fiduciary fund statements, and the component unit statements; it is called "fund balance" on the governmental fund statements. The government-wide financial statements include the following categories of net position:

Net investment in capital assets, represents capital assets, net of accumulated depreciation, reduced by the outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position results from transactions with purpose restrictions and is designated as either *nonexpendable* or *expendable*. *Nonexpendable restricted net* position is subject to externally imposed restrictions that must be retained in perpetuity. *Expendable restricted net* position is subject to externally imposed restrictions that can be fulfilled by actions of the State. As of June 30, 2013, the government-wide financial statements show restricted net position for the primary government of $29.5 billion, of which $6.7 billion is due to enabling legislation.

Unrestricted net position is neither restricted nor invested in capital assets.

In the fund financial statements, proprietary funds include categories of net position similar to those in the government-wide statements. The fund balance amounts for governmental funds are reported as nonspendable, restricted, committed, assigned, or unassigned in accordance with GASB Statement No. 54.

Nonspendable fund balances include amounts that cannot be spent because they are not in spendable form (inventories; prepaid amounts; long-term portion of loans or notes receivable; or property held for resale unless the proceeds are restricted, committed, or assigned) or they are legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balances have constraints placed upon the use of the resources either by an external party (creditors, grantors, contributors, or laws or regulations of other governments) or by law through a constitutional provision or enabling legislation.

Committed fund balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the State's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the State removes or changes the specified use by taking the same type of action. The formal action that commits a fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount subject to the constraint may be determined in a subsequent period. Committed fund balance should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balances include amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds other than the General Fund, this is the residual amount of the fund that is not classified as nonspendable and is neither restricted nor committed.

The *Unassigned* fund balance is the residual amount of the General Fund not included in the four classifications described above. In other governmental funds where expenditures incurred for specific purposes exceed amounts restricted, committed, or assigned to those purposes, a negative unassigned fund balance may need to be reported.

Fiduciary fund net position is amounts held in trust for benefits and other purposes.

L. Restatement of Beginning Fund Balances and Net Position

Schedule of Restatement of Beginning Fund Balances and Net Position
(amounts in thousands)

Fund Financial Statements

Governmental Funds		
Major Governmental Funds		
General Fund		
Fund balances as of June 30, 2012, as previously reported	$	(22,961,288)
Overstatement of 2011-12 General Fund expenditures		232,120
Fund balances as of July 1, 2012, as restated	**$**	**(22,729,168)**
Environmental and Natural Resources		
Fund balances as of June 30, 2012, as previously reported	$	7,965,054
GASB 61 adjustments		1,174
Fund balances as of July 1, 2012, as restated	**$**	**7,966,228**
Nonmajor Governmental Funds		
Fund balances as of June 30, 2012, as previously reported	$	11,943,613
Deferred payroll adjustment		11
Reclass from agency fund to special revenue fund		149,711
Fund balances as of July 1, 2012, as restated	**$**	**12,093,335**
Enterprise Funds		
Major Enterprise Funds		
California State University		
Net position as of June 30, 2012, as previously reported	$	2,564,751
GASB 61 adjustments		(58,359)
Net position as of July 1, 2012, as restated	**$**	**2,506,392**
Public Buildings Construction Fund		
Net position as of June 30, 2012, as previously reported	$	239,458
GASB 65 adjustments		(56,721)
Net position as of July 1, 2012, as restated	**$**	**182,737**
Nonmajor Enterprise Funds		
Net position as of June 30, 2012, as previously reported	$	3,792,279
GASB 65 adjustments		(7,791)
Net position as of July 1, 2012, as restated	**$**	**3,784,488**

Fund Financial Statements (continued)

Fiduciary Funds		
Pension and other Employee Benefit Trust		
Net position as of June 30, 2012, as previously reported	$	401,333,900
CalPERS Defined Contribution Pension Plan adjustments		(23,203)
Net position as of July 1, 2012, as restated	**$**	**401,310,697**
Discretely Presented Component Units		
Major Component Units		
University of California		
Net position as of June 30, 2012, as previously reported	$	23,404,025
Change in accounting policy		(159,712)
Net position as of July 1, 2012, as restated	**$**	**23,244,313**
Nonmajor Component Units		
Net position as of June 30, 2012, as previously reported	$	2,915,162
GASB 45 adjustments		(362)
GASB 61 adjustments		(39,366)
GASB 65 adjustments		(6,540)
Other adjustments		278
Net position as of July 1, 2012, as restated	**$**	**2,869,172**
Eliminated Major Component Units		
State Compensation Insurance		
Net position as of June 30, 2012, as previously reported	$	7,083,903
GASB 61 adjustments		(7,083,903)
Net position as of July 1, 2012, as restated	**$**	—
Public Employees' Benefits		
Net position as of June 30, 2012, as previously reported	$	301,826
GASB 61 adjustments		(301,826)
Net position as of July 1, 2012, as restated	**$**	—

Schedule of Restatement of Beginning Fund Balances and Net Position (continued)
(amounts in thousands)

Government-wide Financial Statements

Governmental Activities

Net position as of June 30, 2012, as previously reported	$	(18,257,716)
GASB 61 adjustments		(6,044)
GASB 65 adjustments		(194,668)
General Fund balance adjustment		232,120
Nonmajor Governmental Fund balance adjustment		149,722
Overstatement of 2011-12 capital leases		240,140
Various capital assets adjustments		1,293,866
Increase in pollution remediation obligation		(105,417)
Other adjustments		(1)
Net position as of July 1, 2012, as restated	**$**	**(16,647,998)**

Business-type Activities

Net position as of June 30, 2012, as previously reported	$	2,807,029
GASB 61 adjustments		(58,359)
GASB 65 adjustments		(64,512)
Other adjustments		(3)
Net position as of July 1, 2012, as restated	**$**	**2,684,155**

Component Units

Net position as of June 30, 2012, as previously reported	$	35,062,284
GASB 45 adjustments		(362)
GASB 61 adjustments		(7,425,095)
GASB 65 adjustments		(6,540)
Adjustments due to change in accounting policy		(159,712)
Other adjustments		278
Net position as of July 1, 2012, as restated	**$**	**27,470,853**

This page intentionally left blank.

M. Guaranty Deposits

The State is custodian of guaranty deposits held to protect consumers, to secure the State's deposits in financial institutions, and to ensure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not shown on the financial statements.

N. Deferred Outflows and Deferred Inflows of Resources

The government-wide and fund-based financial statements report deferred outflows of resources and deferred inflows of resources.

Deferred outflows of resources are consumption of assets by the primary government and its component units that are applicable to future reporting periods. Deferred outflows of resources are presented separately after "Total Assets" in the State's financial statements.

Deferred inflows of resources are acquisition of assets by the primary government and its component units that are applicable to future reporting periods. Deferred inflows of resources are presented separately after "Total Liabilities" in the State's financial statements.

Additional information on the State's deferred outflows of resources and deferred inflows of resources can be found in Note 21: *Deferred Outflows of Resources and Deferred Inflows of Resources Including Service Concession Arrangements*.

O. Abnormal Fund Balances

In fiscal year 2012-13, Water Resources Electric Power fund had a net refund of $405 million for power charges revenue. The refund resulted from lower power sales, return of prior year over-collection, and return of reserves, as lower levels of reserve were required. During the fiscal year 2012-13, the fund returned $449 million through adjustments to power charges and separate monthly payments to ratepayers.

P. Nonmajor Enterprise Segment Information

Two nonmajor enterprise fund segments are displayed discretely in the Combining Statement of Net Position; the Combining Statement of Revenues, Expenses, and Changes in Fund Net Position; and the Statement of Cash Flows in the Nonmajor Enterprise Funds. A segment is an identifiable activity reported as or within an enterprise fund or another stand-alone entity for which debt is outstanding and a revenue stream has been pledged in support of that debt. In addition, to qualify as a segment, an activity must be subject to an external requirement to separately account for revenues, expenses, gains and losses, assets and deferred outflows of resources, and liabilities and deferred inflows of resources. All of the activities reported for the fund segments listed below meet these requirements.

State Water Pollution Control Revolving Fund: Interest charged on loans to communities for construction of water pollution control facilities and projects.

Housing Loan Fund: Interest payments from low-interest, long-term farm and home mortgage loan contracts to eligible veterans living in California.

NOTE 2: BUDGETARY AND LEGAL COMPLIANCE

A. Budgeting and Budgetary Control

The State's annual budget is prepared primarily on a modified accrual basis for governmental funds. The Governor recommends a budget for approval by the Legislature each year. This recommended budget includes estimated revenues; however, revenues are not included in the annual budget bill adopted by the Legislature. Under state law, the State cannot adopt a spending plan that exceeds estimated revenues.

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the Budget Act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations and establish the legal level of control for the annual operating budget. The budget can be amended throughout the year by special legislative action, budget revisions by the Department of Finance, or executive orders of the Governor. Amendments to the original budget for the year ended June 30, 2013, were legally made, and they had the effect of decreased spending authority for the Budgetary/Legal Basis reported General Fund and Transportation Funds, and increased spending authority for the Environmental and Natural Resources Funds.

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

B. Legal Compliance

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

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

NOTE 3: DEPOSITS AND INVESTMENTS

The State Treasurer administers a single pooled investment program comprising both an internal investment pool and an external investment pool (the Local Agency Investment Fund). A single portfolio of investments exists, with all participants having an undivided interest in the portfolio. Both pools are administered in the same manner, as described below.

As required by generally accepted accounting principles, certain risk disclosures are included in this note to the extent that the risks exist at the date of the Statement of Net Position. Disclosure of the following risks is included:

Interest Rate Risk is the risk that the value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with longer time to maturity tend to be more sensitive to changes in interest rates than those with shorter durations.

Credit Risk is the risk that a debt issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline.

Custodial Credit Risk is the risk that, in the event a financial institution or counterparty fails, the investor will not be able to recover the value of deposits, investments, or collateral.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

A. Primary Government

The State's pooled investment program and certain funds of the primary government are allowed by state statutes, bond resolutions, and investment policy resolutions to invest in United States government securities, federal agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, other debt securities, repurchase agreements, reverse repurchase agreements, and other investments.

Certain discretely presented component units participate in the State Treasurer's Office pooled investment program. As of June 30, 2013, the discretely presented component units accounted for approximately 2.8% of the State Treasurer's pooled investment portfolio. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs.

Both deposits and investments are included in the State's investment program. For certain banks, the State Treasurer's Office maintains cash deposits that cover uncleared checks deposited in the State's accounts and that earn income which compensates the banks for their services.

Demand and time deposits held by financial institutions as of June 30, 2013, totaling approximately $6.8 billion, were insured by federal depository insurance or by collateral held by the State Treasurer's Office or an agent of the State Treasurer's Office in the State's name. The California Government Code requires that collateral pledged for demand and time deposits be deposited with the State Treasurer.

As of June 30, 2013, the State Treasurer's Office had on deposit with a fiscal agent amounts totaling $28 million related to principal and interest payments to bondholders. These deposits were insured by federal depository insurance or by collateral held by an agent of the State Treasurer's Office in the State's name.

The State Treasurer's Office reports its investments at fair value. The fair value of securities in the State Treasurer's pooled investment program generally is based on quoted market prices. The State Treasurer's Office performs a quarterly fair market valuation of the pooled investment program portfolio. In addition, the State Treasurer's Office performs a monthly fair market valuation of all securities held against carrying cost. These valuations are posted to the State Treasurer's Office website at www.treasurer.ca.gov. As of June 30, 2013, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 284 days. Weighted average maturity is the average number of days, given a dollar-weighted value of individual investments, that the securities in the portfolio have remaining from evaluation date to stated maturity.

The Pooled Money Investment Board provides oversight of the State Treasurer's pooled investment program. The purpose of the board is to design and administer an effective cash management and investment program, using all monies flowing through the State Treasurer's Office bank accounts and keeping all available funds invested in a manner consistent with the goals of safety, liquidity, and yield. The Pooled Money Investment Board is comprised of the State Treasurer as chair, the State Controller, and the Director of Finance. This board designates the amounts of money available for investment. The State Treasurer is charged with making the actual investment transactions for this program. This investment program is not registered with the Securities and Exchange Commission as an investment company.

The value of the deposits in the State Treasurer's pooled investment program, including the Local Agency Investment Fund, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2013, this difference was immaterial to the valuation of the program. The pool is run with "dollar-in, dollar-out" participation. There are no share-value adjustments to reflect changes in fair value.

Certain funds have elected to participate in the pooled investment program even though they have the authority to make their own investments. Others may be required by legislation to participate in the program; as a result, the deposits of these funds or accounts may be considered involuntary. However, these funds or accounts are part of the State's reporting entity. The remaining participation in the pool, the Local Agency Investment Fund, is voluntary.

Certain funds that have deposits in the State Treasurer's pooled investment program do not receive the interest earnings on their deposits. Instead, by law, the earnings are to be assigned to the State's General Fund. Most of the $26 million in interest revenue received by the General Fund from the pooled investment program in the 2012-13 fiscal year was earned on balances in these funds.

The State Treasurer's pooled investment program values participants' shares on an amortized cost basis. Specifically, the program distributes income to participants quarterly, based on their relative participation during the quarter. This participation is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and (4) investment and administrative expenses. This amortized cost method differs from the fair value method used to value investments in these financial statements; the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair value of the pool's investments. Because the total difference between the fair value of the investments in the pool and the value distributed to pool participants using the amortized cost method described above is not material, no adjustment was made to the financial statements. The State Treasurer's Office also reports participant fair value as a ratio of amortized cost on a quarterly basis. The State Treasurer's Office has not provided or obtained a legally binding guarantee to support the principal invested in the investment program.

As of June 30, 2013, structured notes and medium-term, asset-backed securities comprised approximately 1.88% of the pooled investments. A significant portion of the structured notes consisted of corporate floating-rate certificates of deposit. For the corporate floating-rate securities held in the portfolio during the fiscal year, the interest received by the State Treasurer's pooled investment program rose or fell as the underlying index rate rose or fell. The portion representing the asset-backed securities consists of mortgage-backed securities, Small Business Administration (SBA) pools, and asset-backed commercial paper. The mortgage-backed securities are called real estate mortgage investment conduits (REMICs), and are securities backed by pools of mortgages. The REMICs in the State's portfolio have a fixed principal payment schedule. A portion of the asset-backed securities consisted of floating-rate SBA notes. For floating-rate SBA notes held in the portfolio during the fiscal year, the interest received by the State Treasurer's pooled investment program rose or fell as the underlying index rate rose or fell. The structure of the floating-rate notes in the State Treasurer's pooled investment program portfolio provided a hedge against the risk of increasing interest rates. A portion of the asset-backed portfolio holdings was short-term, asset-backed commercial paper (ABCP), which represented 0.08% of pooled investments.

Enterprise funds and special revenue funds also make separate investments, which are presented at fair value.

Table 1 identifies the investment types that are authorized by the California Government Code and the State Treasurer's Office investment policy for the pooled investment program.

Table 1

Authorized Investments

Authorized Investment Type	Maximum Maturity[1]	Maximum Percentage of Portfolio [1]	Maximum Investment in One Issuer [1]	Credit Rating
U.S. Treasury securities	5 years	N/A	N/A	N/A
Federal agency and supranational securities	5 years	N/A	N/A	N/A
Certificates of deposit	5 years	N/A	N/A	N/A
Bankers acceptances	180 days	N/A	N/A	N/A
Commercial paper	180 days	30%	10% of issuer's outstanding commercial paper	A-2/P-2/F-2 [2]
Corporate bonds/notes	5 years	N/A	N/A	A-/A3/A- [3]
Repurchase agreements	1 year	N/A	N/A	N/A
Reverse repurchase agreements	1 year	10%	N/A	N/A

[1] Limitations are pursuant to the State Treasurer's Office Investment Policy for the Pooled Money Investment Account.

[2] The State Treasurer's Office Investment Policy for the Pooled Money Investment Account is more restrictive than the Government Code, which allows investments rated A-3/P-3/F-3.

[3] The Government Code requires that a security fall within the top three ratings of a nationally recognized rating service.

N/A Neither the Government Code nor the State Treasure's Office Investment Policy for the Pooled Money Investment Account sets limits for this investment type.

1. Interest Rate Risk

Table 2 presents the interest rate risk of the primary government's investments.

Table 2

Schedule of Investments – Primary Government – Interest Rate Risk
June 30, 2013
(amounts in thousands)

	Interest Rates [1]	Maturity	Fair Value at Year End	Weighted Average Maturity (in years)
Pooled investments				
U.S. Treasury bills and notes	0.10 - 1.35	53 days - 3.34 years	$ 35,901,748	1.03
U.S. agency bonds and discount notes	0.09 - 0.45	61 days - 2.71 years	3,474,691	0.66
Supranational debentures and discount notes (IBRD)	0.14 - 0.51	149 days - 169 days	450,283	0.46
Small Business Administration loans	0.25 - 1.38	0.25 years	510,254	0.25 [2]
Mortgage-backed securities [3]	5.23 - 6.00	1.59 years - 2.92 years	208,754	2.33
Certificates of deposit	0.09 - 0.46	1 day - 1.25 years	9,266,791	0.16
Commercial paper	0.05 - 0.23	1 day - 155 days	4,254,013	0.07
Total pooled investments			**54,066,534** [4]	
Other primary government investments				
U.S. Treasuries and agencies			2,118,611	2.42
Commercial paper			273,325	0.69
Guaranteed investment contracts			207,850	8.72
Corporate debt securities			837,379	2.23
Repurchase agreements			21,887 [5]	0.00
Other			1,097,011	3.55
Total other primary government investments			**4,556,063**	
Funds outside primary government included in pooled investments				
Less: investment trust funds			21,193,406	
Less: other trust and agency funds			2,037,587	
Less: discretely presented component units			1,649,993	
Total primary government investments			**$ 33,741,611**	

[1] These numbers represent high and low interest rates for each investment type.
[2] In calculating SBA holdings' weighted average maturity, the State Treasurer's Office assumes that stated maturity is the quarterly reset date.
[3] These securities are issued by U.S. government agencies such as the Federal National Mortgage Association.
[4] Total pooled investments does not include certain assets of the State's pooled investment program. The other assets include $4.5 billion of time deposits and $287 million of internal loans to state funds.
[5] These repurchase agreements of the California State University mature in one day.

Table 3 identifies the debt securities that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided previously).

Table 3

Schedule of Highly Sensitive Investments in Debt Securities – Primary Government – Interest Rate Risk
June 30, 2013
(amounts in thousands)

	Fair Value at Year End	Percent of Total Pooled Investments
Pooled investments		
Mortgage-backed		
Federal National Mortgage Association Collateralized Mortgage Obligations	$ 208,754	0.39 %

These mortgage-backed securities entitle the purchaser to receive a share of the cash flows, such as principal and interest payments, from a pool of mortgages. Mortgage securities are sensitive to interest rate changes because principal prepayments either increase (in a low interest rate environment) or decrease (in a high interest rate environment). A change, up or down, in the payment rate will result in a change in the security yield.

2. Credit Risk

Table 4 presents the credit risk of the primary government's debt securities.

Table 4

Schedule of Investments in Debt Securities – Primary Government – Credit Risk
June 30, 2013
(amounts in thousands)

Credit Rating as of Year End: Short-term	Credit Rating as of Year End: Long-term		Fair Value
Pooled investments [1]			
A-1+/P-1/F-1+	AAA/Aaa/AAA	$	9,347,697
A-1/P-1/F-1	AA/Aa/AA		7,798,080
A-2/P-2/F-2	A/A/A		300,000
Not rated			208,754
Not applicable			36,412,003
Total pooled investments		**$**	**54,066,534** [2]
Other primary government investments			
A-1+/P-1/F-1+	AAA/Aaa/AAA	$	1,114,284
A-1/P-1/F-1	AA/Aa/AA		1,267,919
A-2/P-2/F-2	A/A/A		1,104,617
A-3/P-3/F-3	BBB/Baa/BBB		—
B/NP/B	BB/Ba/BB		—
Not rated			525,009
Not applicable			544,234
Total other primary government investments		**$**	**4,556,063**

[1] The State Treasurer's Office uses Standard & Poor's, Moody's, and Fitch Ratings services. Securities are classified by the lowest rating of the three agencies.

[2] Total pooled investments does not include certain assets of the State's pooled investment program. The other assets include time deposits of $4.5 billion, for which credit risk is mitigated by collateral that the State holds for them, and $287 million in loans to state funds for which external credit risk is not applicable because they are internal loans.

3. Concentration of Credit Risk

The investment policy of the State Treasurer's Office contains no limitations on the amount that can be invested in any one issuer beyond those limitations stipulated in the California Government Code. Table 5 identifies debt securities in any one issuer (other than U.S. Treasury securities) that represent 5% or more of the State Treasurer's investments, or of the separate investments of other primary government funds.

Table 5

Schedule of Investments – Primary Government – Concentration of Credit Risk
June 30, 2013
(amounts in thousands)

Issuer	Investment Type		Reported Amount	Percent of Total Pooled/Agency Investments	
California State University					
Federal National Mortgage Association	U.S. agency securities	$	218,223	8.66	%
Federal Home Loan Mortgage Corporation	U.S. agency securities		199,935	7.93	
Federal Home Loans Bank Office of Finance	U.S. agency securities		192,634	7.65	
Federal Farm Credit Banks Consolidated Systemwide Bonds	U.S. agency securities		159,879	6.35	
California State Lottery					
State of California	Municipal securities	$	205,304	21.34	%
Commonwealth of Massachusetts	Municipal securities		66,312	6.89	
Golden State Tobacco Securitization Corporation					
Federal Home Loan Mortgage Corporation	U.S. agency securities	$	127,004	25.42	%
Standard Chartered Bank	Commercial paper		125,002	25.02	
Caisse Des Depots ET	Commercial paper		124,007	24.82	
Department of Water Resources Electric Power Fund					
Federal Home Loan Mortgage Corporation	U.S. agency securities	$	100,000	33.33	%
Assured Guaranty Municipal Corporation	Guaranteed investment contracts		100,000	33.33	
Royal Bank of Canada	Guaranteed investment contracts		100,000	33.33	
State Water Resources Development System					
Federal National Mortgage Association	U.S. agency securities	$	74,001	100.00	%

4. Custodial Credit Risk

The State of California has a deposit policy for custodial credit risk that requires deposits held by financial institutions to be insured by federal depository insurance or secured by collateral. As of June 30, 2013, one guaranteed investment contract of the Electric Power Fund in the amount of $100 million was uninsured and uncollateralized.

B. Fiduciary Funds

The fiduciary funds include pension and other employee benefit trust funds of the following fiduciary funds and component units: the California Public Employees' Retirement System (CalPERS), the California State Teachers' Retirement System (CalSTRS), the fund for the California Scholarshare program, and various other funds. CalPERS and CalSTRS account for 97% of these separately invested funds. CalPERS and CalSTRS exercise their authority under the State Constitution and invest in stocks, bonds, mortgages, real estate, and other investments, including derivative instruments.

CalPERS reports investments in securities at fair value, generally based on published market prices and quotations from pricing vendors. Many factors are considered in arriving at fair value. Real estate investments are held either directly, in separate accounts, or as a limited partnership or in a joint venture or commingled fund. Properties owned directly or in a joint venture are subject to independent third-party appraisals. Short-term investments are reported at fair value or cost, or amortized cost that approximates fair value. For investments where no readily ascertainable market value exists, management, in consultation with its investment advisors, determines the fair values for the individual investments.

CalSTRS also reports investments at fair value, generally based on published market prices and quotations from pricing vendors for securities. Real estate equity investment fair values are estimated by third-party advisors or operating partners based upon general market and property specific assumptions that are reviewed and approved by CalSTRS management. Short-term investments are reported at fair value or at cost or amortized cost, which approximates fair value. Fair value for commingled funds is based on information provided by the applicable general partner. Private equity partnerships are valued using their respective Net Asset Value (NAV), calculated in accordance with the general partners' fair valuation policy as of the measurement date, and are audited annually. CalSTRS receives these audited financial statements including valuation results from the general partners. CalSTRS reviews valuation policies for a sample of general partners on a periodic basis. The most significant input into the NAV of such an entity is the fair value of its investment holdings. These holdings are valued by the general partners on a quarterly or semi-annual basis. For private equity investments and other investments for which no readily ascertainable market value exists, CalSTRS management, in consultation with its investment advisors, has determined the fair value for the individual investments. Purchases and sales are recorded on the trade date.

The State Constitution, state statutes, and board policies permit CalPERS and CalSTRS to lend their securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. Third-party securities lending agents are under contract to lend domestic and international equity and debt securities. For CalPERS, collateral, in the form of cash or other securities, is required at 102% and 105% of the fair value of domestic and international securities loaned, respectively. For CalSTRS, collateral, in the form of cash or other securities, is required at 102% and 105% of the fair value of domestic securities and international equity securities loaned, respectively. For non-U.S. debt securities loaned, CalSTRS requires 102% of the fair value of the loaned securities. CalPERS management believes that CalPERS has minimized its credit risk exposure by requiring the borrowers to provide collateral greater than 100% of the market value of the securities loaned. The securities loaned are priced daily. Securities on loan by CalPERS can be recalled on demand by CalPERS, and loans of securities may be terminated by CalPERS or the borrower.

For CalPERS, the cash collateral at June 30, 2013, had an aggregate weighted average maturity (to final maturity) of 400 days and duration of 10 days. State Street Bank & Trust and eSecLending, LLC had weighted average maturity (to final maturity) of 33 and 205 days, respectively.

For CalSTRS, collateral received on each security loan was placed in investments that, at June 30, 2013, had a 28-day weighted duration difference between the investments and loans. Most of CalSTRS' security loans can be terminated on demand by CalSTRS or the borrower. CalSTRS is not permitted to pledge or sell non-cash collateral securities received unless the borrower defaults. The contracts with the security lending agents require the agents to indemnify CalSTRS if the borrowers fail to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrowers fail to pay CalSTRS for income distributions by the securities' issuers while the securities are on loan.

Table 6 presents the investments, including derivative instruments, of the fiduciary funds by investment type.

Table 6

Schedule of Investments – Fiduciary Funds
June 30, 2013
(amounts in thousands)

Investment Type	Fair Value
Equity securities	$ 230,250,748
Debt securities*	95,052,257
Mutual funds	292,393
Real estate	51,362,744
Inflation assets	10,338,702
Insurance contracts	698,174
Private equity	54,612,006
Securities lending collateral	40,497,424
Other	1,025,544
Total investments	**$ 484,129,992**

* Debt securities include short-term investments not included in cash and pooled investments.

This page intentionally left blank.

1. Interest Rate Risk

CalPERS and CalSTRS manage the interest rate risk inherent in their investment portfolios by measuring the effective or option-adjusted duration of the portfolio. The CalPERS investment policies require the option-adjusted duration of the total fixed-income portfolio to stay within 10% of the option-adjusted duration of its benchmark. All individual portfolios are required to maintain a specific level of risk relative to their benchmark. The CalSTRS investment guidelines allow the core long-term investment grade portfolios the discretion to deviate within plus or minus 20% (0.80 to 1.20) of the weighted average effective duration of the performance benchmark. The permissible range of deviation for the weighted average effective duration within the opportunistic strategy portfolios is negotiated with each manager and detailed within their respective investment guidelines. The CalSTRS investment guidelines state that the average maturity of the short-term fixed-income portfolio shall be managed such that it will not exceed 180 days.

Table 7 presents the interest rate risk of the fixed-income securities of these fiduciary funds.

Table 7

Schedule of Investments in Fixed–Income Securities – Fiduciary Funds – Interest Rate Risk
June 30, 2013
(amounts in thousands)

	Fair Value at Year End	Effective Duration (in years) [1]
California Public Employees' Retirement Fund [2]		
U.S. Treasuries and agencies	$ 24,270,732	9.13
Mortgages	11,788,729	4.75
Corporate	10,816,633	9.73
Asset-backed	6,973,386	8.48
Commercial paper	1,250,974	0.02
Municipal	15,622	8.58
International	6,240,593	9.94
Swaps	(43,972)	1.12
Private placement	2,917	2.61
No effective duration	7,516,464	N/A
Total	**$ 68,832,078**	

[1] Effective duration is described in the paragraph preceding this table.
[2] Includes investments of fiduciary funds and certain discretely presented component units that CalPERS administers.

Table 7 (Continued)

Schedule of Investments in Fixed–Income Securities – Fiduciary Funds – Interest Rate Risk
June 30, 2013
(amounts in thousands)

	Fair Value at Year End	Effective Duration (in years) [1]
California State Teachers' Retirement System		
Long-term fixed-income investments		
U.S. Government and agency obligations	$ 8,058,069	4.82
Credit obligations	6,418,989	6.39
Corporate high yield	1,893,429	3.95
Leveraged loans	396,632	0.33
Debt core plus	2,915,137	5.19
Special situations	144,892	0.07
Commercial mortgage-backed securities	581,189	3.10
Mortgage-backed securities	7,371,226	4.58
Total	**$ 27,779,563**	

	0-30 days	31-90 days	91-120 days	121-180 days	181-365 days	366+ days	Fair Value at Year End
Short-term fixed-income investments							
Money market securities	$ 1,159,202	$ 574,005	$ 25,005	$ 97,399	$ —	$ —	$ 1,855,611
Credit obligations	199,967	300,187	24,970	5,135	33,603	—	563,862
U.S. Government and agency obligations	250,423	79,995	85,706	70,077	547,492	257,098	1,290,791
Securitized obligations	157,737	45,707	—	10,867	14,986	—	229,297
Total	**$ 1,767,329**	**$ 999,894**	**$ 135,681**	**$ 183,478**	**$ 596,081**	**$ 257,098**	**$ 3,939,561**

	0-1 day	2-6 days	7-29 days	30-59 days	60-89 days	90+ days	Fair Value at Year End
Securities lending collateral							
Money markets securities	$ 59,782	$ 3,560,213	$ 4,176,367	$ 2,494,463	$ 1,301,237	$ 520,029	$ 12,112,091
Credit obligations	—	175,005	1,574,204	885,496	804,483	76,705	3,515,893
U.S. Government and agency obligations	—	676,250	30,000	—	—	360,815	1,067,065
Securitized obligations	—	—	4,967,932	243,457	194,713	195,409	5,601,511
Total	**$ 59,782**	**$ 4,411,468**	**$ 10,748,503**	**$ 3,623,416**	**$ 2,300,433**	**$ 1,152,958**	**$ 22,296,560**

[1] Effective duration is described in the paragraph preceding this table.

2. Credit Risk

The CalPERS investment policies require that 89% of the total fixed-income portfolio be invested in investment-grade securities. Investment-grade securities are those fixed-income securities with a Moody's rating of Aaa to Baa or a Standard and Poor's rating of AAA to BBB. Each portfolio is required to maintain a specified risk level. The CalSTRS investment guidelines require that, at the time of purchase, at least 95% of the corporate securities comprising the credit portion of the core fixed-income portfolio be rated Baa3/BBB-/BBB- or better by two out of the three nationally recognized statistical rating organizations (NRSROs), such as Moody's Investors Service, Inc., Standard and Poor's Rating Service, or Fitch Ratings. For CalSTRS, the ratings used to determine the quality of the individual securities are the ratings with the highest degree of risk. Furthermore, the total position of the outstanding debt of any one private or commercial mortgage-backed and asset-backed securities issuer shall be limited to 10% of the market value of the portfolio. Obligations of other issuers are held to a 5% per issuer limit (at the time of purchase) of the market value of any individual portfolio. The investment guidelines for CalSTRS include an allocation to opportunistic strategies, a portion of which is managed externally and allows for the purchase of bonds rated below investment grade. Limitations on the amount of debt of any one issuer an investment manager may hold are negotiated on a manager-by-manager basis.

Table 8 presents the credit risk of the fixed-income securities of these fiduciary funds.

Table 8

Schedule of Investments in Fixed-Income Securities – Fiduciary Funds – Credit Risk
June 30, 2013
(amounts in thousands)

Credit Rating as of Year End		
Short-term	**Long-term**	**Fair Value**
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 14,017,812
A-1/P-1/F-1	AA/Aa/AA	20,642,907
A-2/P-2/F-2	A/A/A	7,766,254
A-3/P-3/F-3	BBB/Baa/BBB	11,148,720
B/NP/B	BB/Ba/BB	2,003,767
B/NP/B	B/B/B	1,803,704
C/NP/C	CCC/Caa/CCC	797,422
C/NP/C	CC/Ca/CC	51,975
C/NP/C	C/C/C	7,233
D/NP/D	D/D/D	27,432
Withdrawn		161,777
Not rated		44,896,586
Not applicable		34,282,152
Total fixed-income securities		**$ 137,607,741**

3. Concentration of Credit Risk

The Scholarshare Program Trust Fund held $698 million in insurance contracts of TIAA-CREF Life Insurance Company; this amount represented 14% of the fund's total investments as of June 30, 2013.

CalPERS and CalSTRS did not have investments in a single issuer that represented 5% or more of total fair value of all investments.

4. Custodial Credit Risk

CalPERS' investments at June 30, 2013, were not exposed to custodial risk. As of June 30, 2013, all of CalSTRS' non-cash investments, other than Pension2 investments, are held in CalSTRS' and/or its nominee's name and are not exposed to custodial credit risk. CalPERS and CalSTRS have no general policies relating to custodial credit risk.

5. Foreign Currency Risk

At June 30, 2013, CalPERS and CalSTRS held $78.4 billion and $30.4 billion, respectively, in investments, including derivative instruments, subject to foreign currency risk. CalPERS' asset allocation and investment policies allow for active and passive investments in international securities. CalPERS' policy for total global equity specifies investment in international equities be based on market capitalization. For total fixed-income, 10% is targeted for investment in international securities. Real assets and private equity do not have a target allocation for international investment. CalPERS uses a currency overlay program to reduce risk by hedging approximately 15% of its total exposure to international currencies. CalSTRS enters into currency forwards and contracts to protect the value of its non-dollar public and private equity assets against a strengthening U.S. dollar, while recognizing opportunities for additional return (alpha) generation within the currency markets. The position range has been designed to allow for some degree of symmetry around the underlying exposure to the foreign-denominated assets within CalSTRS in order to protect the translation value of the assets against a strengthening U.S. dollar and to enhance returns in a declining U.S. dollar environment. As a result, the position range is -25% to 50% of the total notional value of the non-U.S. public and non-U.S. private (i.e., private equity and real estate) equity portfolios.

Table 9 (next page) identifies the investments, including derivative instruments, of the fiduciary funds that are subject to foreign currency risk. Derivative instruments are included in the amounts reported under equity, fixed-income, and forward contracts.

Table 9

Schedule of Investments – Fiduciary Funds – Foreign Currency Risk

June 30, 2013

(amounts in thousands of U.S. dollars at fair value)

Currency	Cash	Equity	Alternative	Fixed Income	Real Estate	Spot Contracts	Forward Contracts	Total
Argentine Peso	$ —	$ —	$ —	$ —	$ —	$ —	$ 4	$ 4
Australian Dollar	29,694	4,890,535	—	175,066	209,224	—	53,970	5,358,489
Bermuda Dollar	—	3,292	—	—	—	—	—	3,292
Brazilian Real	5,752	1,697,051	—	79,649	1,145,374	(5)	532	2,928,353
British Pound Sterling	85,073	13,435,847	1,031	1,515,787	274,143	431	27,077	15,339,389
Canadian Dollar	44,805	5,958,847	185,759	234,298	597,809	13	34,061	7,055,592
Cayman Islands Dollar	—	5,084	—	—	—	—	—	5,084
Chilean Peso	245	249,108	—	987	—	—	(232)	250,108
Chinese Yuan	—	3,643	—	—	679,066	—	486	683,195
Colombian Peso	20	64,181	—	—	—	(20)	55	64,236
Czech Koruna	189	68,592	—	9,498	—	—	733	79,012
Danish Krone	1,251	895,733	—	10,544	—	—	(3,183)	904,345
Egyptian Pound	11,773	46,706	—	—	—	—	(2)	58,477
Euro	328,321	24,410,720	3,351,690	2,597,692	738,749	601	32,546	31,460,319
Guatemalan Quetzal	—	—	—	—	72,029	—	—	72,029
Hong Kong Dollar	27,144	4,391,995	—	—	415,541	2	(115)	4,834,567
Hungarian Forint	353	129,148	—	—	—	—	75	129,576
Indian Rupee	7,029	1,131,475	—	68	383,684	(99)	434	1,522,591
Indonesian Rupiah	1,459	580,827	—	—	—	(6)	916	583,196
Israeli Shekel	1,474	307,458	—	—	—	—	(473)	308,459
Japanese Yen	159,730	16,724,947	84,710	909,686	279,406	1,020	(18,867)	18,140,632
Kazakhstan Tenge	—	—	—	—	—	—	1	1
Korean Won	—	5,035	—	—	—	—	—	5,035
Malaysian Ringgit	876	469,335	—	—	22,221	6	448	492,886
Mexican Peso	5,029	680,019	—	165,770	179,333	7	(1,790)	1,028,368
Moroccan Dirham	18	4,060	—	—	—	—	(229)	3,849
New Romanian Leu	—	—	—	—	—	—	(2)	(2)
New Russian Ruble	—	3,480	—	—	225,238	7	3	228,728
New Taiwan Dollar	2,002	1,873,153	—	—	—	—	245	1,875,400
New Turkish Lira	114	214,762	—	—	—	—	—	214,876
New Zealand Dollar	500	119,667	—	61,343	—	—	(749)	180,761
Norwegian Krone	4,028	687,890	—	33,929	2,530	—	4,550	732,927
Pakistan Rupee	172	62,463	—	—	—	—	—	62,635
Peruvian Nouveau Sol	49	6,310	—	—	—	6	21	6,386
Philippine Peso	303	217,689	—	—	—	—	(640)	217,352
Polish Zloty	156	226,354	—	50,175	—	—	134	276,819
Singapore Dollar	2,878	1,159,550	—	5,560	8,888	(9)	4,127	1,180,994
South African Rand	2,242	1,466,853	—	5,719	—	17	661	1,475,492
South Korean Won	3,550	2,641,084	—	—	—	30	(172)	2,644,492
Sri Lanka Rupee	3	—	—	—	123,069	—	—	123,072
Swedish Krona	3,315	1,977,295	—	52,197	—	—	11,822	2,044,629
Swiss Franc	1,429	5,213,058	—	499	—	(6)	(4,166)	5,210,814
Thailand Baht	4,862	713,374	—	—	—	(31)	14	718,219
Tunisian Dinar	—	—	—	—	—	—	32	32
Turkish Lira	1,369	452,638	—	—	—	(12)	(106)	453,889
UAE Dirham	740	55,294	—	—	—	—	—	56,034
U.S. Dollar	—	737,552	—	—	—	—	—	737,552
Total investments subject to foreign currency risk	**$ 737,947**	**$ 93,982,104**	**$ 3,623,190**	**$ 5,908,467**	**$ 5,356,304**	**$ 1,952**	**$ 142,221**	**$ 109,752,185**

C. Discretely Presented Component Units

The discretely presented component units consist of the University of California (University) and its foundations and the California Housing Finance Agency (CalHFA), and various funds that constitute 7% of the total investments of discretely presented component units. State law, bond resolutions, and investment policy resolutions allow component units to invest in U.S. government securities, state and municipal securities, commercial paper, corporate bonds, investment agreements, real estate, and other investments. Additionally, a portion of the cash and pooled investments of CalHFA, and other component units is invested in the State Treasurer's pooled investment program.

The investments of the University, a discretely presented component unit, are primarily stated at fair value. Investments authorized by the regents include equity securities, fixed-income securities, and certain other asset classes. The equity portion of the investment portfolio includes domestic and foreign common and preferred stocks, which may be included in actively or passively managed strategies, along with a modest exposure to private equities. Private equities include venture capital partnerships, buy-outs, and international funds. The fixed-income portion of the investment portfolio may include both domestic and foreign securities, as well as certain securitized investments including mortgage-backed and asset-backed securities. Deposits with the State of California are valued at contract value, which the University believes approximates fair value. Absolute return strategies, incorporating short sales, plus derivative positions to implement or hedge an investment position, are also authorized. Where donor agreements have placed constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

The University participates in a securities lending program as a means to augment income. Campus foundations' investments that are invested with the University and managed by the University's Chief Investment Officer are included in the University's investment pools that participate in a securities lending program. The campus foundations' allocated share of the program's cash collateral received, investment of cash collateral, and collateral held for securities lending is determined based upon the foundations' equity in the investment pools. The board of trustees for each campus foundation may also authorize participation in a direct securities lending program. The University loans securities to selected brokerage firms and receives collateral that equals or exceeds the fair value of such investments during the period of the loan. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Securities collateral cannot be pledged or sold by the University unless the borrower defaults. Loans of domestic equities and all fixed-income securities are initially collateralized at 102% of the fair value of the securities loaned. Loans of foreign equities are initially collateralized at 105%. All borrowers are required to provide additional collateral by the next business day if the value falls to less than 100% of the fair value of the securities loaned. The University earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and it is obligated to pay a fee and a rebate to the borrower. The University receives the net investment income. As of June 30, 2013, the University had insignificant exposure to borrower default because the amounts that it owed the borrowers were substantially the same as the amounts the borrowers owed the University. The University is indemnified by its lending agents against any losses incurred as a result of borrower default.

Securities loans immediately terminate upon notice by either the University or the borrower. Cash collateral is invested by the University's lending agents in short-term investment pools in the University's name, with guidelines approved by the University. As of June 30, 2013, the securities in these pools had a weighted average maturity of 44 days.

Table 10 presents the investments, including derivative instruments, of the discretely presented component units by investment type.

Table 10

Schedule of Investments – Discretely Presented Component Units
June 30, 2013
(amounts in thousands)

	Fair Value
Investment Type	
Equity securities	$ 3,421,693
Debt securities*	14,268,479
Investment contracts	105,614
Mutual funds	7,662,271
Real estate	725,786
Money market securities	1,389,147
Private equity	1,149,616
Mortgage loans	161,308
Securities lending collateral	1,468,865
Invested for others	(2,430,055)
Other	2,435,572
Total investments	**$ 30,358,296**

* Debt securities include short-term investments not included in cash and pooled investments.

1. Interest Rate Risk

Interest rate risk for the University's short-term investment pool is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio, as it is managed relative to the liquidity demands of the investors. Portfolio guidelines for the fixed-income portion of the University's general endowment pool limit weighted average effective duration to the effective duration of the Citigroup Large Pension Fund Index and Lehman Aggregate Index, plus or minus 20%.

Table 11 presents the interest rate risk of the fixed-income or variable-income securities of the major discretely presented component units.

Table 11

Schedule of Investments in Fixed-Income or Variable-Income Securities – Discretely Presented Component Units – Interest Rate Risk
June 30, 2013
(amounts in thousands)

	University of California		University of California Foundations		California Housing Finance Agency	
Investment Type	**Fair Value at Year End**	**Effective Duration[1]**	**Fair Value at Year End**	**Effective Duration[1]**	**Fair Value at Year End**	**Effective Duration[1]**
U.S. Treasury bills, notes, and bonds	$ 492,681	0.80	$ 320,825	1.60	$ —	—
U.S. Treasury strips	88,985	9.50	161	—	—	—
U.S. Treasury inflation-protected securities	151,225	7.00	—	—	—	—
U.S. government-backed securities	—	—	1,361	3.20	—	—
U.S. government-backed asset-backed securities	—	—	582	7.10	—	—
Corporate bonds	6,276,076	3.70	52,915	4.50	—	—
Commercial paper	2,205,533	—	—	—	—	—
U.S. agencies	1,383,842	2.90	3,996	5.00	—	—
U.S. agencies asset-backed securities	283,169	4.50	76,387	4.20	—	—
Corporate asset-backed securities	107,456	2.10	38,176	—	—	—
Supranational/foreign	1,700,003	4.10	1,691	0.80	—	—
Corporate (foreign currency denominated)	39,199	2.90	—	—	—	—
U.S. bond funds	150,696	4.90	157,748	4.40	—	—
Non-U.S. bond funds	19,564	4.50	56,108	5.20	—	—
Money market funds	680,674	—	628,690	2.60	—	—
Mortgage loans	161,054	—	254	—	—	—
Forward contracts on a to-be-announced basis	(10,604)	1.80	(170)	—	—	—
U.S. Treasury and agency securities	—	—	—	—	489,991	16.00
Other	14,101	16.80	13,305	4.50	—	—
Total	**$ 13,743,654**		**$ 1,352,029**		**$ 489,991**	

[1] Effective duration is the approximate change in price of the security resulting from a 100 basis points (1 percentage point) change in the level of interest rates. It is not a measure of time.

Table 12 identifies the debt securities that are highly sensitive to interest rate fluctuations because of the existence of prepayment or conversion features, although the effective duration of these securities may be low.

Table 12

Schedule of Highly Sensitive Investments in Debt Securities – University of California and its Foundations – Interest Rate Risk
June 30, 2013
(amounts in thousands)

	University of California		University of California Foundations	
	Fair Value at Year End	**Effective Duration**	**Fair Value at Year End**	**Effective Duration**
Mortgage-Backed Securities These securities are primarily issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.	$ 334,374	4.10	$ 56,375	1.30
Collateralized Mortgage Obligations Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the underlying mortgages are subject to a lower propensity of prepayments.	70,482	4.00	27,905	0.50
Other Asset-Backed Securities Other asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMOs, the relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates.	23,663	1.20	9,168	1.20
Variable-Rate Securities These securities are investments with terms that provide for the adjustment of their interest rates on set dates and are expected to have fair values that will be relatively unaffected by interest rate changes. Variable-rate securities may have limits on how high or low the interest rate may change. These constraints may affect the market value of the security.	7,196	2.30	—	—
Callable Bonds Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The university must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.	1,915,506	4.60	551	2.30
Convertible Bonds Convertible bonds are fixed-income securities with coupon rates that tend to be lower than those in conventional debt issues. Consequently, an increase in the market's rate of interest causes a greater decline in the price of issues of convertible bonds than that of non-convertible bonds.	349	4.70	—	—

2. Credit Risk

The investment guidelines for the University's short-term investment pool provide that no more than 5% of the total market value of the pool's portfolio may be invested in securities rated below investment grade (BB, Ba, or lower). The average credit quality of the pool must be A or better and commercial paper must be rated at least A-1, P-1, or F-1. For its general endowment pool, the University uses a fixed-income benchmark, the Barclays Capital U.S. Aggregate Bond Index, comprising approximately 27.5% high grade corporate bonds and 31.4% mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 41.1% are government-issued bonds. Credit risk in this pool is managed primarily by diversifying across issuers, and portfolio guidelines mandate that no more than 10% of the market value of fixed-income securities may be invested in issues with credit ratings below investment grade. Further, the weighted average credit rating must be A or higher.

Table 13 presents the credit risk of the fixed-income or variable-income securities of the major discretely presented component units.

Table 13

Schedule of Investments in Fixed-Income or Variable-Income Securities
Major Discretely Presented Component Units – Credit Risk
June 30, 2013
(amounts in thousands)

Credit Rating as of Year End		
Short-term	**Long-term**	**Fair Value**
A-1+	AAA	$ 282,419
A-1/P-1	AA2/AA	5,127,509
A-2	A2/A	3,791,788
A-3	BAA2/BBB	2,381,305
B	BA2/BB	315,441
B	B2/B	313,040
C	CC or below	84,197
Not rated		3,417,007
Total fixed-income securities		**$ 15,712,706**

3. Concentration of Credit Risk

Investment guidelines addressing concentration of credit risk related to the investment-grade fixed-income portion of the University's portfolio include a limit of no more than 3% of the portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to the University's short-term investment pool. For high-yield and emerging market debt, the corresponding limit is 5%. Each campus foundation may have its own individual investment policy designed to limit exposure to a concentration of credit risk.

4. Custodial Credit Risk

The University's securities are registered in its name by the custodial bank as an agent for the University. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

5. Foreign Currency Risk

The University's portfolio guidelines for U.S. investment-grade fixed-income securities allow exposure to non-U.S. dollar denominated bonds up to 10% of the total portfolio market value. Exposure to foreign currency risk from these securities may be fully or partially hedged using forward foreign currency exchange contracts. Under the University's investment policies, such instruments are not permitted for speculative use or to create leverage.

Table 14 identifies the investments of the University of California, including its campus foundations, that are subject to foreign currency risk.

Table 14

Schedule of Investments – University of California and its Foundations – Foreign Currency Risk
June 30, 2013
(amounts in thousands of U.S. dollars at fair value)

Currency	Equity	Real Estate	Investment Derivatives	Fixed-Income	Total
Australian Dollar	$ 90,721	$ 1,021	$ 1,246	$ —	$ 92,988
Brazilian Real	—	—	—	4,718	4,718
British Pound Sterling	285,600	659	1,573	—	287,832
Canadian Dollar	109,096	—	582	—	109,678
Danish Krone	16,091	—	—	—	16,091
Euro	420,548	996	537	2,275	424,356
Hong Kong Dollar	59,945	2,457	—	—	62,402
Indonesian Rupiah	—	—	—	3,209	3,209
Japanese Yen	302,726	1,892	3,146	—	307,764
Malaysian Ringgit	—	—	—	3,573	3,573
Mexican Peso	—	—	—	4,638	4,638
New Russian Ruble	—	—	—	3,703	3,703
Norwegian Krone	13,656	—	—	—	13,656
Polish Zloty	—	—	—	3,450	3,450
Singapore Dollar	27,671	478	—	—	28,149
South African Rand	—	—	—	3,980	3,980
Swedish Krona	41,548	—	—	—	41,548
Swiss Franc	137,919	—	—	—	137,919
Turkish Lira	—	—	—	3,911	3,911
Other	52,309	3,328	460	5,742	61,839
Commingled currencies	1,390,125	—	—	65,225	1,455,350
Total investments subject to foreign currency risk	**$ 2,947,955**	**$ 10,831**	**$ 7,544**	**$ 104,424**	**$ 3,070,754**

This page intentionally left blank.

NOTE 4: ACCOUNTS RECEIVABLE

Table 15 presents the disaggregation of accounts receivable attributable to taxes, interest expense reimbursements, Lottery retailer collections, the California State University, and unemployment program receipts. Other receivables are for interest, gifts, grants, various fees, penalties, and other charges.

Table 15

Schedule of Accounts Receivable
June 30, 2013
(amounts in thousands)

	Taxes	Reimbursement of Accrued Interest Expense	Lottery Retailers	Unemployment Programs	California State University	Other	Total
Current governmental activities							
General Fund	$ 11,527,389	$ —	$ —	$ —	$ —	$ 1,123,106	$ 12,650,495
Federal Fund	—	—	—	—	—	950	950
Transportation Fund	625,823	—	—	—	—	434,469	1,060,292
Environmental and Natural Resources Fund	—	—	—	—	—	505,457	505,457
Nonmajor governmental funds	338,760	—	—	—	—	1,958,218	2,296,978
Internal service funds	—	—	—	—	—	45,665	45,665
Total current governmental activities	**$ 12,491,972**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 4,067,865**	**$ 16,559,837**
Amounts not expected to be collected during the subsequent year (unavailable revenue)	**$ 1,704,409**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 267,333** *	**$ 1,971,742**
Current business-type activities							
Water Resources Fund	$ —	$ —	$ —	$ —	$ —	$ 92,373	$ 92,373
Public Buildings Construction Fund	—	197,801	—	—	—	—	197,801
State Lottery Fund	—	—	362,744	—	—	—	362,744
Unemployment Programs Fund	—	—	—	1,275,655	—	—	1,275,655
California State University	—	—	—	—	161,990	—	161,990
Nonmajor enterprise funds	—	—	—	—	—	46,115	46,115
Adjustment:							
Account reclassification	—	(197,801)	—	—	—	(662)	(198,463)
Total current business-type activities	**$ —**	**$ —**	**$ 362,744**	**$ 1,275,655**	**$ 161,990**	**$ 137,826**	**$ 1,938,215**
Amounts not expected to be collected during the subsequent year (unavailable revenue)	**$ —**	**$ —**	**$ —**	**$ 30,476**	**$ 272,644**	**$ —**	**$ 303,120**

* This amount includes noncurrent receivables for Service Concession Arrangements.

NOTE 5: RESTRICTED ASSETS

Table 16 presents a summary of the legal restrictions placed on assets in the enterprise funds of the primary government and the discretely presented component units.

Table 16

Schedule of Restricted Assets
June 30, 2013
(amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Governments	Loans Receivable	Total
Primary government					
Debt service	$ 1,718,509	$ 385,758	$ 20,448	$ 325,930	$ 2,450,645
Construction	2,292,203	11,889	—	—	2,304,092
Operations	228,000	—	—	—	228,000
Other	2,623	8,754	—	—	11,377
Total primary government	**4,241,335**	**406,401**	**20,448**	**325,930**	**4,994,114**
Discretely presented component units					
Debt service	124,877	26,134	—	—	151,011
Total discretely presented component units	**124,877**	**26,134**	**—**	**—**	**151,011**
Total restricted assets	**$ 4,366,212**	**$ 432,535**	**$ 20,448**	**$ 325,930**	**$ 5,145,125**

NOTE 6: NET INVESTMENT IN DIRECT FINANCING LEASES

The State Public Works Board, an agency that accounts for its activities as an enterprise fund, has entered into lease-purchase agreements with various other primary government agencies, the University of California, and certain local agencies. Payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board.

California State University (CSU) accounts for its lease activities in the California State University Trust Fund, a major enterprise fund, and has entered into capital lease agreements with certain auxiliary organizations. These agreements lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.

Table 17 summarizes the minimum lease payments to be received by the primary government.

Table 17

Schedule of Minimum Lease Payments to be Received by the Primary Government
(amounts in thousands)

Year Ending June 30	Primary Government Agencies	University of California	California State University	Local Agencies	Total
2014	$ 627,900	$ 220,265	$ 29,402	$ 63,776	$ 941,343
2015	626,417	212,174	29,369	62,177	930,137
2016	622,440	178,630	26,753	53,892	881,715
2017	620,872	171,731	27,040	39,986	859,629
2018	590,803	188,278	27,122	32,698	838,901
2019-2023	2,339,505	857,584	141,276	77,765	3,416,130
2024-2028	1,854,657	600,460	148,792	63,379	2,667,288
2029-2033	1,186,734	416,440	131,503	39,021	1,773,698
2034-2038	270,758	59,510	42,746	—	373,014
2039-2043	—	—	23,190	—	23,190
2044-2046	—	—	8,986	—	8,986
Total minimum lease payments	**8,740,086**	**2,905,072**	**636,179**	**432,694**	**12,714,031**
Less: unearned income	3,334,459	1,029,616	253,826	102,721	4,720,622
Net investment in direct financing leases	**$ 5,405,627**	**$ 1,875,456**	**$ 382,353**	**$ 329,973**	**$ 7,993,409**

NOTE 7: CAPITAL ASSETS

Table 18 summarizes the capital activity for the primary government, which includes $8.0 billion in capital assets related to capital leases.

Table 18

Schedule of Changes in Capital Assets – Primary Government
June 30, 2013
(amounts in thousands)

	Beginning Balance (Restated)	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets not being depreciated/amortized				
Land	$ 17,112,444 *	$ 525,776	$ 36,165	$ 17,602,055
State highway infrastructure	63,779,198 *	1,011,463	171,224	64,619,437
Collections	22,528	119	2	22,645
Construction in progress	8,625,913 *	2,760,311	1,480,894	9,905,330
Intangible assets	1,022,313 *	336,133	274,118	1,084,328
Total capital assets not being depreciated/amortized	**90,562,396**	**4,633,802**	**1,962,403**	**93,233,795**
Capital assets being depreciated/amortized				
Buildings and improvements	19,065,903 *	1,172,929	15,683	20,223,149
Infrastructure	718,155	23,209	2,872	738,492
Equipment and other assets	4,505,430 *	283,245	136,667	4,652,008
Intangible assets	678,786 *	382,689	75,291	986,184
Total capital assets being depreciated/amortized	**24,968,274**	**1,862,072**	**230,513**	**26,599,833**
Less accumulated depreciation/amortization for:				
Buildings and improvements	6,398,655 *	153,741	12,755	6,539,641
Infrastructure	293,242	34,811	2,717	325,336
Equipment and other assets	3,698,714 *	333,512	129,126	3,903,100
Intangible assets	383,381 *	60,184	46,080	397,485
Total accumulated depreciation/amortization	**10,773,992**	**582,248**	**190,678**	**11,165,562**
Total capital assets being depreciated/amortized, net	**14,194,282**	**1,279,824**	**39,835**	**15,434,271**
Governmental activities, capital assets, net	**$ 104,756,678**	**$ 5,913,626**	**$ 2,002,238**	**$ 108,668,066**
Business-type activities				
Capital assets not being depreciated/amortized				
Land	$ 216,206	$ 714	$ 32	$ 216,888
Collections	2,895	3,183	27	6,051
Construction in progress	1,766,234 *	1,050,892	229,995	2,587,131
Intangible assets	311,527 *	93,125	673	403,979
Total capital assets not being depreciated/amortized	**2,296,862**	**1,147,914**	**230,727**	**3,214,049**
Capital assets being depreciated/amortized				
Buildings and improvements	10,176,625	282,554	7,248	10,451,931
Infrastructure	205,836	30,315	2	236,149
Equipment and other assets	558,023 *	54,356	36,048	576,331
Intangible assets	158,518 *	17,008	1,481	174,045
Total capital assets being depreciated/amortized	**11,099,002**	**384,233**	**44,779**	**11,438,456**
Less accumulated depreciation/amortization for:				
Buildings and improvements	3,908,907	261,734	5,878	4,164,763
Infrastructure	46,490	14,958	2	61,446
Equipment and other assets	331,177	50,805	34,167	347,815
Intangible assets	104,500 *	15,823	1,288	119,035
Total accumulated depreciation/amortization	**4,391,074**	**343,320**	**41,335**	**4,693,059**
Total capital assets being depreciated/amortized, net	**6,707,928**	**40,913**	**3,444**	**6,745,397**
Business-type activities, capital assets, net	**$ 9,004,790**	**$ 1,188,827**	**$ 234,171**	**$ 9,959,446**

* Restated

Table 19 summarizes the depreciation expense charged to the activities of the primary government.

Table 19

Schedule of Depreciation Expense – Primary Government
June 30, 2013
(amounts in thousands)

	Amount
Governmental activities	
General government	$ 69,301
Education	127,941
Health and human services	42,647
Resources	31,985
State and consumer services	37,316
Business and transportation	101,286
Correctional programs	122,610
Internal service funds (charged to the activities that utilize the fund)	49,162
Total governmental activities	**582,248**
Business-type activities	**343,320**
Total primary government	**$ 925,568**

Table 20 summarizes the capital activity for discretely presented component units.

Table 20

Schedule of Changes in Capital Assets – Discretely Presented Component Units
June 30, 2013
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets not being depreciated/amortized				
Land	$ 902,283 *	$ 77,648	$ 9,225	$ 970,706
Collections	352,169	10,296	92	362,373
Construction in progress	2,805,485 *	131,798	19,741	2,917,542
Intangible assets	5,141 *	—	10	5,131
Total capital assets not being depreciated/amortized	**4,065,078**	**219,742**	**29,068**	**4,255,752**
Capital assets being depreciated/amortized				
Buildings and improvements	29,445,447 *	1,625,825	75,144	30,996,128
Infrastructure	656,560	10,244	5	666,799
Equipment and other depreciable assets	9,432,630 *	618,627	370,763	9,680,494
Intangible assets	490,308 *	207,741	23,507	674,542
Total capital assets being depreciated/amortized	**40,024,945**	**2,462,437**	**469,419**	**42,017,963**
Less accumulated depreciation/amortization for:				
Buildings and improvements	10,626,127 *	980,371	24,500	11,581,998
Infrastructure	283,069	22,839	—	305,908
Equipment and other depreciable assets	6,491,347 *	561,288	348,205	6,704,430
Intangible assets	259,251 *	60,888	20,158	299,981
Total accumulated depreciation/amortization	**17,659,794**	**1,625,386**	**392,863**	**18,892,317**
Total capital assets being depreciated/amortized, net	**22,365,151**	**837,051**	**76,556**	**23,125,646**
Capital assets, net	**$ 26,430,229**	**$ 1,056,793**	**$ 105,624**	**$ 27,381,398**

* Restated

NOTE 8: ACCOUNTS PAYABLE

Accounts payable are amounts due taxpayers, vendors, customers, beneficiaries, and employees related to different programs. Table 21 presents details related to accounts payable.

The adjustment for the fiduciary funds represents amounts due fiduciary funds that were reclassified as external payables on the government-wide Statement of Net Position.

Table 21

Schedule of Accounts Payable
June 30, 2013
(amounts in thousands)

	Education	Health and Human Services	Resources	Business and Transportation	General Government and Others	Total
Governmental activities						
General Fund	$ 256,569	$ 790,098	$ 109,922	$ 1	$ 501,054	$ 1,657,644
Federal Fund	173,190	336,586	63,558	548,733	107,040	1,229,107
Transportation Fund	9,578	17	4,516	388,510	14,291	416,912
Environmental and Natural Resources Fund	2,994	3,339	316,755	630	4,316	328,034
Nonmajor governmental funds	13,155	546,717	10,547	74,151	341,132	985,702
Internal service funds	—	—	17,329	—	247,403	264,732
Adjustment:						
Fiduciary funds	8,490,297	9,649,692	—	99,248	513,750	18,752,987
Total governmental activities	**$ 8,945,783**	**$ 11,326,449**	**$ 522,627**	**$ 1,111,273**	**$ 1,728,986**	**$ 23,635,118**
Business-type activities						
Electric Power Fund	$ —	$ —	$ 9,000	$ —	$ —	$ 9,000
Water Resources Fund	—	—	106,490	—	—	106,490
Public Buildings Construction Fund	—	—	—	—	200,200	200,200
State Lottery Fund	—	—	—	—	60,505	60,505
Unemployment Programs Fund	—	—	—	—	7,200	7,200
California State University	169,394	—	—	—	—	169,394
Nonmajor enterprise funds	1,000	109	8	—	3,003	4,120
Adjustment:						
Fiduciary funds	—	—	—	—	381	381
Total business-type activities	**$ 170,394**	**$ 109**	**$ 115,498**	**$ —**	**$ 271,289**	**$ 557,290**

NOTE 9: SHORT-TERM FINANCING

As part of its cash management program, the State regularly issues short-term obligations to meet cash flow needs. The State issues revenue anticipation notes (RANs) to partially fund timing differences between revenues and expenditures, because General Fund revenues and disbursements do not occur evenly throughout the fiscal year. If additional external cash flow borrowing is required, the State issues revenue anticipation warrants.

To fund cash flow needs for the 2012-13 fiscal year, the State issued $10.0 billion in RANs on August 16, 2012. The RANs were repaid during May and June of 2013.

NOTE 10: LONG-TERM OBLIGATIONS

As of June 30, 2013, the primary government had long-term obligations totaling $170.8 billion. Of that amount, $6.4 billion is due within one year. The largest changes in long-term obligations for governmental activities are a decrease of $3.1 billion in loans payable and an increase of $3.1 billion in net other postemployment benefits obligations. Other notable increases occurred in general obligation bonds payable and certificates of participation and commercial paper payable.

As of June 30, 2013, the pollution remediation obligations decreased by $34 million, to $1.0 billion. Under federal Superfund law, responsibility for pollution remediation is placed upon current and previous owners or operators of polluted sites. Currently, the State's most significant superfund site is the Stringfellow Class 1 Hazardous Waste Disposal Facility (Stringfellow) located in Riverside County. As of June 30, 2013, the State estimates that remediation costs at Stringfellow will total $378 million. At two other sites, Leviathan Mine and BKK Landfill, obligating events have occurred that will probably result in significant liability to the State, but reasonable estimates of the remediation costs cannot be made at this time. Currently, litigation is in process to determine the final terms of the settlement for Leviathan Mine, a superfund site. The State's activities at the site relate to water pollution remediation. BKK is a closed Class 1 landfill site at which the State is conducting post-closure care. In addition to superfund sites, the State's other pollution remediation efforts include underground storage tank removal and cleanup, cleanup of polluted groundwater, and contaminated soil removal and cleanup.

Not included in Note 10 are certain state mandated programs that are in the adjudication process. Until the Commission on State Mandates (CSM) rules on a test claim, and the claim's parameters and guidelines are established, expected costs cannot be reasonably determined; however, a positive finding for any of the claimants could individually or in aggregate pose a significant cost to the State.

The other long-term obligations for governmental activities consist of $3.3 billion for net pension obligations, $86 million owed for lawsuits, the University of California unfunded pension liability of $28 million, and the California Technology Agency notes payable of $27 million. The compensated absences will be liquidated by the General Fund, special revenue funds, capital projects funds, and internal service funds. Workers' compensation and capital leases will be liquidated by the General Fund, special revenue funds, and internal service funds. The General Fund will liquidate net pension obligations, the Proposition 98 funding guarantee, lawsuits, reimbursement of costs incurred by local agencies and school districts for costs mandated by the State, and the University of California pension liability.

The largest changes in business-type long-term obligations are a decrease of $384 million for loans payable to the U.S. Department of Labor to cover shortfalls in the Unemployment Programs Fund and a decrease of $232 million in general obligation bonds payable.

This page intentionally left blank.

Table 22 summarizes the changes in long-term obligations during the year ended June 30, 2013.

Table 22

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

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year	Noncurrent Liabilities
Governmental activities						
Loans payable	$ 3,131,365	$ —	$ 3,131,365	$ —	$ —	$ —
Compensated absences payable	3,820,093 *	1,771,537	1,456,529	4,135,101	19,500	4,115,601
Certificates of participation and commercial paper	43,228 *	643,865	148,500	538,593	8,094	530,499
Accreted interest	3,050	184	3,234	—	—	—
Certificates of participation and commercial paper payable	46,278 *	644,049	151,734	538,593	8,094	530,499
Capital lease obligations	4,936,200 *	710,440	327,153	5,319,487	399,491	4,919,996
General obligation bonds	79,447,815	7,417,170	7,176,540	79,688,445	2,900,795	76,787,650
Premiums/discounts/other	1,929,179 *	903,130	174,543	2,657,766	139,709	2,518,057
General obligation bonds payable	81,376,994 *	8,320,300	7,351,083	82,346,211	3,040,504	79,305,707
Revenue bonds	7,558,970	375,105	726,158	7,207,917	158,398	7,049,519
Accreted interest	334,176	49,686	—	383,862	—	383,862
Premiums/discounts/other	108,800 *	56,019	21,545	143,274	(4,267)	147,541
Revenue bonds payable	8,001,946 *	480,810	747,703	7,735,053	154,131	7,580,922
Net other postemployment benefits obligation	12,472,425 *	4,768,897	1,682,090	15,559,232	—	15,559,232
Pollution remediation obligations	1,043,047 *	35,028	68,859	1,009,216	35,259	973,957
Proposition 98 funding guarantee	2,247,676	134,862	468,474	1,914,064	—	1,914,064
Mandated costs	6,414,082	416,988	80,221	6,750,849	54,259	6,696,590
Workers' compensation	3,202,772	754,641	449,937	3,507,476	413,644	3,093,832
Other long-term obligations	3,368,459	328,503	277,990	3,418,972	57,243	3,361,729
Total governmental activities	**$ 130,061,337**	**$ 18,366,055**	**$ 16,193,138**	**$ 132,234,254**	**$ 4,182,125**	**$ 128,052,129**
Business-type activities						
Loans payable	$ 8,968,936	$ —	$ 383,618	$ 8,585,318	$ —	$ 8,585,318
Lottery prizes and annuities	1,306,053	2,844,588	2,951,737	1,198,904	491,123	707,781
Compensated absences payable	297,336	137,887	121,090	314,133	124,925	189,208
Certificates of participation and commercial paper	67,325	149,366	139,131	77,560	340	77,220
Capital lease obligations	817,687	92,184	—	909,871	62,519	847,352
General obligation bonds	1,119,935	—	231,655	888,280	61,185	827,095
Premiums/discounts/other	(1,301)	74	—	(1,227)	—	(1,227)
General obligation bonds payable	1,118,634	74	231,655	887,053	61,185	825,868
Revenue bonds	24,482,048	3,022,400	3,041,490	24,462,958	1,338,210	23,124,748
Premiums/discounts/other	912,690	343,367	160,886	1,095,171	140,893	954,278
Revenue bonds payable	25,394,738	3,365,767	3,202,376	25,558,129	1,479,103	24,079,026
Net other postemployment benefits obligation	410,782	157,165	57,718	510,229	—	510,229
Other long-term obligations	526,167 *	46,563	88,081	484,649	24,842	459,807
Total business-type activities	**$ 38,907,658**	**$ 6,793,594**	**$ 7,175,406**	**$ 38,525,846**	**$ 2,244,037**	**$ 36,281,809**

* Restated

NOTE 11: CERTIFICATES OF PARTICIPATION

Table 23 shows debt service requirements for certificates of participation, which are financed by lease payments from governmental activities. The certificates of participation were used to finance the acquisition and construction of a state office building.

Table 23

Schedule of Debt Service Requirements for Certificates of Participation – Primary Government
(amounts in thousands)

Year Ending June 30	Principal	Interest	Total
2014	$ 8,140	$ 1,503	$ 9,643
2015	8,565	1,075	9,640
2016	11,915	625	12,540
Total	**$ 28,620**	**$ 3,203**	**$ 31,823**

NOTE 12: COMMERCIAL PAPER AND OTHER LONG-TERM BORROWINGS

The primary government has two commercial paper borrowing programs: a general obligation commercial paper program and an enterprise fund commercial paper program for the Department of Water Resources. Under the general obligation and enterprise fund programs, commercial paper (new issuance or rollover notes) may be issued at the prevailing market rate, not to exceed 11%, for periods not to exceed 270 days from the date of issuance. The proceeds from the initial issuance of commercial paper are restricted primarily for construction costs of general obligation bond program projects and certain state water projects. For both commercial paper borrowing programs, the commercial paper is retired by the issuance of long-term debt, so commercial paper is considered a noncurrent liability.

To provide liquidity for the programs, the State has entered into revolving credit agreements with commercial banks. The current “Letter of Credit” agreements for the general obligation commercial paper program, effective December 21, 2011, authorize the issuance of notes in an aggregate principal amount not to exceed $1.6 billion. As of June 30, 2013, the general obligation commercial paper program had $510 million in outstanding commercial paper notes for governmental activities. The current agreement for the enterprise fund commercial paper program authorizes the issuance of notes in an aggregate principal amount not to exceed $140 million. As of June 30, 2013, the enterprise fund commercial paper program had $51 million in outstanding notes.

The primary government has a revenue bond anticipation note (BAN) program that consists of borrowing for capital improvements on certain California State University campuses. As of June 30, 2013, $27 million in outstanding BANs existed in anticipation of the primary government issuing revenue bonds to the public.

The University of California, a discretely presented component unit, has established a $2.0 billion commercial paper program with tax-exempt and taxable components. The program is supported by available investments in the University’s investment pools. Commercial paper may be issued by the University to provide for interim/permanent financing for capital projects and interim financing for equipment and working capital. Commercial paper is collateralized by a pledge of the net revenues derived from the University’s ownership or operation of the projects financed—not by any encumbrance, mortgage, or other pledge of property—and does

not constitute a general obligation of the University. At June 30, 2013, outstanding tax-exempt and taxable commercial paper totaled $55 million and $1.3 billion, respectively. The University has other borrowings consisting of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. Outstanding borrowings under these uncollateralized financing agreements for the period ending June 30, 2013, total $262 million for general corporate purposes and $15 million for interim financing.

NOTE 13: LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30, 2013, was approximately $10.7 billion. Primary government leases that are classified as operating leases, in accordance with the applicable standards, contain clauses providing for termination. Operating lease expenditures are recognized as being incurred over the lease term. It is expected that, in the normal course of business, most of these operating leases will be replaced by similar leases.

The total present value of minimum capital lease payments for the primary government is comprised of $6.2 billion. Note 10, Long-term Obligations, reports the additions and deductions of capital lease obligations. Also reported in Note 10 are the current and noncurrent portions of the capital lease obligations. Lease expenditures for the year ended June 30, 2013, amounted to approximately $1.0 billion.

Included in the capital lease commitments are lease-purchase agreements, amounting to a present value of net minimum lease payments of $5.6 billion that certain state agencies have entered into with the State Public Works Board, an enterprise fund agency. This amount represents 90.6% of the total present value of minimum capital lease payments of the primary government. Also included in the capital lease commitments are some lease-purchase agreements to acquire equipment.

The capital lease commitments do not include $309 million in lease-purchase agreements with building authorities that are blended component units. These building authorities acquire or develop office buildings and then lease the facilities to state agencies. Upon expiration of the lease, title passes to the primary government. The costs of the buildings and the related outstanding revenue bonds and certificates of participation are reported in the government-wide financial statements. Accordingly, the lease receivables or capital lease obligations associated with these buildings are not included in the financial statements.

Table 24 summarizes future minimum lease commitments of the primary government.

Table 24

Schedule of Future Minimum Lease Commitments – Primary Government
(amounts in thousands)

Year Ending June 30	Operating Leases	Capital Leases	Total
2014	$ 279,348	$ 728,216	$ 1,007,564
2015	188,056	714,784	902,840
2016	125,375	698,504	823,879
2017	80,589	682,721	763,310
2018	40,063	657,030	697,093
2019-2023	79,622	2,595,057	2,674,679
2024-2028	14,924	2,038,819	2,053,743
2029-2033	11,578	1,362,162	1,373,740
2034-2038	3,063	362,421	365,484
2039-2043	1,567	9,715	11,282
2044-2048	498	—	498
2049-2053	352	—	352
2054-2058	114	—	114
2059-2063	52	—	52
2064-2068	32	—	32
2069-2073	33	—	33
2074-2078	32	—	32
2079-2083	33	—	33
2084-2088	32	—	32
2089-2093	33	—	33
2094-2098	32	—	32
2099-2103	3	—	3
Total minimum lease payments	**$ 825,431**	**9,849,429**	**$ 10,674,860**
Less: amount representing interest		3,620,071	
Present value of net minimum lease payments		**$ 6,229,358**	

The aggregate amount of the major discretely presented component units' lease commitments for land, facilities, and equipment in effect as of June 30, 2013, was approximately $4.5 billion. Table 25 presents the future minimum lease commitments for the University of California. Operating lease expenditures for the year ended June 30, 2013, amounted to approximately $168 million for major discretely presented component units.

Table 25

Schedule of Future Minimum Lease Commitments –
Major Discretely Presented Component Units
(amounts in thousands)

Year Ending June 30	University of California Capital	University of California Operating	Total
2014	$ 313,074	$ 120,281	$ 433,355
2015	267,337	97,810	365,147
2016	239,951	80,610	320,561
2017	235,463	65,363	300,826
2018	228,809	54,160	282,969
2019-2023	1,072,137	131,171	1,203,308
2024-2028	785,675	7,223	792,898
2029-2033	596,047	4,932	600,979
2034-2038	129,122	4,898	134,020
2039-2043	30,977	1,651	32,628
2044-2048	3,968	—	3,968
Total minimum lease payments	**3,902,560**	**$ 568,099**	**$ 4,470,659**
Less: amount representing interest	1,316,171		
Present value of net minimum lease payments	**$ 2,586,389**		

NOTE 14: COMMITMENTS

As of June 30, 2013, the primary government had commitments of $7.0 billion for certain highway construction projects. The primary government also had commitments of $773 million for various education programs, $489 million for terrorism prevention and disaster preparedness response projects, $329 million for services provided under various public health programs, $291 million for services under the workforce development program, $202 million for community service programs, $126 million for services provided under the welfare program, $40 million for services provided under the child support program, and $33 million for services provided under the rehabilitation program.

The primary government had other commitments, totaling $7.6 billion that are not included as a liability on the Balance Sheet or the Statement of Net Position. The $7.6 billion in commitments includes grant agreements totaling approximately $5.5 billion to reimburse other entities for construction projects for school building aid, parks, transportation-related infrastructure, housing, and other improvements; and to reimburse counties and cities for costs associated with various programs. Any assets that have been constructed will not belong to the primary government, whose payments are contingent upon the other entities entering into construction contracts. The $7.6 billion in commitments includes $363 million in undisbursed loan commitments for various programs aimed at providing housing and emergency shelter to persons in need. In addition, the $7.6 billion in commitments includes $113 million in long-term contracts to purchase power. These contracts qualify for the Normal Purchase Normal Sale (NPNS) exception under GASB Statement No. 53 and, therefore, are not included on the Statement of Net Position of the Electric Power Fund nor disclosed in Note 17.

The $7.6 billion in commitments also includes contracts of $861 million for the construction of water projects and the purchase and transmission of power that are not included as a liability on the Statement of Net Position of the Water Resources Fund. Included in this amount are certain power purchase, sale, and exchange contracts. These contracts had a positive fair value of $72,000 as of June 30, 2013. The primary government had commitments of $214 million for California State University (CSU) construction projects. CSU participates in forward-purchase contracts of natural gas and electricity. As of June 30, 2013, CSU's obligation under these special purchase arrangements requires it to purchase at fixed prices an estimated total of $26 million in electricity through March 2014 and $35 million in natural gas through June 2017. The primary government also had commitments of $5 million to veterans for the purchase of properties under contracts of sale. The California State Lottery Commission had commitments of $533 million, of which $530 million is for gaming and telecommunication systems and services and $3 million is for a construction contract. These are long-term projects, and all of the contracts' needs may not have been defined. The projects will be funded with existing and future program resources or with the proceeds of revenue and general obligation bonds.

As of June 30, 2013, the primary government encumbered expenditures of $658 million for the General Fund, $3.9 billion for the Transportation Fund, $1.2 billion for the Environmental and Natural Resources Fund, and $708 million for the nonmajor governmental funds. See Note 2A for an explanation of the primary government's policy concerning encumbrances.

As of June 30, 2013, the discretely presented component units had other commitments that are not included as liabilities on the Statement of Net Position. The University of California had authorized construction projects totaling $3.4 billion. The University also made commitments to invest in certain investment partnerships pursuant to provisions in the various partnership agreements. These commitments totaled $700 million as of June 30, 2013. The California Housing Finance Agency had no outstanding commitments to provide loans under its housing programs. The California Public Employees' Retirement System had capital commitments to private equity funds of $12.4 billion and commitments to purchase real estate equity of $8.0 billion that remained unfunded and not recorded as liabilities on the Statement of Net Position of the fiduciary component unit.

NOTE 15: GENERAL OBLIGATION BONDS

The State Constitution permits the primary government to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds vote of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used first to support the public school system and public institutions of higher education; the General Fund can then be used to service the debt on outstanding general obligation bonds. Enterprise funds and certain other funds reimburse the General Fund for any debt service it provides on their behalf. General obligation bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included as a liability of such funds in the financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such funds.

As of June 30, 2013, the State had $79.7 billion in outstanding general obligation bonds related to governmental activities and $888 million related to business-type activities. In addition, $30.5 billion of long-term general obligation bonds had been authorized but not issued, of which $29.2 billion is related to governmental activities and $1.3 billion is related to business-type activities. The total amount authorized but not issued includes $17.9 billion authorized by the applicable finance committees for issuance in the form of commercial paper notes. Of this amount, $510 million in general obligation indebtedness in the form of commercial paper notes was not yet retired by long-term bonds.

A. Variable-rate General Obligation Bonds

The State issues both fixed and variable-rate general obligation bonds. As of June 30, 2013, the State had $2.7 billion of variable-rate general obligation bonds outstanding, consisting of $814 million in daily rate bonds with credit enhancement and $1.7 billion in weekly rate bonds with credit enhancement, and $198 million in weekly rate bonds without credit enhancement. The interest rates associated with the credit enhanced bonds are determined by the remarketing agents to be the lowest rate that would allow the bonds to sell on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest rates associated with the unenhanced bonds are determined by the Securities Industry and Financial Markets Association (SIFMA) Index rate then in effect plus a pre-determined spread (SIFMA Index Floating Rate Bonds). The interest on all variable-rate bonds is paid on the first business day of each calendar month.

The credit enhanced bonds are secured by letters of credit which secure payment of principal and interest on the bonds. The State has entered into different credit agreements with various banks for each series of credit enhanced bonds. Under these credit agreements, the credit providers agree to pay all principal and interest payments or the commitment amounts to the bondholders; the State is then required to reimburse the credit providers for the amounts paid. In return, the credit providers are compensated with commitment fees that are calculated as a percentage of the bank commitment amounts. The bondholders have the right to tender the bonds daily if the bonds are in a daily rate mode and weekly if the bonds are in a weekly rate mode. Upon a tender, the remarketing agent will attempt to remarket the bonds to a new investor. If the remarketing of the bonds is unsuccessful, the bonds will enter into a bank bond period and accrue interest at higher rates— which cannot exceed 11% as permitted by law until remarketed or redeemed. If the bonds cannot be remarketed and remain in a bank bond period ranging from 45 days to 180 days, the bonds will be subject to term loan payment in 12 equal quarterly installments under the terms stated in the credit agreements. The term loan period may exceed the expiration dates of the credit agreements. The bonds may be remarketed at any time during the bank bond or term loan period. There were no bank bonds during fiscal year 2012 - 2013.

The letters of credit for the variable-rate bonds issued during the 2002-03 fiscal year have expiration dates of November 21, 2014; December 1, 2014; October 15, 2015; and October 16, 2015. The letters of credit for the variable-rate bonds issued during the 2004-05 fiscal year have expiration dates of April 6, 2015; October 12, 2015; and October 15, 2015. The letters of credit for the variable-rate bonds issued during the 2005-06 fiscal year have expiration dates of November 12, 2013; April 11, 2014; and November 10, 2014. The Series 2012A SIFMA Index floating rate bonds have a mandatory purchase date of May 1, 2015. The Series 2012B SIFMA Index floating rate bonds have final maturities from 2017 to 2020.

Based on the schedules provided in the Official Statements, sinking fund deposits for the variable-rate general obligation bonds will be set aside in a mandatory sinking fund at the beginning of each of the following fiscal years: the 2015-16 through 2033-34 fiscal years and the 2039-40 fiscal year. The deposits set aside in any fiscal year may be applied, with approval of the State Treasurer and the appropriate bond finance committees, to the redemption of any other general obligation bonds then outstanding. To the extent that the deposit is not applied by January 31 of each fiscal year, the variable-rate general obligation bonds will be redeemed in whole or in part on an interest payment date in that fiscal year.

B. Economic Recovery Bonds

In 2004, voters approved the one-time issuance of Economic Recovery Bonds. The debt service for these bonds is payable from and secured by amounts available in the Economic Recovery Bond Sinking Fund, a debt service fund that consists primarily of revenues from a dedicated sales tax. However, the General Fund may be liable for the payment of any principal and interest on the bonds that cannot be paid from the Economic Recovery Bond Sinking Fund.

As of June 30, 2013, the State had $5.2 billion in Economic Recovery Bonds outstanding. Of the $5.2 billion outstanding, bonds totaling $260 million are variable-rate bonds in the daily-rate mode and $500 million are mandatory tender bonds. The interest rates associated with the daily rates are determined by the remarketing agents to be the lowest rates that would enable them to sell the bonds for delivery on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest is paid on the first business day of each calendar month. As described in the Official Statement for the variable-rate bonds, payment of principal, interest, and purchase price upon tender, is secured by direct-pay letters of credit. The State reimburses its credit providers for any amounts paid. Different credit providers exist for each series of variable-rate bonds outstanding. The expiration date for these letters of credit is June 13, 2014.

C. Mandatory Tender Bonds

Of the $5.2 billion in outstanding Economic Recovery Bonds, $500 million are mandatory tender bonds and have an interest rate reset date of July 1, 2014. At that time, the bonds are subject to mandatory tender for purchase at a price equal to 100% of the principal amount, plus accrued interest, without premium. Upon mandatory tender, the State will seek to remarket these bonds. The debt service requirements published in the Official Statement differ from the calculation included in Table 26 because the statement presumes a successful remarketing at an interest rate of 4% per year. The debt service calculation in Table 26 uses the interest rates in effect at year-end, which are the same interest rates in effect until the applicable reset date. In the event of a failed remarketing, the State is required to return all tendered bonds to their initial purchasers and pay an annual interest rate of 11% until the bonds are successfully remarketed.

In May 2012, the State issued $100 million in General Obligation Kindergarten-University Public Education Facilities Refunding Bonds, Series 2012A (SIFMA Index Floating Rate Bonds). The mandatory bonds have an initial SIFMA scheduled mandatory purchase date of May 1, 2015. The bonds will bear interest at a per annum interest rate, determined weekly (not to exceed 11%), and equal to the sum of the SIFMA Index rate in effect and the applicable SIFMA spread of 0.68%. In the event of unsuccessful remarketing of all the outstanding bonds on the initial SIFMA scheduled mandatory purchase date, the bonds will enter into a SIFMA delayed remarketing period and the bonds will accrue interest at a higher rate to be paid by the State until remarketed or redeemed. Starting six months after the SIFMA— scheduled mandatory purchase date, the bonds will be subject to special mandatory redemption in 20 equal quarterly installments.

D. Build America Bonds

As of June 30, 2013, the State had $13.5 billion in taxable various-purpose general obligation bonds outstanding that were issued as "Build America Bonds" under the American Recovery and Reinvestment Act of 2009 (ARRA) signed into law on February 17, 2009. The bonds will mature between 2020 and 2040. Pursuant to the ARRA, the State receives a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by the State on the Build America Bonds on or near each interest payment date. The American Taxpayer Relief Act of 2012 effective March 1, 2013, reduced the Build America Bonds subsidy by 8.7% for the federal fiscal year ending September 30, 2013. The cash payment does not constitute a full faith and credit guarantee of the United States Government, but is required to be paid by the United States Treasury under the ARRA. The cash subsidy payments received are deposited into the state treasury.

E. Debt Service Requirements

Table 26 shows the debt service requirements for all general obligation bonds as of June 30, 2013. The estimated debt service requirements for the $2.7 billion variable-rate general obligation bonds and the $260 million variable-rate Economic Recovery Bonds are calculated using the actual interest rates in effect on June 30, 2013. The amounts do not reflect any interest subsidy under the Build America Bond program or any other offsets to general fund costs of debt service.

Table 26

Schedule of Debt Service Requirements for General Obligation Bonds
(amounts in thousands)

Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Governmental Activities Total	Business-type Activities Principal	Business-type Activities Interest	Business-type Activities Total
2014	$ 2,900,795	$ 4,089,281	$ 6,990,076	$ 61,185	$ 38,861	$ 100,046
2015	3,136,045	3,993,769	7,129,814	77,565	35,964	113,529
2016	3,303,620	3,865,978	7,169,598	75,620	32,851	108,471
2017	2,757,990	3,711,780	6,469,770	61,895	30,150	92,045
2018	2,823,120	3,594,810	6,417,930	60,655	27,463	88,118
2019-2023	15,340,120	15,734,172	31,074,292	129,790	109,911	239,701
2024-2028	11,180,185	12,693,358	23,873,543	67,940	91,029	158,969
2029-2033	12,820,465	9,823,751	22,644,216	204,940	58,805	263,745
2034-2038	15,570,625	5,852,792	21,423,417	98,285	22,243	120,528
2039-2043	9,855,480	1,398,049	11,253,529	50,405	3,550	53,955
Total	**$79,688,445**	**$64,757,740**	**$144,446,185**	**$ 888,280**	**$ 450,827**	**$1,339,107**

F. General Obligation Bond Defeasances

1. Current Year

On October 4, 2012, the primary government issued $776 million in general obligation refunding bonds to current and advance refund $867 million in outstanding general obligation bonds maturing in 2013 to 2031. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements.

The refunding decreased overall debt service by $155 million and resulted in an economic gain of $117 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 2.93% per year over the life of the new bonds.

On November 1, 2012, the primary government issued $539 million in general obligation refunding bonds to current and advance refund $583 million in outstanding general obligation bonds maturing in 2020 to 2032. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $165 million and resulted in an economic gain of $119 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 3.01% per year over the life of the new bonds.

On March 27, 2013, the primary government issued $1.1 billion in general obligation refunding bonds to current and advance refund $1.2 billion in outstanding general obligation bonds maturing in 2014 to 2033. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $224 million and resulted in an economic gain of $169 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 3.11% per year over the life of the new bonds.

On March 27, 2013, the primary government issued $277 million in general obligation refunding bonds to current refund $277 million in outstanding mandatory tender general obligation bonds maturing in 2039. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The purpose of this refunding was to restructure the debt of the State.

On April 23, 2013, the primary government issued $1.4 billion in general obligation refunding bonds to current and advance refund $1.5 billion in outstanding general obligation bonds maturing in 2013 to 2033. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $315 million and resulted in an economic gain of $237 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 2.94% per year over the life of the new bonds.

2. Prior Years

In prior years, the primary government placed the proceeds of the refunding bonds in a special irrevocable escrow trust account with the State Treasury to provide for all future debt service payments on defeased bonds. The assets of the trust accounts and the liability for defeased bonds are not included in the State's financial statements. As of June 30, 2013, the outstanding balance of general obligation bonds defeased in prior years was approximately $4.9 billion.

NOTE 16: REVENUE BONDS

A. Governmental Activities

The State Treasurer is authorized by state law to issue Federal Highway Grant Anticipation Revenue Vehicles (GARVEE bonds). The purpose of these bonds is to accelerate the funding and construction of critical transportation infrastructure projects in order to provide congestion relief benefits to the public significantly sooner than with traditional funding mechanisms. These bonds are secured and payable from the annual federal appropriation for the State’s federal-aid transportation projects. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. Total principal and interest remaining on the

bonds is $226 million, payable through 2020. In addition, the California Alternative Energy and Advanced Transportation Financing Authority is authorized to issue Clean Renewable Energy Bonds to fund the acquisition and installation of certain transportation-related solar energy facilities located throughout the state. Both of these bonds fund activity in the Transportation Fund and are included in the governmental activities column of the government-wide Statement of Net Position.

The Golden State Tobacco Securitization Corporation (GSTSC), a blended component unit, is authorized by state law to issue asset-backed bonds to purchase the State’s rights to future revenues from the Master Settlement Agreement with participating tobacco companies. These bonds are secured by and payable solely from future Tobacco Settlement Revenue and interest earned on that revenue. The primary government has no legal liability for the payment of principal and interest on the bonds; provided that, in connection with the issuance of the 2005 Bonds and the 2013 Bonds that refunded a portion of the 2005 Bonds, the Legislature has annually granted a General Fund appropriation for payment of debt service in the event tobacco settlement revenues and other available amounts prove insufficient to make these payments during the next succeeding fiscal year. However, the use of the appropriated monies has never been required. Total principal and interest remaining on all asset-backed bonds is $19.3 billion, payable through 2047. All of the Tobacco Settlement Revenue and interest has been pledged in support of these asset-backed bonds. Principal and interest paid in the current year totaled $932 million, while Tobacco Settlement Revenue and interest earned totaled $555 million. These bonds are included in the governmental activities column of the government-wide Statement of Net Position.

Under state law, certain building authorities may issue revenue bonds. These bonds are issued for the purpose of constructing state office buildings. Leases with state agencies pay the principal and interest on the revenue bonds issued by the building authorities. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. These revenue bonds are included in the governmental activities column of the government-wide Statement of Net Position.

B. Business-type Activities

Revenue bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included in the accounts of such funds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of agencies that issued the bonds. The General Fund has no legal liability for payment of principal and interest on revenue bonds.

Revenue bonds to acquire, construct, or renovate state facilities or to refund outstanding revenue bonds in advance of maturity are issued for water resources, public buildings construction, financing of electric power purchases for resale to utility customers, and certain nonmajor enterprise funds.

C. Discretely Presented Component Units

The University of California issues revenue bonds to finance various auxiliary, administrative, academic, medical center, and research facilities. The revenue bonds are not collateralized by any encumbrance, mortgage, or other pledge of property except pledged revenues, and do not constitute general obligations of the University.

Under state law, the California Housing Finance Agency (CalHFA) issues fixed- and variable-rate revenue bonds to fund loans to qualified borrowers for single-family houses and multifamily developments. Variable-rate debt is typically related to remarketed rates or common indices, such as the SIFMA or the London Interbank Offered Rate (LIBOR) and is reset periodically. CalHFA issues both federally taxable and tax-exempt bonds. The bonds issued by CalHFA are payable solely from and collateralized by revenues and other pledged assets.

Table 27 shows outstanding revenue bonds of the primary government and the discretely presented component units.

Table 27

Schedule of Revenue Bonds Outstanding
June 30, 2013
(amounts in thousands)

Primary government	
Governmental activities	
Transportation Fund	$ 227,886
Nonmajor governmental funds	
Golden State Tobacco Securitization Corporation Fund	7,185,762
Building authorities	321,405
Total governmental activities	**7,735,053**
Business-type activities	
Electric Power Fund	6,951,000
Water Resources Fund	2,594,459
Public Buildings Construction Fund	11,756,473
California State University	3,738,697
Nonmajor enterprise funds	517,500
Total business-type activities	**25,558,129**
Total primary government	**33,293,182**
Discretely presented component units	
University of California	12,801,508
California Housing Finance Agency	4,899,970
Nonmajor component units	382,174
Total discretely presented component units	**18,083,652**
Total	**$ 51,376,834**

Table 28 shows the debt service requirements for fixed-rate and variable-rate bonds. It excludes certain unamortized refunding costs, premiums, discounts, and other costs that are included in Table 27.

Table 28

Schedule of Debt Service Requirements for Revenue Bonds
(amounts in thousands)

Year Ending June 30	Primary Government: Governmental Activities Principal	Interest	Primary Government: Business-type Activities Principal	Interest*	Discretely Presented Component Units Principal	Interest*
2014	$ 158,398	$ 350,681	$ 1,338,210	$ 1,197,986	$ 654,161	$ 795,433
2015	132,848	342,952	1,405,425	1,135,303	396,103	765,942
2016	70,973	336,423	1,493,415	1,070,249	446,987	743,498
2017	107,213	332,910	1,554,375	1,000,572	423,416	721,169
2018	88,988	327,648	1,611,765	926,167	428,417	698,753
2019-2023	461,328	1,570,793	7,460,488	3,449,345	2,803,720	3,150,819
2024-2028	791,964	1,658,847	4,067,145	2,042,169	2,661,734	2,531,030
2029-2033	775,760	1,348,169	3,393,135	1,030,137	3,028,880	1,886,242
2034-2038	1,425,390	1,603,159	1,815,025	286,963	2,855,257	1,223,788
2039-2043	—	818,939	315,380	34,282	2,287,268	648,567
2044-2048	3,578,917	3,701,239	8,595	391	724,132	339,695
2049-2053	—	—	—	—	91,435	215,351
2054-2112	—	—	—	—	860,000	2,464,948
Total	**$ 7,591,779**	**$ 12,391,760**	**$ 24,462,958**	**$ 12,173,564**	**$ 17,661,510**	**$ 16,185,235**

* Includes interest on variable-rate bonds based on rates in effect on June 30, 2013.

D. Revenue Bond Defeasances

1. Current Year–Governmental Activities

On April 9, 2013, Enhanced Tobacco Settlement Asset-backed Bonds, Series 2013A, were issued to partially refund, on a current basis, a portion of the remaining outstanding bonds of the 2005A Bonds. On April 9, 2013, $375,105,000 principal value in current interest bonds with maturity dates ranging from June 1, 2017 through June 1, 2030 were sold at a $56,019,304 premium to partially refund $419,885,000 in principal value of Series 2005A bonds maturing in June 1, 2013, 2017, 2018, 2019, 2020, 2021, 2029, and 2030. The Golden State Tobacco Securitization Corporation completed the refunding to reduce debt service payments by $44,780,000 in aggregate and to obtain an economic gain (difference between the present value of the old and new debt service payments) of $1,268,860 in aggregate.

2. Current Year–Business-type Activities

In 2012-13, the Department of Water Resources issued $657 million in water system revenue bonds. The bonds proceeds were used to refund $632 million of outstanding water system revenue bonds. The proceeds were deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds has been removed from the financial statements. This refunding will decrease debt service payments by $93 million over the life of the bonds and will result in an economic gain of $77 million for the refunded bonds. These water system revenue bonds are reported in the Water Resources Fund.

For the year ended June 30, 2013, the State Public Works Board issued $506 million in lease revenue refunding bonds. The bonds proceeds were used to refund $577 million in outstanding lease revenue bonds. The proceeds were deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds has been removed from the financial statements. This refunding will decrease debt service payments by $95 million over the next 10 years and will result in an economic gain of $75 million for the refunded bonds. These lease revenue bonds are reported in the Public Buildings Construction Fund.

In August 2012, California State University issued $436 million in Systemwide Revenue Bonds refunding bonds to partially defease certain outstanding Systemwide Revenue Bonds. A portion of the proceeds were deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds has been removed from the financial statements. This refunding will decrease debt service payments by $80 million over the life of the bonds and will result in an economic gain of $53 million for the refunded bonds.

3. Current Year–Discretely Presented Component Units

In July 2012, Limited Project Revenue Bonds totaling $1.0 billion, including $899 million in tax-exempt and $101 million in taxable bonds, were issued. Proceeds including a bond premium of $153 million were used to finance certain facilities and projects of the University and refund $854 million of outstanding Limited Project Revenue Bonds and outstanding General Revenue Bonds. The bonds mature at various dates through 2042. The tax-exempt bonds have a stated weighted average interest rate of 4.9%. The taxable bonds have a stated weighted average interest rate of 4.1%. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In October 2012, General Revenue Bonds totaling $2 million, consisting of Taxable Clean Renewable Energy Bonds, were issued to pay for project construction and issuance costs. The bonds mature in 2022 and have a stated interest rate of 3%. The expected cash subsidy payment from the United States Treasury is equal to 100% of the posted tax credit rate.

In March 2013, General Revenue Bonds totaling $1.3 billion, including $806 million in tax-exempt and $501 million in taxable bonds, were issued. Proceeds including a bond premium of $137 million were used to refund $1.4 billion outstanding General Revenue Bonds. The bonds mature at various dates through 2039. The tax-exempt bonds have a stated weighted average interest rate of 4.7%. The taxable bonds have a stated weighted average interest rate of 3.5%. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In March 2013, General Revenue Bonds totaling $287 million in taxable fixed-rate notes were issued. Proceeds were used to refund $287 million of outstanding General Revenue Bonds. The taxable fixed-rate notes have a stated interest rate of 1.8%, maturing in 2019.

4. Prior Years

In prior years, the primary government defeased certain bonds by placing the proceeds of new bonds in irrevocable trust accounts to provide for all future debt service requirements. Accordingly, the assets and liabilities for these defeased bonds are not included in the financial statements. As of June 30, 2013, the outstanding balance of revenue bonds defeased in prior years was $1.4 billion for business-type activities. All previously defeased revenue bonds for governmental activities were redeemed by June 30, 2013.

In prior years, the University of California, a discretely presented component unit, defeased certain bonds.

Investments that have maturities and interest rates sufficient to fund retirement of defeased liabilities are being held in irrevocable trusts for the debt service payments. Accordingly, the assets of the trust accounts and the liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 2013, the outstanding balance of University revenue bonds defeased in prior years was $227 million.

NOTE 17: DERIVATIVE FINANCIAL INSTRUMENTS

Certain primary government business-type activities and discretely presented component units use derivatives—including futures, forward contracts, options, and interest rate swap contracts—as a substitute for investment in equity and fixed-income securities to reduce the effect of fluctuating foreign currencies on foreign currency-denominated investments or to limit its exposure of variable-rate bonds to changes in market interest rates.

A futures contract is an agreement between two parties to buy and sell a security, financial index, interest rate, or foreign currency at a set price on a future date. Futures contracts are standardized contracts that can be easily bought and sold and are exchange-traded. A futures contract obligates a buyer to purchase the commodity or financial instrument and a seller to sell it, unless an offsetting contract is entered into to offset one's obligation. The resources or obligations acquired through these contracts are usually terminated by entering into offsetting contracts.

Forward contracts are similar to futures contracts, although they are not exchange-traded. One example of a forward contract is a foreign currency exchange contract used to hedge against foreign currency exchange rate risks on non-U.S. dollar-denominated investment securities and to increase or decrease exposure to various foreign currencies.

Rights and warrants provide the holder with the right, but not the obligation, to buy a stock at a predetermined price for a finite period of time. Warrants usually have a longer time period to expiration. The holder of a right or warrant is permitted to buy at a price that may be below the actual market price for that stock. Warrants and rights cease to exist and become worthless if not used by their expiration date.

An option contract gives the State the right, but not the obligation, to buy or sell a financial instrument or commodity at a fixed price during a specified period for a nonrefundable fee.

The State considers its futures, forward contracts, and options to be investment derivatives. A swap is a contractual agreement to exchange future cash flows. These cash flows may be either fixed or variable and may be either received or paid. The State holds interest rate swaps as both investment derivatives and hedging derivatives.

Table 29 shows debt service requirements as of June 30, 2013, for variable-rate debt included in Table 28, as well as net swap payments, assuming that current interest rates remain the same for their terms. As interest rates vary, variable-rate bond interest payments and net swap payments will vary.

Table 29

Schedule of Debt Service and Swap Requirements for Variable-rate Revenue Bonds
(amounts in thousands)

	Discretely Presented Component Units			
Year Ending June 30	Principal	Interest*	Interest-Rate* Swap Net	Total
2014	$ 15,790	$ 6,497	$ 80,000	$ 102,287
2015	15,975	6,150	73,971	$ 96,096
2016	19,350	6,154	68,355	$ 93,859
2017	21,080	6,132	63,220	$ 90,432
2018	29,525	6,118	58,744	$ 94,387
2019-2023	232,825	29,722	239,574	$ 502,121
2024-2028	235,770	27,898	175,020	$ 438,688
2029-2033	448,515	25,678	111,015	$ 585,208
2034-2038	371,377	23,382	45,833	$ 440,592
2039-2043	735,788	9,278	10,224	$ 755,290
2044-2048	17,120	206	2,266	$ 19,592
Total	**$ 2,143,115**	**$ 147,215**	**$ 928,222**	**$ 3,218,552**

* Based on rates in effect on June 30, 2013.

A. Primary Government

The Department of Water Resources (DWR) is party to natural gas hedging positions that are considered to be derivatives. Table 30 summarizes the fair values, classification, and notional amounts outstanding for the DWR's natural gas hedges accounted for as derivative financial instruments.

Table 30

Schedule of Fair Values and Notional Amounts – Electric Power Fund
June 30, 2013
(dollars in thousands)

	Classification	Fair Value	Notional Amount (in MMBtu) [1]
Effective hedges			
Natural gas swaps	Other current liabilities	$ (2,000)	460,000
Total effective hedges		**$ (2,000)**	

[1] Millions of British thermal units.

1. Natural Gas Swaps and Options

As of June 30, 2013, DWR no longer has outstanding natural gas option contracts. In prior years, DWR entered into natural gas hedge contracts, futures, and options to hedge the cost of natural gas. All natural gas options were treated as derivatives and classified as investment derivatives.

The DWR no longer has any forward natural gas purchase contracts. In prior years, most of the DWR's natural gas purchases were treated as Normal Purchase Normal Sale (NPNS) contracts and were not recorded prior to settlement. Natural gas forwards not qualifying as NPNS were recorded at fair value on the Statement of Net Position. Changes in the fair value of derivatives that are classified as investment derivatives are included as investment income or loss on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

Fair Value: The reported fair values from Table 30 above were determined based on quoted market prices for similar financial instruments.

Credit Risk: The DWR's open natural gas hedge positions at June 30, 2013, have been entered into through the DWR's brokerage accounts and the associated clearing accounts have collateral requirements that limit the DWR's counterparty credit risk.

Termination Risk: With regards to gas hedge agreements, the DWR or the counterparty may terminate an agreement if the other party fails to perform under the terms of the contract. In addition, the agreements allow either party to terminate in the event of a significant loss of creditworthiness by the other party. If a termination were to occur, the DWR or the counterparty would owe the other a payment equal to the fair value of the open positions.

B. Fiduciary Funds

Under the State Constitution and statutory provisions governing the investment authority of the California Public Employees' Retirement System (CalPERS), CalPERS holds investments in swaps, options, futures, rights, and warrants and enters into forward foreign currency exchange contracts. The fair value of options, futures, rights, and warrants is determined based on quoted market prices. The fair value of derivative investments that are not exchange traded, such as swaps, is determined by an external pricing service using various proprietary methods, based on the type of derivative instrument. Futures contracts are marked-to-market at the end of each trading day and the settlement of gains or losses occur on the following business day through the movement of variation margins. Over the counter derivatives, such as swaps, generally reset monthly and the settlement of gains or losses occur the following business day. Currency forward contracts roll quarterly, updating the contract exchange rate. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the contract exchange rate and the exchange rate at the end of the reporting period.

The California State Teachers' Retirement System (CalSTRS) also holds investments in derivative instruments. CalSTRS' investments that are not exchange traded, such as credit default swaps and interest rate swaps, are valued using methods employed for debt securities. Futures contracts are financial instruments that derive their value from underlying indices or reference rates and are marked-to-market at the end of each trading day. Daily settlement of gains or losses occurs on the following business day. As a result, the derivative instruments themselves have no fair value at June 30, 2013, or at the end of any trading day. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and are recognized as net appreciation or depreciation in fair value of investments as they are incurred.

CalSTRS holds foreign currency forwards, which are obligations to buy or sell a currency at a specified exchange rate and quantity on a specific future date. The fair value of foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing forward rate at June 30, 2013.

This page intentionally left blank.

All fiduciary fund derivative instruments are included in the investments disclosed in Note 3, Deposits and Investments. Changes in fair value are recorded as net appreciation or depreciation in fair value of investments in the Statement of Changes in Fiduciary Net Position. Table 31 presents the net appreciation (depreciation) in fair value, the fair values, and notional amounts of derivative instruments outstanding of these fiduciary funds.

Table 31

Schedule of Changes in Fair Values, Fair Values, and Notional Amounts – Fiduciary Funds
June 30, 2013
(dollars in thousands)

Investment Type	Net Appreciation (Depreciation) in Fair Value	Classification	Fair Value Amount	Notional Dollars	Notional Units/Shares
Commodity futures long	$ (23,856)	Equity securities	$ —	$ —	—
Commodity futures long	(1,010)	Futures	—	28,073	—
Commodity futures short	(10,501)	Equity securities	—	—	—
Credit default swaps	(128)	Debt securities	(663)	39,969	—
Credit default swaps bought	(1,265)	Debt securities	(29)	12,800	—
Credit default swaps written	706	Debt securities	(104)	14,043	—
Fixed-income futures long	(7,963)	Equity securities	—	—	490,578
Fixed-income futures short	18,011	Equity securities	—	—	(522,652)
Fixed-income options bought	568	Equity securities	—	—	—
Fixed-income options written	(25,892)	Equity securities	(8,164)	—	(289,244)
Foreign currency forwards	32,091	Foreign currency contracts	13,151	9,265,383	—
Foreign currency options bought	413	Equity securities	—	—	—
Foreign currency options written	66	Equity securities	(59)	—	(3,424)
Foreign exchange forwards	382,233	Investment sales/purchases	129,070	23,450,446	—
Futures (domestic and foreign)	49,728	Futures	—	301,589	—
Futures options bought	(27,431)	Equity securities	877	—	4,600
Futures options written	25,358	Equity securities	(2,380)	—	(15,300)
Index futures long	2,338,736	Equity securities	—	—	71,240
Index options bought	(15,939)	Equity securities	—	—	150,000
Index options written	68,372	Equity securities	(1)	—	(150,000)
Interest rate swaps	(2,944)	Debt securities	—	—	—
Options	(5,008)	Debt securities	36,135 [1]	208,461	—
Pay fixed interest rate swaps	379	Debt securities	3,206	100,800	—
Receive fixed interest rate swaps	(1,724)	Debt securities	(1,796)	72,953	—
Rights	(10,953)	Equity securities	3,074	—	14,990
Rights	(4,369)	Equity securities	897	—	1,438 *
Total return bond swaps	(37,338)	Debt securities	(3,655)	4,156,814	—
Warrants	11,517	Equity securities	13,494	—	9,398
Warrants	956	Equity securities	1,174	—	269 *
Total	**$ 2,752,813**		**$ 184,227**	**$ 37,651,331**	**(238,107)**

[1] The total options of $36,135 is comprised of options bought and options written of $55,023 and $(18,888), respectively.
* Items with an asterisk are shares and those without are units.

Interest Rate Risk: Table 32 describes the maturity periods of the derivative instruments during which these fiduciary funds were exposed to interest rate risk.

Table 32

Schedule of Derivative Instruments Subject to Interest Rate Risk – Fiduciary Funds
June 30, 2013
(amounts in thousands)

Investment Type	Fair Value	Investment Maturities (in years) Under 1	1-10	10+
Credit default swaps	$ (663)	$ —	$ (663)	$ —
Credit default swaps bought	(29)	(2)	(27)	—
Credit default swaps written	(104)	—	(104)	—
Fixed-income options	33,000	—	33,000	—
Fixed-income options written	(8,164)	(8,164)	—	—
Pay fixed-interest-rate swaps	3,206	—	3,206	—
Receive fixed-interest-rate swaps	(1,796)	—	(1,971)	175
Total return bond swaps	(3,655)	(3,655)	—	—
Total	**$ 21,795**	**$ (11,821)**	**$ 33,441**	**$ 175**

Table 33 details the reference rate, fair value, and notional amount of the derivative instruments held by these fiduciary funds that were highly sensitive to changes in interest rate risk.

Table 33

Schedule of Derivative Instruments Highly Sensitive to Interest Rate Changes – Fiduciary Funds
June 30, 2013
(amounts in thousands)

Investment Type	Reference Rate	Fair Value	Notional Amount
Interest-rate swaps	Receive variable 3-month LIBOR[1], pay fixed 1.694%	$ 2,251	$ 29,720
	Receive variable 3-month LIBOR, pay fixed 1.400%	73	30,600
	Receive variable 3-month LIBOR, pay fixed 0.985%	592	27,220
	Receive variable 3-month LIBOR, pay fixed 0.764%	290	13,260
	Receive fixed 2.000%, pay variable 6-month LIBOR	175	10,872
	Receive fixed 1.000%, pay variable 6-month LIBOR	3	9,765
	Receive fixed 3.795%, pay variable 3-month BKBM[3]	(144)	2,471
	Receive fixed 2.0425%, pay variable 3-month LIBOR	(581)	10,850
	Receive fixed 0.430%, pay variable 3-month LIBOR	(9)	16,370
	Receive fixed 5.750%, pay variable 1-month TIIE[2]	(897)	15,201
	Receive fixed 5.750%, pay variable 1-month TIIE	(346)	5,865
	Receive fixed 5.500%, pay variable 1-month TIIE	3	1,559
Subtotal Interest-rate swaps		**$ 1,410**	**$ 173,753**
Fixed-income options			
Bought:	Swaption 10YR RTP Jan 23 3.9 PUT	$ 7,551	$ 100,000
	Swaption 10YR RTP May 23 4.06 PUT	13,990	200,000
	Swaption 10YR RTP Sept 19 3.13 PUT	28,625	250,000
Written:	Swaption 10YR RTP Jan 15 3.54 PUT	(3,729)	(100,000)
	Swaption 10YR RTP May 15 4.0575 PUT	(7,373)	(250,000)
	Swaption 10YR RTP May 15 4.025 PUT	(6,064)	(200,000)
Subtotal Fixed-income options		**$ 33,000**	**$ —**
Return bond swaps	Receive fixed 0.08%, pay fixed 0.00%	$ (624)	$ 266,544
	Receive fixed 0.07%, pay fixed 0.00%	(828)	353,994
	Receive fixed 0.00%, pay fixed 0.80%	(1,709)	1,232,297
	Receive fixed 0.00%, pay fixed 0.07%	(818)	2,165,395
	Receive fixed 0.00%, pay fixed 0.00%	324	138,584
Subtotal Return bond swaps		**$ (3,655)**	**$ 4,156,814**
Total		**$ 30,755**	**$ 4,330,567**

[1] London Interbank Offered Rate (LIBOR)
[2] Tasa de Interes Interbancaria de Equilibrio (TIIE)
[3] New Zealand's Bank Bill Benchmark (BKBM)

Credit Risk: With all over-the-counter derivatives, such as swaps and currency forwards, CalPERS is exposed to counterparty risk. CalPERS seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, posting collateral exposure and monitoring procedures.

Table 34 details the counterparty, percent of net exposure, and credit ratings for the derivative instruments held by CalPERS that were subject to credit risk.

Table 34

Schedule of Derivative Instruments Subject to Credit Risk – California Public Employees' Retirement System
June 30, 2013

Counterparty	Percent of Net Exposure	S&P Ratings	Fitch Ratings	Moody's Ratings
Bank of America, N.A.	22.42 %	A	A	A3
JP Morgan Chase Bank, N.A. New York	15.66	A+	A+	Aa3
HSBC Bank USA	8.67	AA-	AA-	A1
Goldman Sachs International	8.60	A-	A	A3
Commonwealth Bank of Australia Sydney	7.23	AA-	AA-	Aa2
Bank of New York	4.67	A+	AA-	Aa3
Barclays Bank PLC Wholesale	4.66	A+	A	A2
Royal Bank of Canada	3.88	AA-	AA	Aa3
Citibank, N.A.	3.85	A	A	A3
BNP Paribas SA	3.17	A+	A+	A2
Morgan Stanley Capital Services Inc.	2.38	A-	A	Baa1
Royal Bank of Scotland PLC	2.36	A	A	A3
UBS AG	1.95	A	A	A2
Societe Generale	1.94	A	A+	A2
Standard Chartered Bank	1.91	AA-	AA-	A1
Deutsche Bank AG London	1.66	A+	A+	A2
JP Morgan Securities Inc.	1.13	A	A+	A2
Credit Suisse International	1.06	A+	A	A1
Goldman Sachs + CO	0.74	A-	A	A3
Credit Suisse London Branch (GFX)	0.42	A+	A	A1
UBS AG London	0.33	A	A	A2
Credit Suisse Securities (USA) LLC	0.28	A+	A	A1
JP Morgan	0.28	A	A+	A2
Canadian Imperial Bank of Commerce	0.16	A+	AA-	Aa3
Deutsche Bank Securities	0.15	A+	A+	A2
Citigroup	0.13	A-	A	Baa2
Westpac Banking Corp	0.12	AA-	AA-	Aa2
BNP Finance	0.10	A+	A+	A2
Barclays Capital	0.03	A+	A	A2
Goldman Sachs Capital Markets LP	0.03	A-	A	A3
JP Morgan Chase Bank, N.A. London	0.02	A+	A+	Aa3
JP Morgan Chase Bank	0.01	A+	A+	Aa3
Barclays Bank CME	0.00 [1]	A+	A	A2

[1] The Percentage of Net Exposure for Conterparty Barclays Bank CME is less than 0.01%.

In cases where a wholly owned broker-dealer subsidiary does not engage the rating companies for a stand-alone rating, the subsidiary is assigned the parent-company rating, as the broker-dealer is an integral part of their business model(s). With the exception of foreign currency forwards, it is CalSTRS' practice to require counterparty collateral posting provisions in its non-exchange-traded derivative instruments where doing so is consistent with market practice. As of June 30, 2013, the aggregate amount of cash collateral held at CalSTRS on behalf of the non-exchange-traded derivatives was $35 million. The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2013, was $22 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

Table 35 depicts the counterparty credit ratings of CalSTRS non-exchange traded investment derivative instruments outstanding and subject to loss at June 30, 2013. The ratings used to determine the quality of the individual counterparty are the ratings with the highest degree of risk supplied by two nationally recognized statistical rating organizations (NRSROs).

Table 35

Schedule of Counterparty Credit Rating – California State Teachers' Retirement System
June 30, 2013
(amounts in thousands)

Ratings	Credit Default Swaps	Foreign Currency Forwards	Total
AA	$ —	$ 2,483	$ 2,483
A	312	19,223	19,535
Subtotal investments in asset position	**312**	**21,706**	**22,018**
Investments in liability position	(975)	(8,555)	(9,530)
Total investments in asset/ (liability) position	**$ (663)**	**$ 13,151**	**$ 12,488**

C. Discretely Presented Component Unit – University of California

The University of California, a discretely presented component unit, holds investment derivatives in futures, forward contracts, options, and interest-rate swap contracts. The Board of Trustees for each campus foundation may also authorize derivatives within their investment policy. The University enters into futures contracts for the purpose of acting as a substitute for investment in equity and fixed-income securities. The University also holds interest-rate swaps which are derivative instruments that meet the criteria for an effective hedge. Certain interest-rate swaps are considered hybrid instruments because, at the time of execution, the fixed-rate on each of the swaps was off-market and the University received an up-front payment. These swaps are comprised of derivative instruments, at-the-market swaps that are an effective hedge, and companion investments (a borrowing represented by up-front payment). The unamortized amount of the borrowing under the companion instrument was $29 million at June 30, 2013. Derivatives are recorded at fair value as either assets or liabilities in the Statement of Net Position. Certain derivatives are determined to be hedging derivatives and are designated as either a fair value or cash-flow hedge. Under hedge accounting, changes in the fair value of hedging derivatives are considered to be deferred inflows (for hedging derivatives with positive fair values) or deferred outflows (for hedging derivatives with negative fair values) in the Statement of Net Position. Changes in the fair value of derivatives that are not hedging derivatives are reported as net appreciation or depreciation of investments in the Statement of Activities.

Table 36 summarizes the fair value balances and notional amounts of derivative instruments outstanding, categorized by type, and the changes in fair value of such derivatives.

Table 36

Schedule of Changes in Fair Values, Fair Values, and Notional Amounts – University of California
June 30, 2013
(amounts in thousands)

	Changes in Fair Value	Classification	Fair Value	Notional Amount
Investment derivatives				
Domestic equity futures contracts long	$ (7,460)	Investments	$ (2,470)	$ 603,484
Domestic equity futures contracts short	69	Investments	6	(1,200)
Foreign equity futures contracts long	97,622	Investments	493	52,193
Foreign equity futures contracts short	(181)	Investments	—	—
Foreign currency exchange contracts long	6,185	Investments	(296)	2,109,761
Foreign currency exchange contracts short	29,183	Investments	6,947	(16,323,059)
Swaps fixed interest rate	8,968	Investments	(21,367)	550,000
Swaps total return equity	(19)	Investments	(79)	7
Stock rights/warrants	286	Investments	5,179	609
Options/swap	(458)	Investments	983	3,781
Total investment derivatives	**$ 134,195**		**$ (10,604)**	**$ (13,004,424)**
Cash flow hedges				
Interest-rate swaps Pay fixed, receive variable	$ 23,737	Other noncurrent assets (liabilities)	$ (45,758)	$ 204,995

Table 29 presents the State's debt service requirements and net swap payments as of June 30, 2013. Included in these amounts are the University's principal, variable interest, and interest-rate net swap payments in the amounts of $879 million, $124 million, and $136 million, respectively.

Objective and Terms: As a means to lower the University's borrowing costs when compared against fixed-rate bonds at the time of issuance, the University entered into interest-rate swap agreements in connection with some of its variable-rate Medical Center Pooled Revenue Bonds. The University has determined that a portion of its interest-rate swaps are derivative instruments that meet the criteria for an effective hedge.

Fair Value: The swaps have an estimated negative fair value of $46 million as of June 30, 2013. The fair value was estimated by financial institutions or independent advisors using available quoted market prices or discounted expected future net cash flows.

Table 37 summarizes the terms and fair value of the swap agreements.

Table 37

Schedule of Terms and Fair Values of Swap Agreements
June 30, 2013
(amounts in thousands)

Swap Termination Date	Effective Date	Outstanding Notional Amount at June 30, 2013	Fair Value at June 30, 2013	Fixed Rate Paid by University of California	Variable Rate Received by University of California	Counterparty Credit Ratings (Moody's, S&P's)
2032	2007	$ 80,220	$ (11,135)	3.5897 %	58% of 1-Month LIBOR* + 0.48%	Baa2, A-
2030 through 2043	2008	124,775	(34,623)	4.6359	67% of 3-Month LIBOR* + 0.69%**	A2, A+
Total		**$ 204,995**	**$ (45,758)**			

* London Interbank Offered Rate (LIBOR)
** Weighted average spread

Interest Rate Risk: There is a risk that the value of the interest-rate swaps will decline because of changing interest rates. The values of the interest-rate swaps with longer maturities tend to be more sensitive to changing interest rates and, therefore, are more volatile than those with shorter maturities.

Basis Risk: The University is exposed to basis risk whenever the interest rates on the bonds are reset. The interest rate on the bonds is a tax-exempt interest rate, while the variable receipt rate on the interest-rate swaps is taxable. However, there is no basis or tax risk related to the swap with the $125 million notional amount because the variable rate the University pays to the bond holders matches the variable-rate payments received from the swap counterparty and the interest rates are reset at the same intervals.

Termination Risk: The University is exposed to risk in the event of nonperformance by counterparties in an adverse market resulting in cancellation of the synthetic interest rate and returning the interest-rate payments to the variable interest rates on the bonds. In addition, depending on the agreement, certain swaps may be terminated if the counterparty's credit quality rating, as issued by Moody's or Standard & Poor's, falls below certain thresholds. At termination, the University may also owe a termination payment if there is a realized loss based on the fair value of the interest-rate swap.

Credit Risk: The University could be exposed to credit risk if the interest-rate swap counterparties to the contracts are unable to meet the terms of the contracts. Contracts with positive fair values are exposed to credit risk. The University faces a maximum possible loss equivalent to the amount of the derivative's fair value, less any collateral held by the University provided by the counterparty. Contracts with negative fair values are not exposed to credit risk. There are no collateral requirements related to the interest-rate swap with the $80 million notional amount. Depending on the fair value related to the swap with the $125 million notional amount, the University may be entitled to receive collateral from the counterparty to the extent the positive fair value exceeds $35 million, or be obligated to provide collateral to the counterparty if the negative fair value of the swap exceeds $75 million or the cash and investments held by the medical centers fall below $250 million. As of June 30, 2013, no collateral was required.

D. Discretely Presented Component Unit – California Housing Finance Agency

The California Housing Finance Agency (CalHFA), a discretely presented component unit, holds interest-rate swaps that are derivative instruments. As of June 30, 2013, the accumulated decrease or increase in the fair value of the effective swaps is reported as deferred outflow of resources or as deferred inflow of resources, respectively, in the Statement of Net Position. Alternatively, the gain or loss on the fair value of the ineffective swaps is reported as other general revenues in the Statement of Activities. CalHFA did not pay or receive any cash when the swap transactions were initiated except for in-substance assignments. Except as discussed under the following *Rollover Risk* section, CalHFA's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

Table 38 summarizes the swap fair value activity in the Statement of Net Position and the Statement of Activities.

Table 38

Schedule of Swap Agreement Fair Value – California Housing Finance Agency
June 30, 2013
(amounts in thousands)

	Amount
Statement of Net Position:	
Other noncurrent assets	$ 137
Deferred outflows of resources	126,717
Other noncurrent liabilities	217,718
Statement of Activities:	
Other general revenues (expenses)	(6,124)

Table 29 presents the State's debt service requirements and net swap payments as of June 30, 2013. Included in these amounts are CalHFA's principal, variable interest, and interest-rate net swap payments in the amounts of $1.3 billion, $23 million, and $793 million, respectively.

Objective: CalHFA has entered into interest-rate swap agreements with various counterparties to protect itself against rising rates by providing synthetic fixed rates for a like amount of variable-rate bond obligations. The majority of CalHFA's interest-rate swap transactions are structured to pay a fixed rate of interest while receiving a variable rate of interest, with some exceptions. CalHFA has used multiple swap formulas. As of June 30, 2013, the formulas for the swap portfolio used the SIFMA, the one-month LIBOR, the three-month LIBOR, and the six-month LIBOR rates. The swap formula will continue to be monitored for its effectiveness in case CalHFA chooses to enter into any future interest-rate swaps. In addition, CalHFA holds eight basis swaps as a means to change the variable-rate formula received from counterparties for the $190 million outstanding notional amount from 65% of LIBOR to varying floating rates.

Terms, Fair Value, and Credit Risk: CalHFA uses 11 counterparties for its interest-rate swap transactions. All of CalHFA's interest-rate swap agreements require CalHFA to post collateral if its general obligation credit ratings, as issued by Moody's and Standard & Poor's, fall below a certain level or if the fair value of the swaps breach a certain threshold. The collateral can be posted in several forms in the amount of the fair value of the interest-rate swaps. If CalHFA does not post collateral, the interest-rate swap can be terminated by the counterparty. As of June 30, 2013, CalHFA had total cash and fair value of mortgage-backed securities posted as collateral with swap counterparties of $3 million and $59 million, respectively, in other assets and investments in the Statement of Net Position. As of June 30, 2013, CalHFA's swap portfolio has an aggregate negative fair value of $218 million, due to a decline in interest rates. Fair values are as reported by CalHFA's counterparties and are estimated using the zero-coupon method. As CalHFA's swap portfolio has an aggregate negative fair value, CalHFA has no net exposure to credit risk. CalHFA has 88 swap transactions, with outstanding notional amounts of $1.9 billion, with effective dates from April 6, 2000, to November 1, 2009, and scheduled termination dates from August 1, 2014, to August 1, 2042. Standard & Poor's credit ratings for these counterparties range from BBB to AA-; Moody's credit ratings range from Baa2 to Aa1.

Interest Rate Risk: CalHFA is exposed to interest rate risk on its fixed-payer swaps. As the LIBOR or the SIFMA swap index decreases, CalHFA's net payments on the swaps increase.

Basis Risk: CalHFA's swaps contain the risk that the floating-rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because floating rates paid by swap counterparties are based on indices that consist of market-wide averages, while interest paid on CalHFA's variable-rate bonds is specific to individual bond issues. CalHFA's variable-rate tax-exempt bonds trade at a slight discount to the SIFMA index. For swaps associated with tax-exempt bonds for which CalHFA receives a variable-rate payment based on a percentage of LIBOR, CalHFA is exposed to basis risk if the relationship between SIFMA and LIBOR converges. As of June 30, 2013, the SIFMA rate was .06%, the one-month LIBOR was .19%, the three-month LIBOR was .27%, and the six-month LIBOR was .41%.

Termination Risk: Counterparties to CalHFA's interest-rate swaps have termination rights that require settlement payments by either CalHFA or the counterparty, based on the fair value of the swap at the date of termination.

Rollover Risk: CalHFA is exposed to rollover risk on interest-rate swaps that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these swaps terminate, CalHFA will be re-exposed to the risks being hedged by the swaps.

This page intentionally left blank.

NOTE 18: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Table 39 represents short-term interfund receivables and payables resulting from the time lag between the dates on which goods and services are delivered and the dates on which payments between entities are made. In addition, interfund borrowing, mainly from nonmajor governmental funds and fiduciary funds, is used to meet temporary imbalances of receipts and disbursements in the General Fund.

Table 39 presents the amounts due from and due to other funds.

Table 39

Schedule of Due From Other Funds and Due To Other Funds
June 30, 2013
(amounts in thousands)

Due From	Due To: General Fund	Transportation Fund	Environmental and Natural Resources Fund	Nonmajor Governmental Fund	Electric Power Fund
Governmental funds					
General Fund	$ —	$ 79,304	$ 323,442	$ 775,315	$ —
Federal Fund	361,133	1,047,110	51,140	153,847	—
Transportation Fund	—	—	38,402	45,705	—
Environmental and Natural Resources Fund	—	—	—	99	—
Nonmajor governmental funds	341,939	22,878	18,715	16,156	—
Total governmental funds (Asset)	**703,072**	**1,149,292**	**431,699**	**991,122**	**—**
Enterprise funds					
Water Resources Fund	—	—	—	—	—
Public Buildings Construction Fund	563	—	—	—	—
State Lottery Fund	155	—	—	375,000	—
Unemployment Programs Fund	34,561	—	—	—	—
Nonmajor enterprise funds	2,509	—	156	217	—
Total enterprise funds (Asset)	**37,788**	**—**	**156**	**375,217**	**—**
Internal service funds	**23,845**	**16,517**	**5,327**	**18,667**	**4,000**
Total primary government (Asset)	**$ 764,705**	**$ 1,165,809**	**$ 437,182**	**$ 1,385,006**	**$ 4,000**

Due From	Due To: Water Resources Fund	Public Buildings Construction Fund	State Lottery Fund	Unemployment Programs Fund	California State University Fund	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total (Liability)
Governmental funds									
General Fund	$ —	$ —	$ —	$ —	$ —	$ —	$ 112,743	$ 10,370,360	$ 11,661,164
Federal Fund	—	—	—	20,708	—	1,617	44,860	6,658,387	8,338,802
Transportation Fund	—	283	—	—	—	—	28,240	55,246	167,876
Environmental and Natural Resources Fund	—	—	—	—	—	15	16,539	113	16,766
Nonmajor governmental funds	—	—	—	—	436	148	35,172	1,668,193	2,103,637
Total governmental funds (Asset)	**—**	**283**	**—**	**20,708**	**436**	**1,780**	**237,554**	**18,752,299**	**22,288,245**
Enterprise funds									
Water Resources Fund	—	—	—	—	—	—	49,172	—	49,172
Public Buildings Construction Fund	—	—	—	—	—	—	18,488	370	19,421
State Lottery Fund	—	—	—	—	—	—	—	—	375,155
Unemployment Programs Fund	—	—	—	—	—	—	495	—	35,056
Nonmajor enterprise funds	—	—	—	—	—	—	41	11	2,934
Total enterprise funds (Asset)	**—**	**—**	**—**	**—**	**—**	**—**	**68,196**	**381**	**481,738**
Internal service funds	**899**	**29,851**	**277**	**1,708**	**—**	**552**	**5,139**	**689**	**107,471**
Total primary government (Asset)	**$ 899**	**$ 30,134**	**$ 277**	**$ 22,416**	**$ 436**	**$ 2,332**	**$ 310,889**	**$ 18,753,369**	**$ 22,877,454**

Interfund receivables and payables are the result of interfund loans that are not expected to be repaid within one year. In addition to the temporary interfund cash-flow borrowing shown in Table 39, annual enacted budgets provide for long-term loans from many of the State's special funds—mainly the Transportation Fund, Environmental and Natural Resources Funds, and nonmajor governmental funds—to the General Fund. The $3.6 billion in Transportation Fund loans payable from the General Fund also includes $1.1 billion in deferred Proposition 42 transfers for traffic congestion relief and other direct loans from the Traffic Congestion Relief Program. Table 40 presents the interfund receivables and payables.

Table 40

Schedule of Interfund Receivables and Payables
June 30, 2013
(amounts in thousands)

	Interfund Payables								
Interfund Receivables	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**	**Nonmajor Governmental Funds**	**Water Resources Fund**	**Unemployment Programs Fund**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Total**
Governmental funds									
General Fund	$ —	$ 3,606,097	$ 535,477	$ 1,668,798	$ —	$ 611,690	$ 5,600	$ 7,384	$ 6,435,046
Transportation Fund	—	—	—	—	—	—	—	2,648	2,648
Environmental and Natural Resources Fund	7,000	3,979	—	—	—	—	—	—	10,979
Nonmajor governmental funds	6,117	—	—	—	—	—	—	—	6,117
Total governmental funds	**13,117**	**3,610,076**	**535,477**	**1,668,798**	**—**	**611,690**	**5,600**	**10,032**	**6,454,790**
Internal service funds	**40,650**	**—**	**—**	**172**	**91,517**	**—**	**—**	**6,943**	**139,282**
Total primary government	**$ 53,767**	**$ 3,610,076**	**$ 535,477**	**$ 1,668,970**	**$ 91,517**	**$ 611,690**	**$ 5,600**	**$ 16,975**	**$ 6,594,072**

The amount shown as due from primary government and due to component units represent short-term receivables and payables between the primary government and component units resulting from the time lag between the dates on which goods and services are provided and received and the dates on which payments between entities are made.

Table 41 presents the amounts due from the primary government and due to component units.

Table 41

Schedule of Due From Primary Government and Due To Component Units
June 30, 2013
(amounts in thousands)

	Due To Component Units		
Due From	**University of California**	**Nonmajor Component Units**	**Total**
Governmental funds			
General Fund	$ 169,215	$ —	$ 169,215
Transportation Fund	909	—	909
Environmental and Natural Resources Fund	2,000	11	2,011
Nonmajor governmental funds	36,988	—	36,988
Total governmental funds	**209,112**	**11**	**209,123**
Internal service funds	**—**	**2**	**2**
Total primary government	**$ 209,112**	**$ 13**	**$ 209,125**

This page intentionally left blank.

B. Interfund Transfers

Transfers move money collected by one fund to another fund, which then disburses it as required by law. The General Fund and certain other funds transfer money to support various programs accounted for in other funds. The largest transfer from the General Fund was $2.0 billion to California State University (a major enterprise fund). The State Highway Account transferred $678 million of weight fee revenues to the Transportation Debt Service Fund for reimbursement of debt service costs. The Federal Fund transferred $640 million to the General Fund for administration of the Unemployment Insurance Program.

Table 42 presents interfund transfers of the primary government.

Table 42

Schedule of Interfund Transfers
June 30, 2013
(amounts in thousands)

	Transferred To							
Transferred From	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Funds**	**Nonmajor Governmental Funds**	**Public Buildings Construction Fund**	**California State University Fund**	**Internal Service Funds**	**Total**
Governmental funds								
General Fund	$ —	$ —	$ 853	$ 855,543	$ —	$ 2,034,055	$ —	$ 2,890,451
Federal Fund	640,445	—	150,415	30,108	—	—	—	820,968
Transportation Fund	69,136	—	10,909	717,356	—	—	—	797,401
Environmental and Natural Resources Fund	11,210	3,979	—	16,794	—	—	—	31,983
Nonmajor governmental funds	254,297	16	25,246	78,391	—	—	—	357,950
Total governmental funds	**975,088**	**3,995**	**187,423**	**1,698,192**	**—**	**2,034,055**	**—**	**4,898,753**
Public Buildings Construction Fund	**8,172**	—	—	—	—	—	—	**8,172**
California State Univeristy Fund	—	—	—	**16,540**	—	—	—	**16,540**
Nonmajor enterprise funds	**11,584**	—	—	—	**202**	—	—	**11,786**
Internal service funds	**16,413**	—	—	**40,354**	—	—	**4,730**	**61,497**
Total primary government	**$ 1,011,257**	**$ 3,995**	**$ 187,423**	**$ 1,755,086**	**$ 202**	**$ 2,034,055**	**$ 4,730**	**$ 4,996,748**

NOTE 19: FUND BALANCES, FUND DEFICITS, AND ENDOWMENTS

A. Fund Balances

The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned. See Note 1K for the new fund balance classifications as defined by GASB. For purposes of reporting in the State's CAFR, the following are the State's policies based on its interpretation of GASB Statement No. 54.

Committed fund balance: The highest level of decision-making authority within California statewide government is the California Legislature. The formal action required to establish, modify, or rescind a fund balance commitment is a statute that becomes law after a bill is passed. Commitments of fund balance, approved by State Legislative action, must be in place prior to the end of the State's fiscal year. The California State Legislature is made up of two houses: the Senate and the Assembly. Both houses must approve a bill. If both houses approve a bill, it then goes to the Governor. The Governor has three choices: the Governor can sign the bill into law, allow it to become law without his or her signature, or veto it. A governor's veto can be overridden by a two-thirds vote in each house.

Assigned fund balance: California does not have a formal policy to delegate authority to assign resources. However, fund balance can be classified as assigned when a purchase order creates an outstanding encumbrance amount unless the purchase order relates to restricted or committed resources. Furthermore, all resources in governmental funds, other than the General Fund, that are not restricted, committed, or nonspendable are classified as assigned.

Fund balance spending order: For the purpose of reporting fund balance in the CAFR under GASB Statement No. 54, the State considers resources to be spent in the following order when an expenditure is incurred for which these classifications are available: restricted, committed, assigned, and unassigned.

Table 43 presents the composition of the fund balance of the governmental funds.

Table 43

Schedule of Fund Balance by Function
June 30, 2013
(amounts in thousands)

	General Fund	Federal Fund	Transportation Fund	Environmental and Natural Resources Fund	Nonmajor Governmental Funds
Nonspendable					
Long-term interfund receivables	$ 53,767	$ —	$ —	$ —	$ —
Long-term loans receivable	86,340	—	—	—	—
Other	—	—	—	—	15,022
Total nonspendable	**140,107**	**—**	**—**	**—**	**15,022**
Restricted					
General government	5,835	—	—	12,477	3,708,845
Education	79,303	296	4,784	—	833,151
Health and human services	87,381	257	—	1,198,829	1,563,980
Resources	247	10,809	—	5,648,940	77,368
State and consumer services	5,877	—	220,829	57,542	524,217
Business and transportation	—	186,591	6,965,234	44,310	3,075,709
Correctional programs	—	—	—	—	3,102
Total restricted	**178,643**	**197,953**	**7,190,847**	**6,962,098**	**9,786,372**
Committed					
General government	13,616	—	—	25,749	260,580
Education	1,301	—	—	—	34,728
Health and human services	7,962	—	1,926	—	236,333
Resources	—	—	13	819,971	729,645
State and consumer services	—	—	—	17,928	52,359
Business and transportation	—	—	47,471	—	76,380
Correctional programs	—	—	—	—	14,952
Total committed	**22,879**	**—**	**49,410**	**863,648**	**1,404,977**
Assigned – General government	—	—	—	—	209,171
Unassigned	**(14,596,085)**	**—**	**(9,560)**	**(7,870)**	**(158,636)**
Total fund balances (deficit)	**$ (14,254,456)**	**$ 197,953**	**$ 7,230,697**	**$ 7,817,876**	**$ 11,256,906**

B. Fund Deficits

Table 44 shows the funds that had deficits.

Table 44

Schedule of Fund Deficits
June 30, 2013
(amounts in thousands)

	Governmental Funds	Enterprise Funds
General Fund	$ 14,254,456	$ —
Unemployment Programs Fund	—	4,151,745
Total fund deficits	**$ 14,254,456**	**$ 4,151,745**

C. Discretely Presented Component Unit Endowments and Gifts

The University of California, a discretely presented component unit, administers certain restricted nonexpendable, restricted expendable, and unrestricted endowments that are included in the related net position categories of the government-wide and fund financial statements. As of June 30, 2013, the total value of restricted endowments and gifts was $12.1 billion and unrestricted endowments and gifts was $1.6 billion. The University's policy is to retain realized and unrealized appreciation on investments with the endowment after an annual income distribution. The net appreciation available to meet future spending needs upon approval by the Board of Regents amounted to $1.7 billion at June 30, 2013. The portion of investment returns earned on endowments and distributed each year to support current operations is based on a rate approved by the Board of Regents. In addition, the California State University Auxiliary Organizations and the University of California Hastings College of the Law, nonmajor component units, have restricted nonexpendable and restricted expendable endowments of $867 million and $7 million, respectively.

NOTE 20: RISK MANAGEMENT

The primary government has elected, with a few exceptions, to be self-insured against loss or liability. The primary government generally does not maintain reserves. Losses are covered by appropriations from each fund responsible for payment in the year in which the payment occurs. The State is permissively self-insured and barring any extraordinary catastrophic event, the potential amount of loss faced by the State is not considered material in relation to the primary government's financial position. Generally, the exceptions are when a bond resolution or a contract requires the primary government to purchase commercial insurance for coverage against property loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, no insurance settlement in the last three years has exceeded insurance coverage. All claim payments are on a "pay-as-you-go" basis, with workers' compensation benefits for self-insured agencies initially being paid by the State Compensation Insurance Fund.

The discounted liability for unpaid self-insurance claims of the primary government is estimated to be $3.5 billion as of June 30, 2013. This estimate is based primarily on actuarial reviews of the State's workers' compensation program and includes indemnity payments to claimants, as well as all other costs of providing workers' compensation benefits, such as medical care and rehabilitation. The estimate also includes the liability for unpaid services fees, industrial disability leave benefits, and incurred-but-not-reported amounts. The estimated total liability of approximately $5.0 billion is discounted to $3.5 billion using a 3.5% interest rate. Of the total, $414 million is a current liability, of which $270 million is included in the General Fund, $141 million in the special revenue funds, and $3 million in the internal service funds. The remaining $3.1 billion is reported as other noncurrent liabilities in the government-wide Statement of Net Position.

The University of California, a discretely presented component unit, is self-insured or insured through a wholly-owned captive insurance company for medical malpractice, workers' compensation, employee health care, and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred but not reported. The estimated liabilities are based on an independent actuarial determination of the anticipated future payments, discounted at rates ranging from 2% to 5%.

Table 45 shows the changes in the self-insurance claims liability for the primary government and the discretely presented component units.

Table 45

Schedule of Changes in Self-Insurance Claims
Years ended June 30
(amounts in thousands)

	Primary Government		Discretely Presented Component Unit University of California	
	2013	**2012**	**2013**	**2012**
Unpaid claims, beginning	$ 3,204,635 *	$ 3,031,926 *	$ 599,176	$ 589,076
Incurred claims	754,641	554,701 *	421,832	347,331
Claim payments	(449,721)	(381,992) *	(389,210)	(337,231)
Unpaid claims, ending	**$ 3,509,555**	**$ 3,204,635 ***	**$ 631,798**	**$ 599,176**

* Restated

NOTE 21: DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES INCLUDING SERVICE CONCESSION ARRANGEMENTS

The GASB identified transactions relating to deferred outflows of resources and deferred inflows of resources through GASB Statement Nos. 53, 60, 63 and 65. The State of California early implemented GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, for the fiscal year beginning July 1, 2012.

The following discretely presented component units also early implemented GASB 65: California Infrastructure and Economic Development Bank, and California State University Auxiliary Organizations.

Certain transactions that were previously reported as assets and liabilities are now reclassified as deferred outflows of resources and deferred inflows of resources pursuant to GASB 65.

1. Deferred Outflows of Resources

The State of California's deferred outflows of resources consist of the following transactions:

- Loss on Refunding of Debt – Refunding of some previously outstanding general obligation bonds and revenue bonds resulted in losses for governmental activities, business-type activities and component units for the fiscal year 2012-13. These losses reported as deferred outflows of resources will be recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

- Derivative Instrument – Negative changes in the fair value of hedging derivatives are reported as deferred outflows of resources. The business-type activities and component units reported decreases in fair value of hedging derivatives.

2. Deferred Inflows of Resources

The State of California's deferred inflows of resources consist of the following transactions:

- Service Concession Arrangements – The State and its component units have entered into service concession arrangements with third parties for park facility services, student housing, and certain other services. For the fiscal year 2012-13, the primary government and component units reported deferred inflow of resources from service concession arrangements.

  GASB Statement No. 60 (GASB 60), *Accounting and Financial Reporting for Service Concessions Arrangements,* is effective beginning July 1, 2012, for the State's fiscal reporting period. A service concession arrangement is an arrangement between a transferor (State) and an operator (State or non-governmental entity), where rights and obligations to provide services through the use of public assets are transferred to an operator by the transferor, in exchange for significant consideration, and the operator is compensated by fees collected from third parties. GASB requires retrospective application of GASB 60 for all periods presented.

  The State entered into various service concessions arrangements with independent third parties to develop, equip, operate, and maintain nonexclusive concessions at park grounds in exchange for fixed installment payments, for a fixed period of time. These third parties are compensated by user fees. These existing facilities are reported as capital assets by the State, the present value of installment payments are reported as receivables and a corresponding deferred inflow of resources is reported in the government-wide Statement of Net Position. The State reserves the right to provide or modify the types of goods and services provided by the operator to ensure that the public receives fair pricing, proper service and appropriate quality. The State is not obligated by the debts of the operator in the event of a default, nor does the State guarantee minimum revenue to the operator.

University of California, reported as a discretely presented component unit, has entered into service concession arrangements with third parties for student housing and certain other faculty and student services. Under these arrangements, the University enters into ground leases with third parties at minimal or no cost, and gives the third party the right to construct, operate, and maintain a facility, primarily for the benefit of students and faculty, at competitive rates. Rate increases for use of the facilities are subject to certain constraints, and ownership of the facilities reverts to the University upon expiration of the ground lease. The facilities are reported as capital assets by the University when placed in service, and a corresponding deferred inflow of resources is reported. The University has not provided guarantees on financing obtained by the third parties under these arrangements.

- Gain from Refunding of Debt – Refunding of some previously outstanding general obligation bonds and revenue bonds resulted in gains for governmental activities and discretely presented component units for the fiscal year 2012-13. These gains reported as deferred inflows of resources will be recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter
- Other Deferred Inflows of Resources – Revenues generated from current rates from regulated business-type activities intended to recover costs that are expected to be incurred in the future.

In the fund financial statements, governmental funds reported deferred inflows of resources of $1.9 billion because this amount represents revenues that will be collected after year end, but are not available soon enough to pay for the current period expenditures. For deferred outflows and inflows of resources at the government-wide level, see table below.

Table 46

Schedule of Deferred Inflows of Resources and Deferred Outflows of Resources

(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Deferred Outflows of Resources:				
Deferred loss on refundings	911,178	478,308	$ 1,389,486	$ 5,071
Decrease in fair value of hedging derivatives	—	2,000	2,000	172,475
Total Deferred Outflows of Resources	**911,178**	**480,308**	**1,391,486**	**177,546**
Deferred Inflows of Resources:				
Deferred gain on refundings	(86,135)	—	(86,135)	(2,481)
Service concession arrangements	(72,807)	—	(72,807)	(31,575)
Other deferred inflows	—	(471,436)	(471,436)	—
Total Deferred Inflows of Resources	**$ (158,942)**	**$ (471,436)**	**$ (630,378)**	**$ (34,056)**

NOTE 22: NO COMMITMENT DEBT

Certain debt of the nonmajor component units is issued to finance activities such as the promotion of renewable energy sources and financing for economic development projects. This debt is secured solely by the credit of private and public entities and is administered by trustees independent of the State. As of June 30, 2013, these component units had $4.2 billion of debt outstanding, which is not debt of the State.

The conduit obligations outstanding for California Housing Finance Agency (CalHFA), a major component unit, amounted to $320 million, which is not debt of the State. CalHFA reported offsetting assets and liabilities related to these obligations. The net impact on net position is zero.

NOTE 23: CONTINGENT LIABILITIES

A. Litigation

The primary government is a party to numerous legal proceedings, many of which are not unusual for governmental operations. To the extent they existed, the following were accrued as a liability in the government-wide financial statements: legal proceedings that were decided against the primary government before June 30, 2013; legal proceedings that were in progress as of June 30, 2013, and were settled or decided against the primary government as of April 16, 2014; and legal proceedings having a high probability of resulting in a decision against the primary government as of April 16, 2014, and for which amounts could be estimated. In the governmental fund financial statements, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made. In the proprietary fund financial statements, the entire liability is recorded in the fund from which payment will be made.

In addition, the primary government is involved in certain other legal proceedings that, if decided against the primary government, may impair its revenue sources or require it to make significant expenditures. Because of the prospective nature of these proceedings, no provision for the potential liability has been made in the financial statements.

Following are the more significant lawsuits pending against the primary government.

The primary government is a defendant in two cases, *Bakersfield Mall, LLC v. Franchise Tax Board*, and *CA–Centerside II, LLC v. Franchise Tax Board*, both regarding the constitutionality of a fee imposed on limited liability companies (LLC). In *Bakersfield Mall, LLC v. Franchise Tax Board* the plaintiff contends that not all of its income is derived within the State and, therefore, not all income should be subject to the LLC fee. The second case, *CA–Centerside II, LLC v. Franchise Tax Board*, alleges that the LLC fee is unconstitutional regarding any activities, whether in-state or out-of-state.

In a previously settled case, *Northwest Energetic Services, LLC v. Franchise Tax Board*, the Court of Appeal found the fee unconstitutional only as applied to the plaintiff. The primary government has already begun to pay refunds to LLCs with the same facts as Northwest that have no income earned inside California. In another recently settled case, *Ventas Finance I, LLC v. Franchise Tax Board*, the Court of Appeal also ruled that the fee is unconstitutional as applied to the plaintiff, but it awarded only a partial refund because Ventas received income from both inside and outside of California. *Bakersfield Mall, LLC v. Franchise Tax Board* raised the same constitutional issues as Northwest and Ventas, but initially pertained to LLCs that conduct business solely within California. Bakersfield Mall, LLC later amended its complaint to reflect the fact that not all of its income is derived within the state, making it similar to the Ventas case. This plaintiff also intended to bring a class action suit for refund on behalf of all similarly situated LLCs and to declare the LLC fee unconstitutional. However, the Court of Appeal ruled that Bakersfield Mall, LLC did not follow mandatory class action claim procedures. *CA–Centerside II, LLC v. Franchise Tax Board* raised the same constitutional issues as the Bakersfield case, and alleges that the LLC fee is unconstitutional regarding any activities, whether in-state or out-of-state. Actual and expected future claims for refunds from LLCs are estimated to be as high as $1.2 billion. In addition, plaintiffs will, in all likelihood, seek a large award of attorneys' fees (approximately $500 million) in these cases, should they prevail.

The primary government is a defendant in two cases, *Harley-Davidson, Inc. and Subsidiaries v. Franchise Tax Board* and *Abercrombie & Fitch Co. & Subsidiaries v. Franchise Tax Board,* both regarding the constitutionality of Revenue and Taxation code section 25101.15 allowing intrastate unitary businesses the option of reporting the income of various entities within the unitary business on either a separate or combined basis. Both plaintiffs claim, among other things, that section 25101.15 is discriminatory and they should be allowed to report the income of their business entities on a separate basis. The State is vigorously defending the constitutionality of section 25101.15. In Harley-Davidson, the Franchise Tax Board successfully demurred to the cause of action alleging that section 25101.15 was unconstitutionally discriminatory. Judgment on the entire case has been granted in favor of the board and the taxpayers have appealed. In Abercrombie, a trial has been set in February of 2015. If the plaintiffs prevail, the State would refund Harley-Davidson approximately $2 million plus interest and Abercrombie approximately $182 thousand plus interest from the General Fund. In addition, if the courts determine that section 25101.15 is unconstitutionally discriminatory, the potential total refunds to other taxpayers are unknown but could be substantial. The potential loss of future revenue, unless the Legislature were to act to address the alleged constitutional violation, would be even more substantial, as such a ruling could significantly diminish the State's ability to tax income apportionable to California under existing law.

The primary government is defendant in six cases, *Kimberly-Clark Worldwide, Inc. et al. v. Franchise Tax Board, Gillette Company v. Franchise Tax Board, Proctor & Gamble v. Franchise Tax Board, Sigma-Aldrich*, *Inc. v. Franchise Tax Board, RB Holdings (USA), Inc. v. Franchise Tax Board,* and *Jones Apparel Group Inc. v. Franchise Tax Board*, regarding the application of California's double-weighted sales factor apportionment formula under Revenue and Taxation Code section 25128. Plaintiffs contend that the single-weighted sales factor apportionment specified in Section 25128 prior to amendment was contained within the Multistate Tax Compact (Compact) and therefore cannot be modified without repealing the legislation that enacted the Compact. The State contends that California properly amended section 25128 to its understanding of the Compact. The parties have completed briefing in the California Supreme Court and await a hearing date. The total amount of tax refunds at issue in these six cases is approximately $40 million. An adverse ruling in these cases would affect multiple taxpayers and create potential exposure to refund claims in excess of $750 million.

The primary government is the defendant in numerous cases regarding the Governor's executive orders directing the furlough, without pay, of state employees. The first executive order, issued on December 19, 2008, directed furloughs two days per month, effective February 1, 2009, through June 30, 2010. The second order, issued on July 1, 2009, required a third furlough day per month, effective through June 30, 2010. On July 28, 2010, the Governor issued a new executive order requiring furloughs for three days per month beginning August 1, 2010, until a new 2010-11 fiscal year budget was adopted and the Director of Finance determined that the State had sufficient cash flow to pay for essential services. Furloughs officially ended for all Service Employees International Union represented state employees in November 2010 and for all remaining bargaining units in April 2011. Most cases related to the furloughs have been settled or dismissed with only five cases still pending. Neither the outcome nor the estimated potential loss for the remaining cases can be determined at this time.

The primary government is the defendant in a case, *Santa Clarita Valley Sanitation District of LA County (the District) v. Commission on State Mandates*, regarding a 2008 resolution by the Regional Water Quality Control Board for the Los Angeles Region (the Board) that imposed limits on chloride concentrations in water processed by the District's two water reclamation plants. The District alleges that the resolution created a reimbursable state mandate under Government Code section 17514 and article XII B, section 6, of the California Constitution. The District challenged the Board's resolution in a test claim before the California Commission on State Mandates (the Commission). In a January 31, 2014 decision, the Commission ruled the Board's resolution did not constitute a reimbursable state-mandated program under the California Constitution or Government

Code. The District filed a petition for administrative mandate seeking review of the Commission's decision. The estimated potential loss is about $6.5 million for costs incurred by petitioners to date and about $250 million in increased expenditures. Since this case is a test claim, other districts could also bring claims for reimbursement under the same theory.

The primary government is a party to the *Washington Mutual, Inc., et al. United States Bankruptcy Court* case. The case involves the propriety of tax refund claims submitted by Washington Mutual and its affiliates for multiple tax years through 2008. The underlying dispute centers on the taxpayer's claims of tax benefits arising from its use of certain net operating losses, Registered Investment Companies, Real Estate Investment Trusts, etc. A settlement agreement in the case is pending. The estimated potential loss is $223.5 million.

B. Federal Audit Exceptions

The primary government receives substantial funding from the federal government in the form of grants and other federal assistance. The primary government, the University of California, CalHFA, and certain nonmajor discretely presented component units are entitled to these resources only if they comply with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; they may spend these resources only for eligible purposes. If audits disclose exceptions, the primary government, the University of California, CalHFA, and certain nonmajor discretely presented component units may incur a liability to the federal government.

NOTE 24: PENSION TRUSTS

Two retirement systems, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), which are fiduciary component units, are included in the pension and other employee benefit trust funds column of the fiduciary funds and similar component units' financial statements. The investments of the fiduciary component units are presented in Table 6 in Note 3, Deposits and Investments.

The California Legislature passed and the Governor signed the "Public Employees' Pension Reform Act of 2013" (PEPRA) on September 12, 2012. PEPRA contained a number of provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 31, 2012. The financial impact will be gradually realized as total pension costs and the employer share of those costs decrease.

CalPERS administers four defined benefit retirement plans: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, and the Legislators' Retirement Fund. CalPERS also administers three defined contribution plans: the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the Public Agency Deferred Compensation Plan, and the public employee Supplemental Contributions Program Fund. The predominance of both assets and liabilities reside in the Public Employees' Retirement Fund for which detail will be provided. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained by writing to the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229-2703 or by visiting the CalPERS website at www.CalPERS.ca.gov.

CalPERS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are earned. Employer contributions are recorded when earned and the employer has made a formal commitment to provide the contributions. Benefits and refunds in the defined benefit plans are recognized when due and payable in accordance with the terms of each plan.

CalSTRS administers four defined benefit retirement plans within the State Teachers' Retirement Plan: the Defined Benefit Program, the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained from the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, California 95851-0275 or by visiting the CalSTRS website at www.CalSTRS.com.

CalSTRS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are earned. Employer and primary government contributions are recognized when earned and when the employer or the primary government has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable, in accordance with the retirement and benefits programs.

A. Public Employees' Retirement Fund

1. Fund Information

Plan Description: CalPERS administers the Public Employees' Retirement Fund (PERF), which is an agent multiple-employer and cost-sharing defined benefit retirement plan. Employers participating in the PERF include the primary government and certain discretely presented component units, 61 school employers, and 1,520 public agencies as of June 30, 2013.

The amount by which the actuarial accrued liability exceeded the actuarial value of assets in the PERF for the primary government and other participating agencies was $57.4 billion at June 30, 2012, as a result of the difference between the actuarial value of assets of $283.0 billion and the actuarial accrued liability of $340.4 billion. Contributions are either actuarially determined or determined by statute.

2. Employer's Information

Plan Description: The primary government and certain discretely presented component units contribute to the PERF. CalPERS act as a common investment and administrative agent of the primary government and the other member agencies. The primary government employees served by the PERF include: first-tier and second-tier miscellaneous and industrial employees, California Highway Patrol employees, peace officers and firefighters, and other safety members. In the June 30, 2012 actuarial valuation, the payroll for primary government employees covered by the PERF for the 2011-12 fiscal year was $15.7 billion.

All employees in a covered class of employment who work half-time or more are eligible to participate in the PERF. The PERF provides benefits based on members' years of service, age, final compensation, and benefit formula. Vesting occurs after five years or after ten years for second-tier employees. The PERF provides death, disability, and survivor benefits. The benefit provisions are established by statute.

Funding Policy: Benefits are funded by contributions from members and the primary government and by earnings from investments. Member and primary government contributions are a percentage of applicable member compensation. Member rates are defined by law and based on the primary government's benefit formulas. The primary government contribution rates are determined by periodic actuarial valuations or by statute.

Employees, with the exception of employees in the second-tier plans and the State's Alternate Retirement Program, contribute to the fund based on the required contribution rates. The contribution rates of active plan members are based on a percentage of salary over a monthly base compensation ranging from $0 to $863. Employees' required contributions vary from 5.0% to 11.0% of their salary over the base compensation amount.

All of the primary government employees served by the PERF are now covered by group term life insurance.

Table 47 shows the required employer contribution rates for the primary government.

Table 47

Schedule of Required Employer Contribution Rates for the Primary Government – By Member Category

Year Ended June 30, 2013

	Normal Cost	Unfunded Liability	Group Term Life Benefit	Total Rate
Miscellaneous members				
First tier	8.370 %	12.057 %	0.076 %	20.503 %
Second tier	8.324	12.057	0.076	20.457
Industrial (first and second tier)	11.220	5.082	0.000	16.302
California Highway Patrol	14.162	19.540	0.026	33.728
Peace officers and firefighters	16.458	13.813	0.026	30.297
Other safety members	12.740	4.738	0.025	17.503

For the year ended June 30, 2013, the annual pension cost (APC) and the amount of contributions made by the primary government were each $3.2 billion. The APC and the percentage of APC contributed for the last three years are shown in Table 48. Actuarial valuations of the PERF are performed annually. Information from the last valuation, which was performed as of June 30, 2012, is also shown in Table 48.

The Schedule of Funding Progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

B. Teachers' Retirement Fund

Plan Description: CalSTRS administers the Teachers' Retirement Fund, which is an employee benefit trust fund created to finance the State Teachers' Retirement Plan (STRP). The STRP is a defined benefit pension plan that provides for retirement, disability, and survivor benefits. Four programs comprise the STRP: the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program, the Cash Balance (CB) Benefit Program, and the Replacement Benefit (RB) Program. The STRP is a cost-sharing, multiple-employer, defined-benefit retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

Membership in the DB Program is mandatory for all employees meeting the eligibility requirements. The DB Program provides benefits based on a member's age, final compensation, and years of service. Vesting occurs after five years. In addition, the retirement program provides benefits to members upon disability and to survivors upon the death of eligible members. The Teachers' Retirement Law establishes the benefits for the DB Program. At June 30, 2013, the DB Program had 1,659 contributing employers and as of June 30, 2012, had 421,499 active and 178,655 inactive program members and 262,038 benefit recipients. The primary government is a nonemployer contributor to the DB Program. The payroll for employees covered by the DB Program for the year ended June 30, 2013, was approximately $26.2 billion.

Membership in the DBS Program is automatic for all members of the DB Program. The DBS Program provides benefits based on the amount of funds contributed. Vesting in the DBS Program occurs automatically with

vesting in the DB Program. The Teachers' Retirement Law establishes the benefits for the DBS Program. The primary government does not contribute to the DBS Program.

The CB Benefit Program is designed for employees of California public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position. Employer participation in the CB Benefit Program is optional. However, if the employer elects to offer the CB Benefit Program, each eligible employee will automatically be covered by the CB Benefit Program unless the member elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire or the election period determined by the employer. At June 30, 2013, the CB Benefit Program had 31 contributing school districts and 33,710 contributing participants.

The RB Program is a qualified excess benefits arrangement for DB Program members that is administered through a separate pension trust apart from the other three STRP programs and was established in accordance with Internal Revenue Code Section 415(m). Internal Revenue Code Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The program is funded as needed. Monthly contributions that would otherwise be credited to the DB program are instead credited to the RB Program to fund monthly program costs. Monthly employer contributions are received and paid to members in amounts equal to the benefits not paid as a result of Internal Revenue Code Section 415(b), subject to withholding for any applicable income or employment taxes. At June 30, 2013, the RB Program had 267 participants.

Funding Policy: DB Program benefits are funded by contributions from members, employers, the primary government, and earnings from investments. Members and employers contribute a percentage of applicable member earnings. The Teachers' Retirement Law governs member rates, employer contribution rates, and primary government contributions.

The DB Program, under the CalSTRS 2% at 60, contribution rate for members is 8.00% of creditable compensation, while under the CalSTRS 2% at 62, the contribution rate for members is 50% of the normal cost of their retirement plan, which resulted in an 8.00% contribution rate of creditable compensation for the fiscal year 2012-13. The employer contribution rate is 8.25% of creditable compensation. In fiscal year 2012-13, the General Fund contribution was 2.017% of total creditable compensation of the fiscal year ending in the prior calendar year. Education Code section 22955(b) states that the General Fund will contribute additional quarterly payments at a contribution rate of 0.524% of creditable earnings of the fiscal year ending in the immediately preceding calendar year when there is an unfunded actuarial obligation or a normal cost deficit. The percentage is adjusted up to 0.25% per year to reflect the contributions required to fund the unfunded actuarial obligation or the normal cost deficit. However, the transfer may not exceed 1.505% of creditable compensation from the immediately preceding calendar year. The normal cost deficit is the difference between the normal cost rate and the member and employer contributions. Based on the most recent actuarial valuation, as of June 30, 2012, there is no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. Therefore, the General Fund is required to contribute the additional quarterly payments at a contribution rate of 1.024% starting October 1, 2013.

The DBS Program member contribution rate for service in excess of one year within one fiscal year is 8.0% and the employer rate is 8.0%.

For the year ended June 30, 2013, the APC for the DB Program was approximately $6.6 billion; the employer and primary government contributions were approximately $2.2 billion and $733 million, respectively. The APC and the percentage of APC contributed for the last three years are shown in Table 48. Actuarial valuations of the DB Program are performed annually. Information from the last valuation is shown in Table 48.

Table 48

Actuarial Information – Pension Trusts – Public Employees' Retirement Fund and State Teachers' Retirement Defined Benefit Program Fund
Valuation Date As Indicated

	Public Employees' Retirement Fund	State Teachers' Retirement Defined Benefit Program Fund [1]
Last actuarial valuation	June 30, 2012	June 30, 2012
Actuarial cost method	Individual Entry Age Normal	Entry Age Normal
Amortization method	Level % of Payroll, Closed	Level % of Payroll, Open
Remaining amortization period	18 - 23 years	30 years
Asset valuation method	Smoothed Market Value	Expected Value, With 33% Adjustment to Market Value
Actuarial assumption		
Investment rate of return	7.50 %	7.50 %
Projected salary increase	3.20-19.70	3.75
Includes inflation at	2.75	3.00
Post-retirement benefit increases	2.00 - 3.00	2.00
Annual pension costs (in millions)		
Year ended 6/30/11	$ 3,277	$ 5,985
Year ended 6/30/12	2,928	6,230
Year ended 6/30/13	3,236	6,629
Percent contribution		
Year ended 6/30/11	100 %	47 %
Year ended 6/30/12	100	46
Year ended 6/30/13	100	44
Funding as of last valuation (in millions)		
Actuarial value – assets	$ 106,145	$ 144,232
Actuarial accrued liabilities (AAL) – entry age	134,314	214,765
Unfunded actuarial accrued liability (UAAL)	28,169	70,533
Covered payroll	15,680	26,404
Funded ratio	79.0 %	67.2 %
UAAL as percent of covered payroll	179.6 %	267.1 %

[1] The State is a non-employer contributor to the State Teachers' Retirement Defined Benefit Program Fund, a cost-sharing multiple-employer plan. The annual pension cost includes the amount related to both the State and the local government employers. According to the provisions of the Teacher's Retirement Law, and the related Education Codes, the State and local government employers contributed $733 million and $2.2 billion, respectively, for the year ending June 30, 2013. Based on the most recent actuarial valuation, dated June 30, 2012, current statutory contributions are sufficient to fund normal costs but are not expected to be sufficient to amortize the unfunded actuarial obligation. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions, and other experience that may differ from the actuarial assumptions.

NOTE 25: POSTEMPLOYMENT HEALTH CARE BENEFITS

State of California Other Postemployment Benefits Plan

Plan Description: The primary government and certain discretely presented component units provide health benefits (medical and prescription drug benefits) and dental benefits to annuitants of retirement systems through a substantive single-employer defined benefit plan to which the primary government contributes as an employer (State substantive plan). The primary government also offers life insurance, long-term care, and vision benefits to retirees; however, because these benefits are completely paid for by the retirees, the primary government has no liability. The discretely presented component units represent 0.25% of plan participation. The design of health and dental benefit plans can be amended by the California Public Employees' Retirement System (CalPERS) Board of Administration and the California Department of Human Resources (CalHR, formerly known as the Department of Personnel Administration), respectively. Employer and retiree contributions are governed by the primary government and can be amended by the primary government through the Legislature. The plan contributes to the California Employers' Retiree Benefit Trust Fund (CERBTF). The CERBTF is a self-funded trust fund for the prefunding of health, dental, and other non-pension benefits. CalPERS reports on the CERBTF as part of its annual financial statements, which can be downloaded from the CalPERS website at www.CalPERS.ca.gov.

Fifty-eight county superior courts (trial courts) are included in the primary government. However, each trial court is a separate employer for GASB Statement No. 45 reporting purposes. Forty-nine trial courts have a single-employer defined benefit plan; these plans have separate biennial actuarial valuations. One trial court (San Diego) has a cost-sharing multiple-employer defined benefit plan. Eight trial courts (Alameda, Del Norte, Fresno, Mendocino, Modoc, San Benito, San Bernardino, and Stanislaus) have no plan. Forty-five plans are not accounted for in a trust fund and do not issue separate reports.

To be eligible for these benefits, primary government first-tier plan annuitants must retire on or after age 50 with at least five years of service, and second-tier plan annuitants must retire on or after attaining age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits. During the 2012-13 fiscal year, approximately 163,100 annuitants were enrolled to receive health benefits and approximately 135,100 annuitants were enrolled to receive dental benefits. As of July 1, 2011, the most recent actuarial valuation date, the trial courts had approximately 3,400 enrolled retirees and spouses.

Funding Policy: The contribution requirements of plan members and the State are established and may be amended by the Legislature. In accordance with the California Government Code, the State generally pays 100% of the health insurance cost for annuitants, plus 90% of the additional premium required for the enrollment of family members of annuitants. Although the California Government Code does not specify the State's contribution toward dental insurance costs, the State generally pays all or a portion of the dental insurance cost for annuitants, depending upon the completed years of credited state service at retirement and the dental coverage selected by the annuitant. The State funds the cost of providing health and dental insurance to annuitants primarily on a pay-as-you-go basis with a small amount of prefunding for California Highway Patrol members. The maximum 2013 monthly State contribution was $622 for one-party coverage, $1,183 for two-party coverage, and $1,515 for family coverage.

Each of the trial courts determines its respective retirees' benefits and benefit levels as well as the funding policy for its respective plan. Forty-four trial courts fund retirees' benefits on a pay-as-you-go basis. The 2011 monthly contribution rate for the trial courts with single-employer defined benefit plans, the latest year for which information is available, ranged from zero to $2,215, with the average being $690. Two trial courts (Lassen and Yolo) contribute at least the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Orange contributes 3.5% of payroll, with at least the ARC contributed each year. Sonoma contributes 20% of the ARC to another postemployment benefit (OPEB) trust and pays a portion of benefit payments directly from trial court assets. Santa Clara contributes approximately 20% of the ARC to a Santa Clara County-established OPEB irrevocable trust, where the contribution is then pooled with County trust assets. San Diego, a cost-sharing multiple-employer defined benefit plan, had a contribution rate of 1.91% of annual covered pension payroll. For the year ended June 30, 2013, the State contributed $1.8 billion toward annuitants' health and dental benefits. Of this amount, the trial courts represent $33 million and certain discretely presented component units represent $5 million.

Annual OPEB Cost and Net OPEB Obligation: The State's annual OPEB cost (expense) is calculated based on the ARC. Table 49 presents the State's OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2013, and the two preceding years, including trial courts.

Table 49

Schedule of Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, and Net OPEB Obligation
(amounts in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	$ 4,359,929	36.70 %	$ 10,357,406
June 30, 2012	4,837,769	36.20	13,440,768
June 30, 2013	4,992,924	35.33	16,267,964

Table 50 presents the components of the State's net OPEB obligation to the OPEB plan, including trial courts.

Table 50

Schedule of Net OPEB Obligation
June 30, 2013
(amounts in thousands)

	Amount
Annual required contribution	$ 4,925,460
Interest on net OPEB obligation	586,532
Adjustment to annual required contribution	(519,068)
Annual OPEB cost	**4,992,924**
Contributions made	(1,763,872)
Increase in net OPEB obligation	3,229,052
Net OPEB obligation – beginning of year	**13,038,912** *
Net OPEB obligation – end of year	**$ 16,267,964**

* Beginning balance restated by $402 million due to elimination of discretely presented component units (GASB 61).

Funded Status and Funding Progress: As of June 30, 2013—the most recent actuarial valuation date for the State substantive plan—the actuarial accrued liability (AAL) for benefits was $64.6 billion, and the actuarial value of assets was $10 million, resulting in an unfunded actuarial accrued liability (UAAL) of $64.6 billion. The covered payroll (annual payroll of active employees covered by the plan) was $18.1 billion, and the ratio of the UAAL to the covered payroll was 358%.

For the trial courts, as of July 1, 2011—the most recent actuarial valuation date—the AAL for benefits was $1.4 billion and the actuarial value of assets was $17 million, resulting in an UAAL of $1.4 billion. The covered payroll was $922 million and the ratio of the UAAL to covered payroll was 148%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality and the healthcare cost trend. Amounts determined regarding the plan's funded status and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective.

In the June 30, 2013 State substantive plan actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.25% investment rate of return and an annual health care cost trend rate of actual increases for 2014 and 8.50% in 2015, initially, reduced to an ultimate rate of 4.50% after six years. Both rates included a 2.75% annual inflation assumption. Annual wage inflation is assumed to be 3.00%. The UAAL is being amortized as a level percentage of projected payroll on an open basis over 30 years.

In the July 1, 2011 biennial actuarial valuations, the entry age normal cost method was used for 48 of the trial courts, while Shasta used the projected unit credit cost method. The actuarial assumptions included a 3.75% investment rate of return for 42 trial courts. There are seven other trial courts with investment rates of return ranging from 4.50% to 7.50%. The actuarial assumptions included an annual health care cost trend rate of 6.00% for most trial courts initially, reduced incrementally, to an ultimate trend rate of 4.50% after seven years. Annual inflation and payroll growth are assumed to be 3.00% and 3.25%, respectively, for most trial courts. The UAAL is amortized on an open basis over 30 years as a level percentage of payroll for 44 trial courts, and level dollar amount for one court (Shasta). Two other trial courts, Alpine and Orange, are amortizing using the level dollar amount over 26 years on a closed basis. The Yolo and Lassen trial courts amortize on the level percentage of payroll on a closed basis for 27 years and one year, respectively.

The University of California (University) is the employer providing OPEB benefits through its Retirement Health Plan to its eligible retirees and their families. As the University is the employer providing these benefits, the State will not be reporting these benefits in Note 25 or the Required Supplementary Information. Information regarding the University and references to its financial statements can be found in Note 1, Section A-3.

NOTE 26: SUBSEQUENT EVENTS

The following information describes significant events that occurred subsequent to June 30, 2013, but prior to the date of the auditor's report.

A. Debt Issuances

Between September 2013 and March 2014, the primary government issued $5.2 billion in general obligation bonds to finance or refinance capital facilities or other voter-approved costs for public purposes, including clean air; transportation; higher education facilities; highway safety, traffic reduction, air quality, and port security; kindergarten-university public education facilities; and stem cell research.

In August 2013, the California State University (CSU) issued $309 million in revenue bonds to refund outstanding Systemwide Revenue Bonds Series 2005A and 2005C and other outstanding bond indebtedness by an auxiliary organization. Between July and September 2013, the CSU issued a combined total of $79 million in Bond Anticipation Notes (BANs) for the Student Health & Counseling Center at the San Jose campus and for student housing at the Bakersfield, Northridge, and San Diego campuses.

In August 2013, the Regents of the University of California, a discretely presented component unit, issued $650 million in revenue bonds to finance the East Campus Bed Tower project at UC San Diego Medical Center as well as other projects at UC Irvine Medical Center, UC Davis Medical Center and UCLA Medical Center. In October 2013, the Regents issued $2.5 billion in general revenue bonds to refinance the acquisition and construction of University facilities through the refunding of the outstanding Lease Revenue Bonds issued by the State Public Works Board of the State of California on behalf of the University. In April 2014, the Regents issued $970 million in general revenue bonds to finance or refinance the acquisition and construction of University facilities.

Between October 2013 and April 2014, the State Public Works Board issued a combined total of $1.9 billion in lease revenue bonds to finance and refinance the cost of design and/or construction of various projects for the benefit of the Department of Corrections and Rehabilitation, California State University, Department of Food and Agriculture, and Judicial Council of California.

In March 2014, the Department of Water Resources issued $161 million in water system revenue bonds to fund construction of certain Water System Projects, to refund outstanding water revenue commercial paper notes, to

fund a deposit to the Debt Service Reserve Account, to fund interest on a portion of the bonds, and to pay the related issuance costs.

On September 1, 2013, the Department of Veterans Affairs voluntarily redeemed $44 million of general obligation bonds.

B. Cash Management

In August 2013, the State issued $5.5 billion of Revenue Anticipation Notes to fund the State's cash management needs for the 2013-14 fiscal year and to support the cash flow needs of the General Fund.

C. Other

In October 2013, the Governor signed into law Senate Bill No. 13. This legislation amends the Public Employees' Pension Reform Act of 2013 (PEPRA) correcting or clarifying several provisions including those related to new judges' retirement benefits. Key provisions of this legislation include requiring that new judges be subject to an employee contribution rate of at least 50% of the normal cost, and it corrected a requirement that new judges are not subject to the PEPRA retirement formulas. This law also provides clarification about accumulated additional contributions being used to calculate one of the benefit options for CalPERS safety members eligible for the industrial disability retirement benefits and who retire on or after January 1, 2013.

As of September 30, 2013, the cities of San Bernardino and Stockton are still seeking financial relief under Chapter 9 of the Federal Bankruptcy Code having filed for relief in the prior year, while the city of Mammoth Lakes has resolved its bankruptcy issues. The two local governments provide retirement benefits through CalPERS. One of the two cities met its pension obligations and remitted annual contributions during fiscal year 2012-13, while the other ceased paying its annual contributions for a period of time during the year and was approximately $14 million in arrears as of June 30, 2013. These local governments have yet to obtain confirmation of their final bankruptcy plans, and therefore, the outcome and the impact of the bankruptcy proceedings, at these stages of the cases, are unknown.

California's demand for unemployment insurance benefits required additional loans from the U.S. Department of Labor during the 2013-14 fiscal year. As of June 30, 2013, the State had $8.6 billion in outstanding loans from the U.S. Department of Labor which were used to cover deficits in the Unemployment Programs Fund. As of April 16, 2014, the State had an outstanding loan balance of $10.1 billion, and it expects to request additional loans throughout 2014.

In August 2013, Fitch Ratings raised its rating on the State's general obligation bonds to "A" from "A-" citing the State's institutional changes to fiscal management and its ongoing economic and revenue recovery. Fitch Ratings also raised its rating on State Public Works Board bonds to "A-" from "BBB+".

In November 2013, December 2013, and February 2014, the primary government substituted or extended the letters of credit for certain series of variable rate general obligation bonds and commercial paper notes to take advantage of lower letter of credit commitment fees. As a result of the letter of credit substitution or extension, new letter of credit and reimbursement agreements were entered into with expiration dates in 2016 and 2017. Also due to the substitution, Moody, Standard & Poor's Rating Services, and Fitch Rating raised ratings on various bond series and Fitch lowered its rating on other bonds.

In December 2013 and February 2014, the primary government removed one and added two letter of credit bank facilities to the commercial paper program, and new letter of credit and reimbursement agreements were entered into with expiration dates in 2016 and 2017. The commercial paper lines had a net increase from $1.6 billion to $1.7 billion.

This page intentionally left blank.

Required Supplementary Information

Schedule of Funding Progress

(amounts in millions)

Public Employees' Retirement Fund - Primary Government

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
June 30, 2010	$ 97,346	$ 121,446	$ 24,100	80.2 %	$ 16,281	148.0 %
June 30, 2011	102,452	129,648	27,196	79.0	16,212	167.7
June 30, 2012	106,145	134,314	28,169	79.0	15,680	179.6

State Teachers' Retirement Defined Benefit Program

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
June 30, 2010	$ 140,291	$ 196,315	$ 56,024	71.5 %	$ 26,275	213.2 %
June 30, 2011	143,930	207,770	63,840	69.3	26,592	240.1
June 30, 2012	144,232	214,765	70,533	67.2	26,404	267.1

Other Postemployment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State substantive plan						
June 30, 2011	$ 7	$ 62,144	$ 62,137	0.0 %	$ 18,010	345.0 %
June 30, 2012	8	63,845	63,837	0.0	18,710	341.2
June 30, 2013	10	64,584	64,574	0.0	18,060	357.6
Trial Courts [1]						
July 1, 2007	—	1,291	1,291	0.0 %	989	130.6 %
July 1, 2009	9	1,493	1,484	0.6	1,009	147.0
July 1, 2011	17	1,385	1,368	1.2	922	148.4

[1] The trial courts reporting is based on 49 individual biennial actuarial valuations as of July 1, 2011.

Note: The University of California (UC) is the employer providing OPEB benefits through its Retirement Health and Welfare Plans to its eligible retirees and their families. As UC is the employer providing these benefits, the State will not be reporting these benefits in Note 25 or the Required Supplementary Information. Information regarding the University of California and references to their financial statements can be found in Note 1, Section A-3.

Infrastructure Assets Using the Modified Approach

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 34, the State uses the modified approach to report the cost of its infrastructure assets (state roadways and bridges). Under the modified approach, the State does not report depreciation expense for roads and bridges but capitalizes all costs that add to the capacity and efficiency of State-owned roads and bridges. All maintenance and preservation costs are expensed and not capitalized.

A. Infrastructure Asset Reporting Categories

The infrastructure assets reported in the State's financial statements for the fiscal year ending June 30, 2013, are in the following categories and amounts: state highway infrastructure (completed highway projects) totaling $63.4 billion, land purchased for highway projects totaling $12.8 billion, and infrastructure construction-in-progress (uncompleted highway projects) totaling $8.3 billion.

Donation and Relinquishment: Donation and relinquishment activity affects the inventory of statewide lane miles, land, and/or bridges as adjustments to the infrastructure assets and/or land balance in the State's financial statements. For the fiscal year ending June 30, 2013, donations are $6 million of infrastructure land, and relinquishments are $66 million of state highway infrastructure and $13 million of infrastructure land, respectively.

B. Condition Baselines and Assessments

1. Bridges

The State uses the Bridge Health Index (BHI)—a numerical rating scale from 0 to 100 that uses element-level inspection data—to determine the aggregate condition of its bridges. The inspection data is based on the American Association of State Highway Transportation Officials' "Guide to Commonly Recognized Structural Elements."

From a deterioration standpoint, the BHI represents the remaining asset value of the bridge. A new bridge that has 100% of its asset value has a BHI of 100. As a bridge deteriorates over time, it loses asset value, as represented by a decline in its BHI. When a deteriorated bridge is repaired, it will regain some (or all) of its asset value and its BHI will increase.

The State's established condition baseline and actual BHI for fiscal years 2010-11 through 2012-13 are shown in the following table:

Fiscal Year Ending June 30	Established BHI Baseline*	Actual BHI
2011	80.0	94.3
2012	80.0	94.5
2013	80.0	94.8

* The actual statewide Bridge Health Index (BHI) should not be lower than the minimum BHI established by the State.

The following table provides details on the State's actual BHI as of June 30, 2013:

BHI Description	Bridge Count	Percent	Network BHI
Excellent	6,952	53.19 %	99.9
Good	4,716	36.08	96.6
Acceptable	760	5.81	85.4
Fair	156	1.19	73.6
Poor	116	0.89	66.2
Does not carry traffic	371	2.84	93.1
Total	**13,071**	**100.00 %**	

2. Roadways

The State conducts a periodic pavement condition survey, which evaluates ride quality and structural integrity and identifies the number of distressed lane miles. The State classifies its roadways' pavement condition by the following descriptions:

1. Excellent/good condition – minor or no potholes or cracks
2. Fair condition – moderate potholes or cracks
3. Poor condition – significant or extensive potholes or cracks

Statewide lane miles are considered "distressed lane miles" if they are in either fair or poor condition. The actual distressed lane miles are compared to the established condition baseline to ensure that the baseline is not exceeded.

The State's established condition baseline and actual distressed lane miles from the last three complete pavement-condition surveys are shown in the following table:

Condition Assessment Date [1]	Established Condition Baseline Distressed Lane Miles (maximum) [2]	Actual Distressed Lane Miles	Actual Distressed Lane Miles as Percent of Total Lane Miles
March 2008	18,000	12,998	26.3 %
December 2011 [3]	18,000	12,333	24.9
December 2013	18,000	7,820	15.7

[1] Condition assessment for the State's established condition baseline and actual distressed lane miles is being reported as of the *State of the Pavement* report publication date.

[2] The actual statewide distressed lane miles should not exceed the maximum distressed lane miles established by the State.

[3] The State's compliance with GASB 34, which requires a road condition assessment every three years, temporarily lapsed in March 2011. A survey was completed in December 2011 and the State will continue to use the modified approach for roadways.

The following table provides details on the State's actual distressed lane miles as of the last complete pavement-condition survey.

Pavement Condition	Lane Miles	Distressed Lane Miles
Excellent/Good	41,898	—
Fair	2,483	2,483
Poor	5,337	5,337
Total	49,718	7,820

C. Budgeted and Actual Preservation Costs

The estimated budgeted preservation costs represent the preservation projects approved by the California Transportation Commission and the State's scheduled preservation work for each fiscal year. The actual preservation costs represent the cumulative cost to date for the projects approved and work scheduled in each fiscal year.

The State's budgeted and actual preservation cost information for the most recent and four previous fiscal years is shown in the following table:

Fiscal Year Ending June 30	Estimated Budgeted Preservation Costs (in millions)	Actual Preservation Costs (in millions)
2009	$ 2,910	$ 1,821
2010	2,162	694
2011	2,802	1,358
2012	2,722	1,504
2013	1,598	375

Budgetary Comparison Schedule

General Fund and Major Special Revenue Funds

Year Ended June 30, 2013
(amounts in thousands)

	General			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Corporation tax	$ 7,580,000	$ 7,509,000	$ 7,459,443	$ (49,557)
Intergovernmental	—	—	—	—
Cigarette and tobacco taxes	91,000	91,000	90,005	(995)
Inheritance, estate, and gift taxes	45,000	—	—	—
Insurance gross premiums tax	2,022,000	2,156,000	2,221,317	65,317
Vehicle license fees	25,718	28,718	26,445	(2,273)
Motor vehicle fuel tax	—	—	—	—
Personal income tax	60,647,000	63,901,000	65,443,286	1,542,286
Retail sales and use taxes	20,714,000	20,240,000	20,414,799	174,799
Other major taxes and licenses	321,200	326,200	357,632	31,432
Other revenues	2,148,454	2,195,082	2,404,834	209,752
Total revenues	**93,594,372**	**96,447,000**	**98,417,761**	**1,970,761**
EXPENDITURES				
State and consumer services	1,335,204	681,611	661,143	20,468
Business and transportation	90,476	90,456	90,407	49
Resources	940,947	1,177,395	1,161,104	16,291
Health and human services	26,658,419	27,395,474	26,999,956	395,518
Correctional programs	8,820,897	8,700,193	8,500,608	199,585
Education	50,127,515	48,787,555	48,686,126	101,429
General government:				
Tax relief	438,852	438,852	427,285	11,567
Debt service	4,435,522	4,438,663	4,394,324	44,339
Other general government	4,786,351	5,204,292	4,987,016	217,276
Total expenditures	**97,634,183**	**96,914,491**	**95,907,969**	**1,006,522**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	2,047,256	—
Transfers to other funds	—	—	(344,599)	—
Other additions and deductions	—	—	1,681,288	—
Total other financing sources (uses)	**—**	**—**	**3,383,945**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	5,893,737	—
Fund balances - beginning	**—**	**—**	**(1,608,600)**	**—**
Fund balances - ending	**$ —**	**$ —**	**$ 4,285,137**	**$ —**

	Federal				Transportation			
	Budgeted Amounts		Actual	Variance With	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget
REVENUES								
Corporation tax	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Intergovernmental	55,499,998	55,499,998	55,499,998	—	—	—	—	—
Cigarette and tobacco taxes	—	—	—	—	—	—	—	—
Inheritance, estate, and gift taxes	—	—	—	—	—	—	—	—
Insurance gross premiums tax	—	—	—	—	—	—	—	—
Vehicle license fees	—	—	—	—	—	—	—	—
Motor vehicle fuel tax	—	—	—	—	5,545,016	5,618,575	5,492,850	(125,725)
Personal income tax	—	—	—	—	—	—	—	—
Retail sales and use taxes	—	—	—	—	—	—	—	—
Other major taxes and licenses	—	—	—	—	3,724,808	3,705,494	3,735,168	29,674
Other revenues	32	32	32	—	380,656	426,382	370,121	(56,261)
Total revenues	**55,500,030**	**55,500,030**	**55,500,030**	**—**	**9,650,480**	**9,750,451**	**9,598,139**	**(152,312)**
EXPENDITURES								
State and consumer services	35,434	35,434	35,434	—	111,168	109,814	97,820	11,994
Business and transportation	3,556,096	3,556,096	3,556,096	—	10,929,923	10,888,601	9,165,455	1,723,147
Resources	363,775	363,775	363,775	—	156,155	154,388	151,482	2,906
Health and human services	41,078,078	41,078,078	41,078,078	—	3,365	3,323	2,846	476
Correctional programs	80,364	80,364	80,364	—	—	—	—	—
Education	6,964,294	6,964,294	6,964,294	—	980	2,587	2,467	120
General government:								
Tax relief	—	—	—	—	2,103	2,103	2,103	—
Debt service	—	—	—	—	2,408	2,886	1,441	1,445
Other general government	702,040	702,040	702,040	—	487,274	516,898	498,131	18,767
Total expenditures	**52,780,081**	**52,780,081**	**52,780,081**	**—**	**11,693,376**	**11,680,600**	**9,921,745**	**1,758,855**
OTHER FINANCING SOURCES (USES)								
Transfers from other funds	—	—	12,583,101	—	—	—	14,455,171	—
Transfers to other funds	—	—	(15,280,390)	—	—	—	(16,264,844)	—
Other additions and deductions	—	—	(22,628)	—	—	—	(1,114,596)	—
Total other financing sources (uses)	**—**	**—**	**(2,719,917)**	**—**	**—**	**—**	**(2,924,269)**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	32	—	—	—	(3,247,875)	—
Fund balances - beginning	**—**	**—**	**10,737**	**—**	**—**	**—**	**25,690,829**	**—**
Fund balances - ending	**$ —**	**$ —**	**$ 10,769**	**$ —**	**$ —**	**$ —**	**$ 22,442,954**	**$ —**

(continued)

Budgetary Comparison Schedule (continued)

General Fund and Major Special Revenue Funds

Year Ended June 30, 2013
(amounts in thousands)

	Environmental and Natural Resources			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Corporation tax	$ —	$ —	$ —	$ —
Intergovernmental	—	—	—	—
Cigarette and tobacco taxes	—	—	—	—
Inheritance, estate, and gift taxes	—	—	—	—
Insurance gross premiums tax	—	—	—	—
Vehicle license fees	—	—	—	—
Motor vehicle fuel tax	—	—	—	—
Personal income tax	—	—	—	—
Retail sales and use taxes	—	—	—	—
Other major taxes and licenses	148,326	148,326	148,326	—
Other revenues	3,175,948	3,175,948	3,175,948	—
Total revenues	**3,324,274**	**3,324,274**	**3,324,274**	**—**
EXPENDITURES				
State and consumer services	83,374	83,216	67,297	15,919
Business and transportation	5,668	5,666	5,666	—
Resources	4,494,202	4,502,774	3,761,481	741,293
Health and human services	220,228	219,550	115,043	104,507
Correctional programs	—	—	—	—
Education	8,166	8,165	8,025	140
General government:				
Tax relief	—	—	—	—
Debt service	—	—	—	—
Other general government	95,621	97,358	84,575	12,783
Total expenditures	**4,907,259**	**4,916,729**	**4,042,087**	**874,642**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	483,438	—
Transfers to other funds	—	—	(380,327)	—
Other additions and deductions	—	—	160,218	—
Total other financing sources (uses)	**—**	**—**	**263,329**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	(454,484)	—
Fund balances - beginning	**—**	**—**	**12,479,726**	**—**
Fund balances - ending	**$ —**	**$ —**	**$ 12,025,242**	**$ —**

(concluded)

Reconciliation of Budgetary Basis Fund Balances of the General Fund and the Major Special Revenue Funds to GAAP Basis Fund Balances

June 30, 2013
(amounts in thousands)

		Special Revenue Funds		
	General	Federal	Transportation	Environmental and Natural Resources
Budgetary fund balance reclassified into GAAP statement fund structure	**$ 4,285,137**	**$ 10,769**	**$ 22,442,954**	**$ 12,025,242**
Basis difference:				
Interfund receivables	53,767	—	3,610,076	535,477
Loans receivable	165,643	186,236	—	1,023,710
Interfund payables	(6,435,046)	—	(2,648)	(10,979)
Escheat property	(905,203)	—	—	—
Bonds authorized but unissued	—	—	(17,805,340)	(5,905,460)
Tax revenues	283,600	—	—	—
GASB 54 classification changes	85,562	1,738	—	—
Other	6,075	—	(839,405)	156,953
Timing difference:				
Liabilities budgeted in subsequent years	(11,793,991)	(790)	(174,940)	(7,067)
GAAP fund balance (deficit), June 30, 2013	**$ (14,254,456)**	**$ 197,953**	**$ 7,230,697**	**$ 7,817,876**

Notes to the Required Supplementary Information

Budgetary Comparison Schedule

The State annually reports its financial condition based on a Generally Accepted Accounting Principles (GAAP) basis and on the State's budgetary provisions (budgetary basis). The Budgetary Comparison Schedule, General Fund and Major Special Revenue Funds reports the original budget, the final budget, the actual expenditures, and the variance between the final budget and the actual expenditures, using the budgetary basis of accounting.

On the budgetary basis, individual appropriations are charged as expenditures when commitments for goods and services are incurred. However, for financial reporting purposes, the State reports expenditures based on the year in which goods and services are received. The Budgetary Comparison Schedule includes all of the current-year expenditures for the General Fund and major special revenue funds as well as related appropriations that are typically legislatively authorized annually, continually, or by project. On a budgetary basis, adjustments for encumbrances are budgeted under other general government, while the encumbrances relate to all programs' expenditures.

The Budgetary Comparison Schedule is not presented in this document at the legal level of budgetary control because such a presentation would be extremely lengthy and cumbersome. The State of California prepares a separate report, the Comprehensive Annual Financial Report Supplement, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with Government Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Section 2400.121. This report includes the comparison of the annual appropriated budget with expenditures at the legal level of control. A copy of the Comprehensive Annual Financial Report Supplement is available upon request from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

Reconciliation of Budgetary With GAAP Basis

The reconciliation of budgetary basis fund balances of the General Fund and the major special revenue funds to GAAP basis fund balances are presented on the previous page and are explained in the following paragraphs.

The beginning fund balances on the budgetary basis are calculated using prior year revenue adjustments and prior year expenditure adjustments. A prior year revenue adjustment occurs when the actual amount received in the current year differs from the amount of revenue accrued in the prior year. A prior year expenditure adjustment results when the actual amount paid in the current year differs from the prior year accrual for appropriations for which the ability to encumber funds has lapsed in previous periods. The beginning fund balance on a GAAP basis is not affected by these adjustments.

Basis Difference

Interfund Receivables and Loans Receivable: Loans made to other funds or to other governments are normally recorded as either expenditures or transfers on a budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The adjustments related to interfund receivables caused a $54 million increase to the fund balance in the General Fund, a $3.6 billion increase to the fund balance in the Transportation Fund, and a $535 million increase to the fund balance in Environmental and Natural Resources Fund. The adjustments related to loans receivable caused increases of $166 million in the General Fund, $186 million in the Federal Fund, and $1.0 billion in Environmental and Natural Resources Fund.

Interfund Payables: Loans received from other funds or from other governments are normally recorded as either revenues or transfers on a budgetary basis. However, in accordance with GAAP, these loans are recorded as liabilities. The adjustments related to interfund payables caused a $6.4 billion decrease to the budgetary fund balance in the General Fund, $3 million decrease to the Transportation Fund, and $11 million decrease to the Environmental and Natural Resources Fund.

Escheat Property: A liability for the estimated amount of escheat property expected to ultimately be reclaimed and paid is not reported on a budgetary basis. The liability is required to be reported on a GAAP basis. This adjustment caused a $905 million decrease to the General Fund balance.

Bonds Authorized but Unissued: In the year that general obligation bonds are authorized by the voters, the full amount authorized is recognized as revenue on a budgetary basis. In accordance with GAAP, only the amount of bonds issued each year is reported as an other financing source. The adjustments related to bonds authorized but unissued caused a $17.8 billion decrease to the fund balance in the Transportation Fund and a $5.9 billion decrease in Environmental and Natural Resources Fund.

Tax Revenues: Estimated tax payments are accrued on a budgetary basis pursuant to Chapter 751, Statutes of 2008. However, in accordance with GAAP, tax payments are accrued based on the portion of estimated net final payments related to the fiscal year. This adjustment caused a fund balance increase of $284 million in the General Fund.

GASB Statement No. 54 Classification Changes: The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. Additional information on GASB Statement No. 54 can be found in Note 1, Summary of Significant Accounting Policies, Section K. These reclassifications caused fund balance increases of $86 million in the General Fund and $2 million in the Federal Fund. The $86 million of fund balance is not considered part of the General Fund for any budgetary purposes or for the Budgetary/Legal Basis Annual Report.

Other: Certain other adjustments and reclassifications are necessary in order to present the financial statements in accordance with GAAP. The other adjustments caused a fund balance increase of $6 million in the General Fund, a fund balance decrease of $839 million in the Transportation Fund, and a $157 million increase in Environmental and Natural Resources Fund.

Timing Difference

Liabilities Budgeted in Subsequent Years: On a budgetary basis, the primary government does not accrue liabilities for which there is no existing appropriation or no currently available appropriation. The adjustments made to account for these liabilities in accordance with GAAP caused fund balance decreases of $11.7 billion in the General Fund, $790 thousand in the Federal Fund, $175 million in the Transportation Fund, and $7 million in the Environmental and Natural Resources Fund. The large decrease in the General Fund primarily consists of $4.2 billion for deferred apportionment payments to K-12 schools and community colleges, $2.7 billion for medical assistance, $2.2 billion in tax overpayments, $732 million for June 2013 payroll that was deferred to July 2013, and $431 million for pension contributions.

This page intentionally left blank.

Combining Financial Statements and Schedules – Nonmajor and Other Funds

This page intentionally left blank.

Nonmajor Governmental Funds

Nonmajor governmental funds account for the State's activities that do not meet the criteria of a major governmental fund. Following are brief descriptions of nonmajor governmental funds.

Special revenue funds account for the proceeds of specific revenue sources, other than debt service or capital projects, that are restricted or committed to expenditures for specific purposes.

The **Business and Professions Regulatory and Licensing Fund** accounts for fees and other revenues charged for regulating and licensing specific industries, professions, and vocations.

The **Financing for Local Governments and the Public Fund** accounts for taxes, fees, bond proceeds, and other revenues that are used to finance the construction and maintenance of parks, jails, and other public and local government programs.

The **Cigarette and Tobacco Tax Fund** accounts for a surtax on cigarette and tobacco products that is used for various health programs.

The **Local Revenue and Public Safety Fund** accounts for vehicle license fees and a 1.5625% state sales tax that is dedicated to local governments for realigning costs from the State to local governments and a 0.5% state sales tax that is dedicated to local governments to fund public safety programs.

The **Health Care Related Programs Fund** accounts for fees, taxes, bond proceeds, transfers from the Federal Trust Fund and other state funds, and other revenues that are used for the Medi-Cal and Healthy Families programs, medical research, and other health and human services programs.

The **Trial Courts Fund** accounts for the various fees collected by the courts, maintenance of effort payments from the counties, transfers in from the General Fund, and trial court operating costs.

The **Golden State Tobacco Securitization Corporation Fund** is a blended component unit that accounts for the receipt of Tobacco Revenue Settlements pledged for the payment of debt service.

The **Other Special Revenue Programs Fund** accounts for all other proceeds of revenue sources, other than debt service or capital projects, that are restricted or committed to expenditures for specific purposes.

(continued)

(continued)

Debt service funds account for and report financial resources that are restricted, committed, or assigned for the payment of principal and interest on general long-term obligations.

The **Economic Recovery Bond Sinking Fund** accounts for General Fund transfers, proceeds from sale of surplus property, and the 0.25% sales and use tax revenue collected for the payment of principal, interest, and other related costs of the Economic Recovery Bonds.

The **Transportation Debt Service Fund** accounts for Transportation Fund transfers used for the payment of principal and interest related to various transportation related general obligation bonds.

Capital projects funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The **Higher Education Construction Fund** accounts for bond proceeds used to construct state colleges and universities.

The **Hospital Construction Fund** accounts for bond proceeds that are used to construct hospitals.

The **Local Government Construction Fund** accounts for bond proceeds that are used to construct schools, libraries, and other major capital facilities for local governments.

Building authorities are blended component units that are created by joint-powers agreements between local governments and the State or other local governments for the purpose of financing the construction of state buildings. The funds account for bond proceeds used to finance and construct state buildings and parking facilities.

Other capital projects funds account for transactions related to resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

This page intentionally left blank.

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2013

(amounts in thousands)

	Special Revenue								
	Business and Professions Regulatory and Licensing	Financing for Local Governments and the Public	Cigarette and Tobacco Tax	Local Revenue and Public Safety	Health Care Related Programs	Trial Courts	Golden State Tobacco Securitization Corporation	Other Special Revenue Programs	Total Nonmajor Special Revenue
ASSETS									
Cash and pooled investments	$ 875,117	$ 1,130,632	$ 421,986	$ 2,047,633	$ 525,140	$ 1,042,934	$ 165,639	$ 1,672,141	$ 7,881,222
Investments	—	—	—	—	—	145,432	499,621	—	645,053
Receivables (net)	71,941	35,982	337,988	93,901	1,285,959	312,329	51	158,827	2,296,978
Due from other funds	201,477	224,345	257	217,528	203,230	107,587	—	391,941	1,346,365
Due from other governments	14,513	359,390	—	5	2,165	26,116	—	56,561	458,750
Interfund receivables	327,492	216,078	—	—	12,000	440,000	—	673,400	1,668,970
Loans receivable	191,160	2,228,221	—	—	23,827	—	—	14,184	2,457,392
Other assets	413	—	—	—	—	6,211	—	—	6,624
Total assets	**1,682,113**	**4,194,648**	**760,231**	**2,359,067**	**2,052,321**	**2,080,609**	**665,311**	**2,967,054**	**16,761,354**
DEFERRED OUTFLOWS OF RESOURCES	—	—	—	—	—	—	—	—	—
Total assets and deferred outflows of resources	**$ 1,682,113**	**$ 4,194,648**	**$ 760,231**	**$ 2,359,067**	**$ 2,052,321**	**$ 2,080,609**	**$ 665,311**	**$ 2,967,054**	**$ 16,761,354**
LIABILITIES									
Accounts payable	$ 43,438	$ 89,267	$ 86,137	$ 42	$ 403,463	$ 210,880	$ 334	$ 147,438	$ 980,999
Due to other funds	28,888	386,779	31,179	36,834	1,262,307	19,455	—	335,076	2,100,518
Due to component units	—	—	32,901	—	—	—	—	4,087	36,988
Due to other governments	566	187,141	65,924	2,275,554	4,337	126,847	—	375,396	3,035,765
Interfund payables	1,283	—	—	—	—	—	—	4,834	6,117
Revenues received in advance	34,205	1,591	—	—	7,942	15,543	—	30,305	89,586
Deposits	400	—	—	—	—	356,832	—	17,346	374,578
Interest payable	—	—	—	—	—	—	—	—	—
General obligation bonds payable	—	—	—	—	—	—	—	—	—
Other liabilities	43,039	359	—	—	—	98,595	—	14,330	156,323
Total liabilities	**151,819**	**665,137**	**216,141**	**2,312,430**	**1,678,049**	**828,152**	**334**	**928,812**	**6,780,874**
DEFERRED INFLOWS OF RESOURCES	—	—	**272,641**	—	—	—	—	—	**272,641**
Total liabilities and deferred inflows of resources	**151,819**	**665,137**	**488,782**	**2,312,430**	**1,678,049**	**828,152**	**334**	**928,812**	**7,053,515**
FUND BALANCES									
Nonspendable	—	—	—	—	—	15,022	—	—	15,022
Restricted	866,646	3,232,254	271,458	15,814	446,164	980,790	664,977	1,771,171	8,249,274
Committed	663,648	309,691	—	30,823	71,779	47,474	—	269,593	1,393,008
Assigned	—	—	—	—	—	209,171	—	—	209,171
Unassigned	—	(12,434)	(9)	—	(143,671)	—	—	(2,522)	(158,636)
Total fund balances	**1,530,294**	**3,529,511**	**271,449**	**46,637**	**374,272**	**1,252,457**	**664,977**	**2,038,242**	**9,707,839**
Total liabilities, deferred inflows of resources, and fund balances	**$ 1,682,113**	**$ 4,194,648**	**$ 760,231**	**$ 2,359,067**	**$ 2,052,321**	**$ 2,080,609**	**$ 665,311**	**$ 2,967,054**	**$ 16,761,354**

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2013
(amounts in thousands)

	Debt Service			Capital Projects						
	Economic Recovery Bond Sinking	Transportation Debt Service	Total Nonmajor Debt Service	Higher Education Construction	Hospital Construction	Local Government Construction	Building Authorities	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
ASSETS										
Cash and pooled investments	$ 1,281,783	$ —	$ 1,281,783	$ 234,856	$ 62,032	$ 449,643	$ 61,755	$ 57,220	$ 865,506	$ 10,028,511
Investments	—	—	—	—	—	—	—	—	—	645,053
Receivables (net)	—	—	—	—	—	—	—	—	—	2,296,978
Due from other funds	8,000	—	8,000	79	47	417	19,872	10,226	30,641	1,385,006
Due from other governments	—	—	—	—	—	2,508	—	—	2,508	461,258
Interfund receivables	—	—	—	—	—	—	—	—	—	1,668,970
Loans receivable	—	—	—	—	—	—	—	—	—	2,457,392
Other assets	—	—	—	—	—	—	—	—	—	6,624
Total assets	**1,289,783**	**—**	**1,289,783**	**234,935**	**62,079**	**452,568**	**81,627**	**67,446**	**898,655**	**18,949,792**
DEFERRED OUTFLOWS OF RESOURCES	—	—	—	—	—	—	—	—	—	—
Total assets and deferred outflows of resources	**$ 1,289,783**	**$ —**	**$ 1,289,783**	**$ 234,935**	**$ 62,079**	**$ 452,568**	**$ 81,627**	**$ 67,446**	**$ 898,655**	**$ 18,949,792**
LIABILITIES										
Accounts payable	$ 718	$ —	$ 718	$ 3,196	$ 60	$ —	$ —	$ 729	$ 3,985	$ 985,702
Due to other funds	—	—	—	605	—	2,512	—	2	3,119	2,103,637
Due to component units	—	—	—	—	—	—	—	—	—	36,988
Due to other governments	—	—	—	—	—	4,446	—	—	4,446	3,040,211
Interfund payables	—	—	—	—	—	—	—	—	—	6,117
Revenues received in advance	—	—	—	—	—	—	—	—	—	89,586
Deposits	—	—	—	—	—	—	—	—	—	374,578
Interest payable	123,727	—	123,727	—	—	—	2,906	—	2,906	126,633
General obligation bonds payable	500,470	—	500,470	—	—	—	—	—	—	500,470
Other liabilities	—	—	—	—	—	—	—	—	—	156,323
Total liabilities	**624,915**	**—**	**624,915**	**3,801**	**60**	**6,958**	**2,906**	**731**	**14,456**	**7,420,245**
DEFERRED INFLOWS OF RESOURCES	—	—	—	—	—	—	—	—	—	**272,641**
Total liabilities and deferred inflows of resources	**624,915**	**—**	**624,915**	**3,801**	**60**	**6,958**	**2,906**	**731**	**14,456**	**7,692,886**
FUND BALANCES										
Nonspendable	—	—	—	—	—	—	—	—	—	15,022
Restricted	664,868	—	664,868	231,134	62,019	445,610	78,721	54,746	872,230	9,786,372
Committed	—	—	—	—	—	—	—	11,969	11,969	1,404,977
Assigned	—	—	—	—	—	—	—	—	—	209,171
Unassigned	—	—	—	—	—	—	—	—	—	(158,636)
Total fund balances	**664,868**	**—**	**664,868**	**231,134**	**62,019**	**445,610**	**78,721**	**66,715**	**884,199**	**11,256,906**
Total liabilities, deferred inflows of resources, and fund balances	**$ 1,289,783**	**$ —**	**$ 1,289,783**	**$ 234,935**	**$ 62,079**	**$ 452,568**	**$ 81,627**	**$ 67,446**	**$ 898,655**	**$ 18,949,792**

(concluded)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2013
(amounts in thousands)

	Special Revenue								
	Business and Professions Regulatory and Licensing	**Financing for Local Governments and the Public**	**Cigarette and Tobacco Tax**	**Local Revenue and Public Safety**	**Health Care Related Programs**	**Trial Courts**	**Golden State Tobacco Securitization Corporation**	**Other Special Revenue Programs**	**Total Nonmajor Special Revenue**
REVENUES									
Personal income taxes	$ —	$ 1,204,444	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,204,444
Sales and use taxes	—	—	—	11,356,474	—	—	—	—	11,356,474
Insurance taxes	—	—	—	—	33,012	—	—	—	33,012
Other taxes	96,129	702,242	769,338	—	—	—	—	273	1,567,982
Intergovernmental	—	932,051	—	—	57,971	816,260	—	—	1,806,282
Licenses and permits	342,398	18,290	—	2,023,380	—	—	—	10,537	2,394,605
Charges for services	39,344	2,615	711	—	110	50,809	—	151,703	245,292
Fees	892,114	414	37	—	4,034,237	669,755	—	923,356	6,519,913
Penalties	6,305	10,754	—	—	10,246	521,416	—	352,628	901,349
Investment and interest	6,285	4,916	1,162	642	9,279	2,762	958	12,154	38,158
Other	11,634	32,548	—	—	404,959	163,120	554,434	691,084	1,857,779
Total revenues	**1,394,209**	**2,908,274**	**771,248**	**13,380,496**	**4,549,814**	**2,224,122**	**555,392**	**2,141,735**	**27,925,290**
EXPENDITURES									
Current:									
General government	558,103	790,611	17,028	3,889,269	14,774	2,832,716	—	825,677	8,928,178
Education	18,021	368	36,104	—	197,079	—	—	6,197	257,769
Health and human services	256,509	2,265,518	529,337	8,357,100	4,695,332	—	—	609,785	16,713,581
Resources	58,785	77,916	12,037	—	134	—	—	46,664	195,536
State and consumer services	261,756	—	—	—	—	210	—	146,238	408,204
Business and transportation	198,377	184,405	—	—	—	—	—	9,081	391,863
Correctional programs	—	138,290	—	1,127,139	—	—	—	34,234	1,299,663
Capital outlay	—	7	—	—	—	—	—	—	7
Debt service:									
Bond and commercial paper retirement	—	25,510	—	—	354,270	—	623,510	197,993	1,201,283
Interest and fiscal charges	—	449	—	—	2,132	—	308,056	—	310,637
Total expenditures	**1,351,551**	**3,483,074**	**594,506**	**13,373,508**	**5,263,721**	**2,832,926**	**931,566**	**1,875,869**	**29,706,721**
Excess (deficiency) of revenues over (under) expenditures	42,658	(574,800)	176,742	6,988	(713,907)	(608,804)	(376,174)	265,866	(1,781,431)
OTHER FINANCING SOURCES (USES)									
General obligation bonds and commercial paper issued	—	—	—	—	306,215	—	—	—	306,215
Refunding debt issued	—	23,475	—	—	276,920	—	375,105	—	675,500
Payment to refund long-term debt	—	(710)	—	—	—	—	—	—	(710)
Premium on bonds issued	—	3,194	—	—	1,235	—	56,019	—	60,448
Remarketing bonds issued	—	—	—	—	228,000	—	—	—	228,000
Payment to remarketing agent	—	—	—	—	(226,968)	—	—	—	(226,968)
Transfers in	9,400	297,408	1	2,247	206,527	419,996	—	25,829	961,408
Transfers out	(61,307)	(133,593)	(77,851)	1	(17,500)	—	—	(67,607)	(357,857)
Total other financing sources (uses)	**(51,907)**	**189,774**	**(77,850)**	**2,248**	**774,429**	**419,996**	**431,124**	**(41,778)**	**1,646,036**
Net change in fund balances	(9,249)	(385,026)	98,892	9,236	60,522	(188,808)	54,950	224,088	(135,395)
Fund balances – beginning	**1,539,543**	**3,914,537**	**172,557**	**37,401**	**313,750**	**1,441,265** *	**610,027**	**1,814,154**	9,843,234 *
Fund balances – ending	**$ 1,530,294**	**$ 3,529,511**	**$ 271,449**	**$ 46,637**	**$ 374,272**	**$ 1,252,457**	**$ 664,977**	**$ 2,038,242**	**$ 9,707,839**

* Restated

(continued)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (continued)

Nonmajor Governmental Funds

Year Ended June 30, 2013
(amounts in thousands)

	Debt Service			Capital Projects						
	Economic Recovery Bond Sinking	Transportation Debt Service	Total Nonmajor Debt Service	Higher Education Construction	Hospital Construction	Local Government Construction	Building Authorities	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
REVENUES										
Personal income taxes	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,204,444
Sales and use taxes	1,443,609	—	1,443,609	—	—	—	—	—	—	12,800,083
Insurance taxes	—	—	—	—	—	—	—	—	—	33,012
Other taxes	—	—	—	—	—	—	—	—	—	1,567,982
Intergovernmental	—	—	—	—	—	—	—	—	—	1,806,282
Licenses and permits	—	—	—	—	—	—	—	—	—	2,394,605
Charges for services	—	—	—	—	—	—	—	—	—	245,292
Fees	—	—	—	—	—	—	—	—	—	6,519,913
Penalties	—	—	—	—	—	—	—	—	—	901,349
Investment and interest	2,369	—	2,369	925	555	5,895	197	57	7,629	48,156
Other	8,037	—	8,037	—	—	—	105	1,274	1,379	1,867,195
Total revenues	**1,454,015**	**—**	**1,454,015**	**925**	**555**	**5,895**	**302**	**1,331**	**9,008**	**29,388,313**
EXPENDITURES										
Current:										
General government	19,062	—	19,062	—	279,030	—	—	1,964	280,994	9,228,234
Education	—	—	—	—	—	1,282,647	—	—	1,282,647	1,540,416
Health and human services	—	—	—	—	—	—	—	—	—	16,713,581
Resources	—	—	—	—	—	—	—	18,573	18,573	214,109
State and consumer services	—	—	—	—	—	—	—	—	—	408,204
Business and transportation	—	—	—	—	—	—	—	—	—	391,863
Correctional programs	—	—	—	—	—	—	—	—	—	1,299,663
Capital outlay	—	—	—	236,018	489	18,563	—	32,901	287,971	287,978
Debt service:										
Bond and commercial paper retirement	1,178,735	151,886	1,330,621	372,085	—	330,230	38,400	37,755	778,470	3,310,374
Interest and fiscal charges	250,472	525,838	776,310	16,398	—	98,917	18,390	782	134,487	1,221,434
Total expenditures	**1,448,269**	**677,724**	**2,125,993**	**624,501**	**279,519**	**1,730,357**	**56,790**	**91,975**	**2,783,142**	**34,615,856**
Excess (deficiency) of revenues over (under) expenditures	5,746	(677,724)	(671,978)	(623,576)	(278,964)	(1,724,462)	(56,488)	(90,644)	(2,774,134)	(5,227,543)
OTHER FINANCING SOURCES (USES)										
General obligation bonds and commercial paper issued	—	—	—	290,690	10,500	844,680	—	—	1,145,870	1,452,085
Refunding debt issued	—	—	—	549,275	—	2,260,055	—	39,180	2,848,510	3,524,010
Payment to refund long-term debt	—	—	—	(279,375)	—	(2,155,570)	—	(4,950)	(2,439,895)	(2,440,605)
Premium on bonds issued	—	—	—	68,583	—	324,117	—	4,307	397,007	457,455
Remarketing bonds issued	—	—	—	—	—	—	—	—	—	228,000
Payment to remarketing agent	—	—	—	—	—	—	—	—	—	(226,968)
Transfers in	—	677,724	677,724	16,540	—	—	53,244	46,171	115,955	1,755,087
Transfers out	—	—	—	—	—	—	—	(93)	(93)	(357,950)
Total other financing sources (uses)	**—**	**677,724**	**677,724**	**645,713**	**10,500**	**1,273,282**	**53,244**	**84,615**	**2,067,354**	**4,391,114**
Net change in fund balances	5,746	—	5,746	22,137	(268,464)	(451,180)	(3,244)	(6,029)	(706,780)	(836,429)
Fund balances – beginning	**659,122**	**—**	**659,122**	**208,997**	**330,483 ***	**896,790**	**81,965**	**72,744**	**1,590,979**	12,093,335 *
Fund balances – ending	**$ 664,868**	**$ —**	**$ 664,868**	**$ 231,134**	**$ 62,019**	**$ 445,610**	**$ 78,721**	**$ 66,715**	**$ 884,199**	**$ 11,256,906**

* Restated

(concluded)

Budgetary Comparison Schedule

Budgetary Basis

Nonmajor Governmental Funds

Year Ended June 30, 2013
(amounts in thousands)

	Budget Amounts	Actual Amounts	Variance With Final Budget
REVENUES			
Cigarette and tobacco taxes	$ 500,140	$ 500,140	$ —
Vehicle license fees	1,498,470	1,498,470	—
Personal income tax	1,204,444	1,204,444	—
Retail sales and use taxes	12,800,256	12,800,256	—
Other major taxes and licenses	35,724	35,724	—
Other revenues	12,528,734	12,528,734	—
Total revenues	**28,567,768**	**28,567,768**	—
EXPENDITURES			
State and consumer services	470,499	424,553	45,946
Business and transportation	853,173	843,964	9,209
Resources	266,905	212,260	54,645
Health and human services	25,659,235	19,712,511	5,946,724
Correctional programs	32,477	31,210	1,267
Education	1,291,834	1,223,379	68,455
General government	9,936,469	9,733,693	202,776
Total expenditures	**38,510,592**	**32,181,570**	**6,329,022**
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	—	21,698,047	—
Transfers to other funds	—	(20,409,763)	—
Other additions and deductions	—	392,365	—
Total other financing sources (uses)	—	**1,680,649**	—
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	(1,933,153)	—
Fund balances – beginning	—	**13,587,479**	—
Fund balances – ending	**$ —**	**$ 11,654,326**	**$ —**

This page intentionally left blank.

This page intentionally left blank.

Internal Service Funds

Internal service funds account for state activities that provide goods and services to other state departments or agencies on a cost reimbursement basis. Following are brief descriptions of the internal service funds.

The **Architecture Revolving Fund** accounts for charges for the costs of architectural services, construction, and improvements.

The **Service Revolving Fund** accounts for charges for printing and procurement services rendered by the Department of General Services for state departments and other public entities.

The **Prison Industries Fund** accounts for charges for goods produced by inmates in state prisons that are sold to state departments and other governmental entities.

The **Office of Systems Integration Fund** accounts for project management service costs associated with automation projects for the Department of Social Services and the Employment Development Department.

The **Technology Services Revolving Fund** accounts for charges for technology services performed for various state, federal, and local government entities by the California Technology Agency.

The **Water Resources Revolving Fund** accounts for charges for administrative services related to water delivery provided by the Department of Water Resources to federal, state, and local government agencies.

Other internal service program funds account for all other goods and services provided to other agencies, departments, or governments on a cost-reimbursement basis.

Combining Statement of Net Position

Internal Service Funds

June 30, 2013
(amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
ASSETS								
Current assets:								
Cash and pooled investments	$ 256,790	$ 112,102	$ 169,364	$ 25,086	$ 42,202	$ 10,971	$ 324,496	$ 941,011
Receivables (net)	80	14,269	1,589	4	5,823	21,313	2,587	45,665
Due from other funds	19,985	15,922	4,582	93,371	40,158	69,576	67,295	310,889
Due from other governments	—	7,166	204	—	529	—	65	7,964
Prepaid items	10,408	83,634	181	301	479	11,465	3,224	109,692
Inventories	—	9,072	40,809	—	33,832	1,197	—	84,910
Total current assets	287,263	242,165	216,729	118,762	123,023	114,522	397,667	1,500,131
Noncurrent assets:								
Interfund receivables	—	—	—	—	—	—	16,975	16,975
Capital assets:								
Land	—	—	—	—	—	—	2,312	2,312
Buildings and other depreciable property	409	132,168	150,562	—	309,957	29,037	11,689	633,822
Intangible assets – amortizable	—	7,552	3,672	—	47,830	—	11	59,065
Less: accumulated depreciation/amortization	(409)	(119,210)	(112,372)	—	(260,898)	(29,037)	(6,846)	(528,772)
Construction in progress	—	—	1,122	—	—	—	111	1,233
Intangible assets – non-amortizable	—	—	—	—	—	—	29,358	29,358
Total noncurrent assets	—	20,510	42,984	—	96,889	—	53,610	213,993
Total assets	**287,263**	**262,675**	**259,713**	**118,762**	**219,912**	**114,522**	**451,277**	**1,714,124**
DEFERRED OUTFLOWS OF RESOURCES	—	—	—	—	—	—	—	—
Total assets and deferred outflows of resources	**$ 287,263**	**$ 262,675**	**$ 259,713**	**$ 118,762**	**$ 219,912**	**$ 114,522**	**$ 451,277**	**$ 1,714,124**
LIABILITIES								
Current liabilities:								
Accounts payable	$ 12,162	$ 24,188	$ 9,314	$ 118,739	$ 18,339	$ 17,329	$ 64,661	$ 264,732
Due to other funds	2	73,792	6,236	23	327	930	26,161	107,471
Due to component units	—	—	—	—	—	—	2	2
Due to other governments	—	—	—	—	1,198	32	50	1,280
Revenues received in advance	278,365	21,793	1,985	—	—	81	29,358	331,582
Deposits	—	476	—	—	—	—	285	761
Contracts and notes payable	—	22	—	—	10,693	—	—	10,715
Current portion of long-term obligations	—	—	13,017	—	4,277	—	691	17,985
Other liabilities	1,657	19	1,046	—	—	1,633	4,758	9,113
Total current liabilities	292,186	120,290	31,598	118,762	34,834	20,005	125,966	743,641
Noncurrent liabilities:								
Interfund payables	—	4,382	—	—	1,863	95,215	37,822	139,282
Compensated absences payable	9,243	71,829	—	—	21,344	56,982	3,502	162,900
Net other postemployment benefits obligation	11,205	190,755	39,449	7,550	55,866	—	60,461	365,286
Other noncurrent liabilities	954	18,950	13,343	—	17,504	—	—	50,751
Total noncurrent liabilities	21,402	285,916	52,792	7,550	96,577	152,197	101,785	718,219
Total liabilities	**313,588**	**406,206**	**84,390**	**126,312**	**131,411**	**172,202**	**227,751**	**1,461,860**
DEFERRED INFLOWS OF RESOURCES	—	—	—	—	—	—	—	—
Total liabilities and deferred inflows of resources	**313,588**	**406,206**	**84,390**	**126,312**	**131,411**	**172,202**	**227,751**	**1,461,860**
NET POSITION								
Investment in capital assets	—	20,510	29,984	—	70,257	—	6,708	127,459
Unrestricted	(26,325)	(164,041)	145,339	(7,550)	18,244	(57,680)	216,818	124,805
Total net position (deficits)	**(26,325)**	**(143,531)**	**175,323**	**(7,550)**	**88,501**	**(57,680)**	**223,526**	**252,264**
Total liabilities, deferred inflows of resources, and net position	**$ 287,263**	**$ 262,675**	**$ 259,713**	**$ 118,762**	**$ 219,912**	**$ 114,522**	**$ 451,277**	**$ 1,714,124**

Combining Statement of Revenues, Expenses, and Changes in Fund Net Position

Internal Service Funds

Year Ended June 30, 2013
(amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
OPERATING REVENUES								
Services and sales	$ 179,143	$ 728,317	$ 214,724	$ 292,264	$ 313,156	$ 306,128	$ 293,814	$ 2,327,546
Total operating revenues	**179,143**	**728,317**	**214,724**	**292,264**	**313,156**	**306,128**	**293,814**	**2,327,546**
OPERATING EXPENSES								
Personal services	29,013	250,525	59,454	229	139,381	355,126	29,527	863,255
Supplies	—	—	2,187	—	—	7,185	1,039	10,411
Services and charges	150,389	500,884	140,353	299,585	176,774	(77)	331,736	1,599,644
Depreciation	—	10,819	6,195	—	30,506	1,098	544	49,162
Total operating expenses	**179,402**	**762,228**	**208,189**	**299,814**	**346,661**	**363,332**	**362,846**	**2,522,472**
Operating income (loss)	(259)	(33,911)	6,535	(7,550)	(33,505)	(57,204)	(69,032)	(194,926)
NONOPERATING REVENUES (EXPENSES)								
Investment and interest income	—	—	209	—	143	—	413	765
Interest expense and fiscal charges	—	—	(2)	—	(392)	—	—	(394)
Other	—	—	(792)	—	(105)	—	—	(897)
Total nonoperating revenues (expenses)	**—**	**—**	**(585)**	**—**	**(354)**	**—**	**413**	**(526)**
Income (loss) before capital contributions and transfers	(259)	(33,911)	5,950	(7,550)	(33,859)	(57,204)	(68,619)	(195,452)
Transfers in	—	—	—	—	4,730	—	—	4,730
Transfers out	—	(46,270)	(13,000)	—	—	—	(2,227)	(61,497)
Change in net position	(259)	(80,181)	(7,050)	(7,550)	(29,129)	(57,204)	(70,846)	(252,219)
Total net position (deficit) – beginning	**(26,066)**	**(63,350)**	**182,373**	**—**	**117,630**	**(476)**	**294,372**	**504,483**
Total net position (deficit) – ending	**$ (26,325)**	**$ (143,531)**	**$ 175,323**	**$ (7,550)**	**$ 88,501**	**$ (57,680)**	**$ 223,526**	**$ 252,264**

Combining Statement of Cash Flows
Internal Service Funds

Year Ended June 30, 2013
(amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
CASH FLOW FROM OPERATING ACTIVITIES								
Receipts from customers	$ 209,380	$ 762,493	$ 212,243	$ 299,589	$ 334,845	$ 346,229	$ 322,673	$ 2,487,452
Receipts from interfund services provided	5,843	1,319	8,266	—	—	7,275	18,078	40,781
Payments to suppliers	(162,636)	(467,476)	(141,148)	(213,625)	(188,959)	138	(315,950)	(1,489,656)
Payments to employees	(27,445)	(208,629)	(51,546)	—	(126,113)	(344,905)	(10,885)	(769,523)
Payments for interfund services used	—	(31,941)	(11,146)	(85,012)	(7,524)	(23,744)	(43,903)	(203,270)
Other receipts (payments)	144	1,321	(114)	(535)	—	527	(12,974)	(11,631)
Net cash provided by (used in) operating activities	**25,286**	**57,087**	**16,555**	**417**	**12,249**	**(14,480)**	**(42,961)**	**54,153**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Change in interfund payables and loans payable	—	(536)	—	—	—	(76)	—	(612)
Interest paid on operating debt	—	—	(3)	—	—	—	—	(3)
Transfers in	—	—	—	—	4,730	—	—	4,730
Transfers out	—	(46,270)	(13,000)	—	—	—	(2,227)	(61,497)
Net cash provided by (used in) noncapital financing activities	**—**	**(46,806)**	**(13,003)**	**—**	**4,730**	**(76)**	**(2,227)**	**(57,382)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Acquisition of capital assets	—	(6,559)	(6,026)	—	(17,455)	(1,098)	(29,790)	(60,928)
Proceeds from sale of capital assets	—	615	734	—	—	—	—	1,349
Principal paid on notes payable and commercial paper	—	—	—	—	(10,912)	—	—	(10,912)
Interest paid	—	—	—	—	(392)	—	—	(392)
Net cash used in capital and related financing activities	**—**	**(5,944)**	**(5,292)**	**—**	**(28,759)**	**(1,098)**	**(29,790)**	**(70,883)**
CASH FLOWS FROM INVESTING ACTIVITIES								
Changes in interfund receivables and loans receivable	25,525	35,643	57,836	8,468	17,806	—	135,787	281,065
Earnings on investments	—	—	234	—	176	—	413	823
Net cash provided by (used in) investing activities	**25,525**	**35,643**	**58,070**	**8,468**	**17,982**	**—**	**136,200**	**281,888**
Net increase (decrease) in cash and pooled investments	50,811	39,980	56,330	8,885	6,202	(15,654)	61,222	207,776
Cash and pooled investments – beginning	**205,979**	**72,122**	**113,034**	**16,201**	**36,000**	**26,625**	**263,274**	**733,235**
Cash and pooled investments – ending	**$ 256,790**	**$ 112,102**	**$ 169,364**	**$ 25,086**	**$ 42,202**	**$ 10,971**	**$ 324,496**	**$ 941,011**

(continued)

Combining Statement of Cash Flows (continued)

Internal Service Funds

Year Ended June 30, 2013
(amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES								
Operating income (loss)	$ (259)	$ (33,911)	$ 6,535	$ (7,550)	$ (33,505)	$ (57,204)	$ (69,032)	$ (194,926)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:								
Interest expense on operating debt	—	—	(114)	—	—	—	—	(114)
Depreciation	—	10,819	6,195	—	30,506	1,098	544	49,162
Change in assets, deferred outflows of resources, and liabilities, deferred inflows of resources:								
Receivables	1,174	34,001	(182)	7,325	6,265	40,079	(499)	88,163
Due from other funds	6,018	(9,958)	(1,980)	(84,952)	7,998	(17,399)	(24,470)	(124,743)
Due from other governments	372	509	27	—	205	—	7	1,120
Prepaid items	(10,381)	(3,369)	80	(22)	1,012	4,461	1,310	(6,909)
Inventories	—	13,893	885	—	(7,933)	(391)	—	6,454
Other current assets	—	—	—	—	43	—	—	43
Accounts payable	(1,863)	22,884	(9,472)	85,982	(7,484)	3,176	14,970	108,193
Due to other funds	(175)	(20,664)	6,236	(60)	782	930	(10,820)	(23,771)
Due to component units	—	—	—	(535)	—	14	(511)	(1,032)
Due to other governments	—	—	—	—	1,198	—	20	1,218
Deposits	—	(240)	—	—	—	—	(6,682)	(6,922)
Contracts and notes payable	—	—	—	—	—	—	—	—
Current portion of revenues received in advance	29,063	175	—	—	(34)	22	29,358	58,584
Interest payable	—	—	296	—	—	—	—	296
Other current liabilities	(228)	(138)	882	—	—	513	4,537	5,566
Interfund payables	—	—	—	—	(29)	—	—	(29)
Benefits payables	—	36,531	—	—	(344)	—	—	36,187
Compensated absences payable	(98)	6,555	246	—	(824)	10,221	1,443	17,543
Capital lease obligations	—	—	—	—	—	—	—	—
Other noncurrent liabilities	1,663	—	6,921	229	14,393	—	16,864	40,070
Total adjustments	25,545	90,998	10,020	7,967	45,754	42,724	26,071	249,079
Net cash provided by (used in) operating activities	**$ 25,286**	**$ 57,087**	**$ 16,555**	**$ 417**	**$ 12,249**	**$ (14,480)**	**$ (42,961)**	**$ 54,153**
								(concluded)
Noncash investing, capital, and financing activities								
Capital acquisitions financed through notes payable	$ —	$ —	$ —	$ —	$ —	$ —	$ 15,144	$ 15,144

This page intentionally left blank.

Nonmajor Enterprise Funds

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public on a continuing basis are intended to be financed or recovered primarily through user charges. Following are brief descriptions of nonmajor enterprise funds.

The **High Technology Education Fund** accounts for construction and renovation of public buildings for educational and research purposes related to specific fields of high technology.

The **State Water Pollution Control Revolving Fund** accounts for loans to finance the construction of publicly owned water pollution control facilities.

The **Housing Loan Fund** accounts for financing and contracts for the sale of properties to eligible California veterans.

Other enterprise program funds account for all other goods or services provided to the general public on a continuing basis when all or most of the cost involved is to be financed by user charges, or when periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

Combining Statement of Net Position

Nonmajor Enterprise Funds

June 30, 2013
(amounts in thousands)

	High Technology Education	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
ASSETS					
Current assets:					
Cash and pooled investments	$ —	$ 375,782	$ 191,748	$ 244,758	$ 812,288
Restricted assets:					
Cash and pooled investments	20,414	14,157	—	—	34,571
Due from other governments	—	20,448	—	—	20,448
Net investment in direct financing leases	19,306	—	—	—	19,306
Receivables (net)	3,396	—	42,438	281	46,115
Due from other funds	19	1,862	117	334	2,332
Due from other governments	—	203,078	—	1,283	204,361
Prepaid items	—	—	—	1	1
Inventories	—	—	—	2,699	2,699
Other current assets	—	—	—	—	—
Total current assets	43,135	615,327	234,303	249,356	1,142,121
Noncurrent assets:					
Restricted assets:					
Cash and pooled investments	—	—	—	—	—
Investments	10,662	—	—	—	10,662
Loans receivable	—	325,930	—	—	325,930
Investments	—	—	22,701	—	22,701
Net investment in direct financing leases	—	—	—	—	—
Interfund receivables	—	4,000	—	1,600	5,600
Loans receivable	—	2,655,430	885,163	121,042	3,661,635
Long-term prepaid charges	—	—	2,371	—	2,371
Capital assets:					
Land	—	—	443	829	1,272
Buildings and other depreciable property	—	—	16,132	1,843	17,975
Intangible assets – amortizable	—	—	—	1,350	1,350
Less: accumulated depreciation/amortization	—	—	(15,712)	(1,216)	(16,928)
Intangible assets – non-amortizable	—	—	—	181	181
Other noncurrent assets	—	—	15,501	—	15,501
Total noncurrent assets	10,662	2,985,360	926,599	125,629	4,048,250
Total assets	**53,797**	**3,600,687**	**1,160,902**	**374,985**	**5,190,371**
DEFERRED OUTFLOWS OF RESOURCES	**3,760**	**—**	**—**	**—**	**3,760**
Total assets and deferred outflows of resources	**$ 57,557**	**$ 3,600,687**	**$ 1,160,902**	**$ 374,985**	**$ 5,194,131**

(continued)

Combining Statement of Net Position (continued)

Nonmajor Enterprise Funds

June 30, 2013
(amounts in thousands)

	High Technology Education	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
LIABILITIES					
Current liabilities:					
Accounts payable	$ —	$ 4	$ 201	$ 3,915	$ 4,120
Due to other funds	—	156	166	2,612	2,934
Due to other governments	—	57	—	3	60
Revenues received in advance	—	6	—	36	42
Deposits	—	—	—	—	—
Interest payable	106	566	12,040	—	12,712
Current portion of long-term obligations	23,466	14,619	100	26	38,211
Other current liabilities	—	—	—	16	16
Total current liabilities	23,572	15,408	12,507	6,608	58,095
Noncurrent liabilities:					
Compensated absences payable	—	—	—	2,776	2,776
General obligation bonds payable	—	—	584,033	—	584,033
Revenue bonds payable	—	59,236	420,179	—	479,415
Net other postemployment benefits obligation	—	—	1,316	5,463	6,779
Other noncurrent liabilities	—	—	—	75,360	75,360
Total noncurrent liabilities	—	59,236	1,005,528	83,599	1,148,363
Total liabilities	**23,572**	**74,644**	**1,018,035**	**90,207**	**1,206,458**
DEFERRED INFLOWS OF RESOURCES	—	—	—	—	—
Total liabilities and deferred inflows of resources	**23,572**	**74,644**	**1,018,035**	**90,207**	**1,206,458**
NET POSITION					
Investment in capital assets	—	—	863	1,953	2,816
Restricted – expendable:					
Debt service	33,985	14,157	142,004	—	190,146
Security for revenue bonds	—	346,377	—	—	346,377
Other purposes	—	—	—	210,662	210,662
Total expendable	33,985	360,534	142,004	210,662	747,185
Unrestricted	—	3,165,509	—	72,163	3,237,672
Total net position	**33,985**	**3,526,043**	**142,867**	**284,778**	**3,987,673**
Total liabilities, deferred inflows of resources, and net position	**$ 57,557**	**$ 3,600,687**	**$ 1,160,902**	**$ 374,985**	**$ 5,194,131**

(concluded)

Combining Statement of Revenues, Expenses, and Changes in Fund Net Position

Nonmajor Enterprise Funds

Year Ended June 30, 2013

(amounts in thousands)

	High Technology Education	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
OPERATING REVENUES					
Services and sales	$ —	$ 8,531	$ 6,707	$ 77,457	$ 92,695
Investment and interest	136	50,680	57,533	244	108,593
Rent	5,449	—	—	1,792	7,241
Other	—	—	1,635	504	2,139
Total operating revenues	**5,585**	**59,211**	**65,875**	**79,997**	**210,668**
OPERATING EXPENSES					
Personal services	—	184	7,685	6,111	13,980
Services and charges	—	1,199	10,684	51,964	63,847
Depreciation	—	—	48	503	551
Interest expense	6,568	—	47,624	—	54,192
Amortization (recovery) of long-term prepaid charges	—	—	255	—	255
Other	—	871	—	—	871
Total operating expenses	**6,568**	**2,254**	**66,296**	**58,578**	**133,696**
Operating income (loss)	(983)	56,957	(421)	21,419	76,972
NONOPERATING REVENUES (EXPENSES)					
Investment and interest income	—	962	175	524	1,661
Interest expense and fiscal charges	—	(533)	—	—	(533)
Other	—	(911)	(4,060)	19	(4,952)
Total nonoperating revenues (expenses)	**—**	**(482)**	**(3,885)**	**543**	**(3,824)**
Income (loss) before capital contributions and transfers	(983)	56,475	(4,306)	21,962	73,148
Capital contributions	—	141,823	—	—	141,823
Transfers out	(202)	—	—	(11,584)	(11,786)
Change in net position	(1,185)	198,298	(4,306)	10,378	203,185
Total net position – beginning	**35,170** *	**3,327,745**	**147,173** *	**274,400**	**3,784,488** *
Total net position – ending	**$ 33,985**	**$ 3,526,043**	**$ 142,867**	**$ 284,778**	**3,987,673**

* Restated

Combining Statement of Cash Flows
Nonmajor Enterprise Funds

Year Ended June 30, 2013
(amounts in thousands)

	High Technology Education	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers/employers	$ —	$ 53,573	$ 235,124	$ 78,316	$ 367,013
Receipts from interfund services provided	—	57	7	354	418
Payments to suppliers	—	(2,360)	(17,070)	(48,057)	(67,487)
Payments to employees	—	(184)	(6,051)	(4,758)	(10,993)
Payments for interfund services used	—	(6)	(5)	(508)	(519)
Claims paid to other than employees	—	—	—	—	—
Other receipts (payments)	23,167	(35,343)	12,711	(27,965)	(27,430)
Net cash provided by (used in) operating activities	**23,167**	**15,737**	**224,716**	**(2,618)**	**261,002**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Change in interfund payables and loans payable	—	—	—	5	5
Proceeds from general obligation bonds	—	—	—	—	—
Retirement of general obligation bonds	—	(114,695)	(172,199)	—	(286,894)
Retirement of revenue bonds	(22,275)	(4,925)	(51,555)	—	(78,755)
Interest paid on operating debt	—	—	—	—	—
Grant provided	—	—	—	—	—
Transfers in	—	—	—	—	—
Transfers out	(202)	(4,000)	(202)	(11,583)	(15,987)
Net cash provided by (used in) noncapital financing activities	**(22,477)**	**(123,620)**	**(223,956)**	**(11,578)**	**(381,631)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Changes in interfund payables and loans payable	—	—	—	189	189
Acquisition of capital assets	—	—	(316)	(376)	(692)
Proceeds from sale of capital assets	—	—	—	47	47
Grants received	—	216,705	—	—	216,705
Net cash provided by (used in) capital and related financing activities	**—**	**216,705**	**(316)**	**(140)**	**216,249**
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from maturity and sale of investments	—	—	6,559	—	6,559
Change in interfund receivables and loans receivable	—	6,584	12,646	14,170	33,400
Earnings on investments	—	983	202	524	1,709
Net cash provided by (used in) investing activities	**—**	**7,567**	**19,407**	**14,694**	**41,668**
Net increase (decrease) in cash and pooled investments	690	116,389	19,851	358	137,288
Cash and pooled investments – beginning	**19,724**	**273,550**	**171,897**	**244,400**	**709,571**
Cash and pooled investments – ending	**$ 20,414**	**$ 389,939**	**$ 191,748**	**$ 244,758**	**$ 846,859**

(continued)

Combining Statement of Cash Flows (continued)

Nonmajor Enterprise Funds

Year Ended June 30, 2013
(amounts in thousands)

	High Technology Education	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	$ (983)	$ 56,957	$ (421)	$ 21,419	$ 76,972
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	—	—	48	503	551
Accretion of capital appreciation bonds	—	—	3,936	—	3,936
Provisions and allowances	—	—	—	—	—
Amortization of discounts	47	—	—	—	47
Amortization of long-term prepaid charges	4,104	—	255	—	4,359
Other	747	(7,639)	—	18	(6,874)
Change in assets, deferred outflows of resources, and liabilities, deferred inflows of resources:					
Receivables	1	—	1,422	276	1,699
Due from other funds	9	(37)	2,775	3,118	5,865
Due from other governments	—	660	15	361	1,036
Prepaid items	—	—	—	11	11
Inventories	—	—	—	593	593
Net investment in direct financing leases	19,342	—	—	—	19,342
Other current assets	—	—	2,061	2,140	4,201
Loans receivable	—	(33,789)	219,637	(1,385)	184,463
Interfund receivables	—	—	—	—	—
Accounts payable	—	4	(3,023)	949	(2,070)
Due to other funds	—	(207)	(2,370)	124	(2,453)
Due to other governments	—	—	—	(302)	(302)
Deposits	—	—	—	(71)	(71)
Current portion of revenues received in advance	—	—	—	(9)	(9)
Interest payable	(100)	—	—	—	(100)
Other current liabilities	—	—	154	(7,728)	(7,574)
Benefits payable	—	—	—	82	82
Compensated absences payable	—	—	—	100	100
Long-term portion of revenues received in advance	—	(212)	—	—	(212)
Other noncurrent liabilities	—	—	227	(22,817)	(22,590)
Total adjustments	24,150	(41,220)	225,137	(24,037)	184,030
Net cash provided by (used in) operating activities	**$ 23,167**	**$ 15,737**	**$ 224,716**	**$ (2,618)**	**$ 261,002**

(concluded)

This page intentionally left blank.

Private Purpose Trust Funds

Private purpose trust funds account for all trust arrangements, other than those properly reported in pension and other employee benefit trust funds or investment trust funds, under which both principal and income benefit individuals, private organizations, or other governments. Following are brief descriptions of private purpose trust funds.

The **Scholarshare Program Trust Fund** accounts for money received from participants to fund their beneficiaries' higher-education expenses at certain postsecondary educational institutions.

The **Unclaimed Property Fund** accounts for unclaimed money and properties held in trust by the State.

Other private purpose trust funds account for other assets held in a trustee capacity when both principal and income benefit individuals, private organizations, or other governments.

Combining Statement of Fiduciary Net Position

Private Purpose Trust Funds

June 30, 2013

(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ASSETS				
Cash and pooled investments	$ 1	$ 97,748	$ 1,596	$ 99,345
Investments, at fair value:				
Equity securities	2,600,359	—	—	2,600,359
Debt securities	1,591,782	—	—	1,591,782
Real estate	165,882	—	—	165,882
Other	698,174	—	—	698,174
Total investments	5,056,197	—	—	5,056,197
Receivables (net)	5,760	254	—	6,014
Due from other funds	—	—	2	2
Interfund receivables	—	—	—	—
Other assets	—	210,418	—	210,418
Total assets	**5,061,958**	**308,420**	**1,598**	**5,371,976**
DEFERRED OUTFLOWS OF RESOURCES	—	—	—	—
Total assets and deferred outflows of resources	**$ 5,061,958**	**$ 308,420**	**$ 1,598**	**$ 5,371,976**
LIABILITIES				
Accounts payable	$ 6,180	$ —	$ 192	$ 6,372
Deposits	—	210,418	—	210,418
Other liabilities	—	55	475	530
Total liabilities	6,180	210,473	667	**217,320**
DEFERRED INFLOWS OF RESOURCES	—	—	—	—
Total liabilities and deferred inflows of resources	**6,180**	**210,473**	**667**	**217,320**
NET POSITION				
Held in trust for benefits and other purposes	**$ 5,055,778**	**$ 97,947**	**$ 931**	**$ 5,154,656**

Combining Statement of Changes in Fiduciary Net Position

Private Purpose Trust Funds

Year Ended June 30, 2013

(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ADDITIONS				
Investment income:				
Net appreciation (depreciation) in fair value of investments	$ 288,283	$ —	$ —	$ 288,283
Interest, dividends, and other investment income	165,302	—	—	165,302
Less: investment expense	(4,519)	—	—	(4,519)
Net investment income	449,066	—	—	449,066
Receipts from depositors	2,351,936	173,416	280	2,525,632
Total additions	**2,801,002**	**173,416**	**280**	**2,974,698**
DEDUCTIONS				
Administrative expenses	—	—	1	1
Payments to and for depositors	2,246,548	238,287	327	2,485,162
Total deductions	**2,246,548**	**238,287**	**328**	**2,485,163**
Change in net position	554,454	(64,871)	(48)	489,535
Net position – beginning	**4,501,324**	**162,818**	**979**	**4,665,121**
Net position – ending	**$ 5,055,778**	**$ 97,947**	**$ 931**	**$ 5,154,656**

This page intentionally left blank.

Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

Pension and other employee benefit trust funds account for transactions, assets, liabilities, and net position available for pension and other employee benefits of the two public employees' retirement systems that are fiduciary component units and for other primary government employee benefit programs. Following are brief descriptions of pension and other employee benefit trust funds.

The **Public Employees' Retirement Fund** is administered by the California Public Employees' Retirement System (CalPERS) and accounts for the employee and employer contributions of the agent multiple-employer retirement plan that provides pension benefits to employees of the State of California, non-teaching school employees, and employees of California public agencies.

The **State Teachers' Retirement Fund** is administered by the California State Teachers' Retirement System (CalSTRS) and accounts for the employee, employer, and primary government contributions of the cost-sharing multiple-employer retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

The **Deferred Compensation Fund** accounts for moneys withheld from the salaries of participants per the Internal Revenue Code sections 401(k), 457, and 403(b). The moneys are invested until the employee retires or resigns, at which time all money withdrawn, including investment income, is subject to income taxes.

Other pension and other employee benefit trust funds account for funds contributed to smaller retirement plans and programs:

The Public Employees' Health Care Benefits Fund, the Teachers' Health Benefits Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, the Legislators' Retirement Fund, the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the Supplemental Contributions Program Fund, the Boxers' Pension Fund, and the Flexelect Benefit Fund.

Combining Statement of Fiduciary Net Position

Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

June 30, 2013
(amounts in thousands)

	Public Employees' Retirement	State Teachers' Retirement	Deferred Compensation	Other Pension and Other Employee Benefit Trust	Total
ASSETS					
Cash and pooled investments	$ 2,572,223	$ 1,966,231	$ 18,637	$ 83,599	$ 4,640,690
Investments, at fair value:					
Short-term	6,508,352	1,992,333	148,792	91,835	8,741,312
Equity securities	131,631,222	86,932,597	6,609,082	2,477,488	227,650,389
Debt securities	51,645,943	28,868,737	3,350,185	854,298	84,719,163
Real estate	27,079,239	23,807,028	12,064	298,531	51,196,862
Other	41,444,382	23,946,481	489,136	388,646	66,268,645
Securities lending collateral	17,142,084	23,215,906	6,965	132,469	40,497,424
Total investments	275,451,222	188,763,082	10,616,224	4,243,267	479,073,795
Receivables (net)	1,885,322	3,189,527	17,405	35,428	5,127,682
Due from other funds	431,176	51,100	16	11	482,303
Due from other governments	—	18,010	8	—	18,018
Loans receivable	—	23,042	—	—	23,042
Other assets	710,722	238,829	—	—	949,551
Total assets	**281,050,665**	**194,249,821**	**10,652,290**	**4,362,305**	**490,315,081**
DEFERRED OUTFLOWS OF RESOURCES	—	—	—	—	—
Total assets and deferred outflows of resources	**$ 281,050,665**	**$ 194,249,821**	**$ 10,652,290**	**$ 4,362,305**	**$ 490,315,081**
LIABILITIES					
Accounts payable	$ 9,529	$ 2,583,166	$ 3,113	$ 1,776	$ 2,597,584
Due to other governments	—	78	—	1	79
Benefits payable	1,416,951	1,050,631	—	21,347	2,488,929
Securities lending obligations	16,888,638	23,246,453	6,882	130,879	40,272,852
Loans payable	—	937,494	—	—	937,494
Other liabilities	745,643	83,090	4,246	4,673	837,652
Total liabilities	**19,060,761**	**27,900,912**	**14,241**	**158,676**	**47,134,590**
DEFERRED INFLOWS OF RESOURCES	—	—	—	—	—
Total liabilities and deferred inflows of resources	**19,060,761**	**27,900,912**	**14,241**	**158,676**	**47,134,590**
NET POSITION					
Held in trust for benefits and other purposes	**$ 261,989,904**	**$ 166,348,909**	**$ 10,638,049**	**$ 4,203,629**	**$ 443,180,491**

Combining Statement of Changes in Fiduciary Net Position

Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

Year Ended June 30, 2013
(amounts in thousands)

	Public Employees' Retirement	State Teachers' Retirement	Deferred Compensation	Other Pension and Other Employee Benefit Trust	Total
ADDITIONS					
Contributions:					
Employer	$ 8,123,833	$ 3,618,397	$ 761	$ 1,282,796	$ 13,025,787
Plan member	3,896,078	2,336,731	760,395	56,049	7,049,253
Total contributions	12,019,911	5,955,128	761,156	1,338,845	20,075,040
Investment income:					
Net appreciation (depreciation) in fair value of investments	28,011,736	16,225,186	151,781	378,915	44,767,618
Interest, dividends, and other investment income	4,947,074	4,819,536	897,073	2,420	10,666,103
Less: investment expense	(2,674,003)	(362,284)	(1,158)	(2,139)	(3,039,584)
Net investment income	30,284,807	20,682,438	1,047,696	379,196	52,394,137
Other	7,176	1,241	10,281	4,290	22,988
Total additions	**42,311,894**	**26,638,807**	**1,819,133**	**1,722,331**	**72,492,165**
DEDUCTIONS					
Distributions to beneficiaries	16,635,263	11,361,557	26,257	720,675	28,743,752
Refunds of contributions	242,595	104,994	82,587	58	430,234
Administrative expense	426,077	141,404	11,854	8,357	587,692
Interest expense	—	—	—	187,084	187,084
Payments to and for depositors	—	—	637,744	35,865	673,609
Total deductions	**17,303,935**	**11,607,955**	**758,442**	**952,039**	**30,622,371**
Change in net position	25,007,959	15,030,852	1,060,691	770,292	41,869,794
Net position – beginning	**236,981,945**	**151,318,057**	**9,577,358 ***	**3,433,337**	**401,310,697 ***
Net position – ending	**$ 261,989,904**	**$ 166,348,909**	**$ 10,638,049**	**$ 4,203,629**	**$ 443,180,491**

* Restated

This page intentionally left blank.

Agency Funds

Agency funds account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State, acting in the capacity of an agent, for distribution to other governmental units or other organizations. Following are brief descriptions of agency funds.

The **Receipting and Disbursing Fund** accounts for the collection and disbursement of revenues and receipts on behalf of local governments. This fund also accounts for receipts from many state funds, typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

The **Deposit Fund** accounts for various deposits, such as those from condemnation and litigation proceedings.

Other agency activity funds account for other assets held by the State, which acts as an agent for individuals, private organizations, and other governments.

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2013

(amounts in thousands)

	Receipting and Disbursing	Deposit	Other Agency Activities	Total
ASSETS				
Cash and pooled investments	$ 2,369,714	$ 1,569,454	$ 29,377	$ 3,968,545
Receivables (net)	1,377,732	98,485	1,514	1,477,731
Due from other funds	18,212,542	57,832	690	18,271,064
Due from other governments	20,763	285	—	21,048
Prepaid Items	11,867	166	—	12,033
Interfund receivables	—	—	—	—
Loans receivable	—	—	7,153	7,153
Other assets	55	32	—	87
Total assets	**$ 21,992,673**	**$ 1,726,254**	**$ 38,734**	**$ 23,757,661**
LIABILITIES				
Accounts payable	$ 10,013,095	$ 69,213	$ 2,619	$ 10,084,927
Due to other governments	11,685,759	1,910	14,666	11,702,335
Tax overpayments	684	—	—	684
Benefits payable	220,767	—	—	220,767
Revenues received in advance	17,688	813	—	18,501
Deposits	40,547	943,471	5,500	989,518
Other liabilities	14,133	710,847	15,949	740,929
Total liabilities	**$ 21,992,673**	**$ 1,726,254**	**$ 38,734**	**$ 23,757,661**

This page intentionally left blank.

Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year Ended June 30, 2013

(amounts in thousands)

Receipting and Disbursing Fund	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
ASSETS				
Cash and pooled investments	$ 925,523	$ 144,758,225	$ 143,314,034	$ 2,369,714
Receivables (net)	1,072,884	5,064,338	4,759,490	1,377,732
Due from other funds	21,578,395	15,272,958	18,638,811	18,212,542
Due from other governments	22,239	34,511	35,987	20,763
Prepaid items	24,517	—	12,650	11,867
Interfund receivables	885,790	—	885,790	—
Other assets	55	—	—	55
Total assets	**$ 24,509,403**	**$ 165,130,032**	**$ 167,646,762**	**$ 21,992,673**
LIABILITIES				
Accounts payable	$ 8,481,795	$ 40,696,975	$ 39,165,675	$ 10,013,095
Due to other governments	15,720,870	27,942,862	31,977,973	11,685,759
Tax overpayments	4,386	70,156	73,858	684
Benefits payable	199,087	4,794,397	4,772,717	220,767
Revenues received in advance	17,248	461	21	17,688
Deposits	69,578	155,612	184,643	40,547
Other liabilities	16,439	58,787	61,093	14,133
Total liabilities	**$ 24,509,403**	**$ 73,719,250**	**$ 76,235,980**	**$ 21,992,673**

Deposit Fund	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
ASSETS				
Cash and pooled investments	$ 1,212,067	$ 22,024,684	$ 21,667,297	$ 1,569,454
Receivables (net)	67,885	294,946	264,346	98,485
Due from other funds	73,910	39,221	55,299	57,832
Due from other governments	37,572	765	38,052	285
Prepaid items	1,702	2,252	3,788	166
Interfund receivables	159,708	—	159,708	—
Other assets	30	16	14	32
Total assets	**$ 1,552,874**	**$ 22,361,884**	**$ 22,188,504**	**$ 1,726,254**
LIABILITIES				
Accounts payable	$ 42,224	$ 1,174,423	$ 1,147,434	$ 69,213
Due to other governments	2,884	1,611	2,585	1,910
Revenues received in advance	1,457	117	761	813
Deposits	731,030	1,405,957	1,193,516	943,471
Other liabilities	775,279	18,549,946	18,614,378	710,847
Total liabilities	**$ 1,552,874**	**$ 21,132,054**	**$ 20,958,674**	**$ 1,726,254**

Other Agency Activity Funds	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
ASSETS				
Cash and pooled investments	$ 35,393	$ 6,113	$ 12,129	$ 29,377
Receivables (net)	1,510	4	—	1,514
Due from other funds	764	—	74	690
Interfund receivables	5,429	—	5,429	—
Loans receivable	7,942	—	789	7,153
Total assets	**$ 51,038**	**$ 6,117**	**$ 18,421**	**$ 38,734**
LIABILITIES				
Accounts payable	$ 4,672	$ —	$ 2,053	$ 2,619
Due to other governments	26,042	2	11,378	14,666
Deposits	6,343	3	846	5,500
Other liabilities	13,981	1,968	—	15,949
Total liabilities	**$ 51,038**	**$ 1,973**	**$ 14,277**	**$ 38,734**

Total	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
ASSETS				
Cash and pooled investments	$ 2,172,983	$ 166,789,022	$ 164,993,460	$ 3,968,545
Receivables (net)	1,142,279	5,359,288	5,023,836	1,477,731
Due from other funds	21,653,069	15,312,179	18,694,184	18,271,064
Due from other governments	59,811	35,276	74,039	21,048
Prepaid items	26,219	2,252	16,438	12,033
Interfund receivables	1,050,927	—	1,050,927	—
Loans receivable	7,942	—	789	7,153
Other assets	85	16	14	87
Total assets	**$ 26,113,315**	**$ 187,498,033**	**$ 189,853,687**	**$ 23,757,661**
LIABILITIES				
Accounts payable	$ 8,528,691	$ 41,871,398	$ 40,315,162	$ 10,084,927
Due to other governments	15,749,796	27,944,475	31,991,936	11,702,335
Tax overpayments	4,386	70,156	73,858	684
Benefits payable	199,087	4,794,397	4,772,717	220,767
Revenues received in advance	18,705	578	782	18,501
Deposits	806,951	1,561,572	1,379,005	989,518
Other liabilities	805,699	18,610,701	18,675,471	740,929
Total liabilities	**$ 26,113,315**	**$ 94,853,277**	**$ 97,208,931**	**$ 23,757,661**

This page intentionally left blank.

Nonmajor Component Units

Nonmajor component units are legally separate entities that are discretely presented in the State's financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The inclusion of component units in the State's financial statements reflects the State's financial accountability or relationships with these organizations such that exclusion would cause the State's financial statements to be misleading. Following are brief descriptions of nonmajor consolidated component unit segments.

California State University Auxiliary Organizations provide services primarily to university students through foundations, associated student organizations, student unions, food service entities, book stores, and similar organizations.

Financing Authorities provide financing for transportation, business development and public improvements, and coastal and inland urban waterfront restoration projects. These agencies include: California Alternative Energy and Advanced Transportation Financing Authority, California Infrastructure and Economic Development Bank, and the California Urban Waterfront Area Restoration Financing Authority.

District Agricultural Associations were created to exhibit all of the industries, industrial enterprises, resources, and products of the state. The financial information presented is as of and for the year ended December 31, 2012.

Other component units provide legal education programs, financial assistance to businesses, and health benefits for state employees and annuitants. These entities include: University of California Hastings College of the Law; State Assistance Fund for Enterprise, Business and Industrial Development Corporation; and Public Employees' Contingency Reserve.

Combining Statement of Net Position

Nonmajor Component Units

June 30, 2013

(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
ASSETS					
Current assets:					
Cash and pooled investments	$ 3,024	$ 371,574	$ 70,846	$ 15,236	$ 460,680
Investments	—	382,026	1,975	6,113	390,114
Restricted assets:					
Cash and pooled investments	79,554	—	7,620	3,485	90,659
Investments	4,333	—	7,303	—	11,636
Receivables (net)	17,773	272,146	4,689	7,392	302,000
Due from primary government	13	—	—	—	13
Prepaid items	2	—	628	129	759
Inventories	—	—	—	—	—
Other current assets	—	39,822	196	—	40,018
Total current assets	104,699	1,065,568	93,257	32,355	1,295,879
Noncurrent assets:					
Restricted assets:					
Cash and pooled investments	—	34,218	—	—	34,218
Investments	9,798	—	4,700	—	14,498
Investments	—	1,528,714	—	60,095	1,588,809
Receivables (net)	—	270,473	—	14,189	284,662
Loans receivable	301,502	—	—	4,006	305,508
Long-term prepaid charges	—	—	—	—	—
Capital assets:					
Land	—	105,671	19,896	5,089	130,656
Collections – nondepreciable	—	8,264	—	—	8,264
Buildings and other depreciable property	8,784	1,127,018	683,761	139,895	1,959,458
Intangible assets – amortizable	8,286	10,790	—	1,093	20,169
Less: accumulated depreciation/ amortization	(16,742)	(474,067)	(400,468)	(51,186)	(942,463)
Construction in progress	—	14,077	5,259	—	19,336
Intangible assets – nonamortizable	49	5,082	—	—	5,131
Other noncurrent assets	—	35,877	329	8,094	44,300
Total noncurrent assets	311,677	2,666,117	313,477	181,275	3,472,546
Total assets	**416,376**	**3,731,685**	**406,734**	**213,630**	**4,768,425**
DEFERRED OUTFLOWS OF RESOURCES	**—**	**5,071**	**—**	**—**	**5,071**
Total assets and deferred outflows of resources	**$ 416,376**	**$ 3,736,756**	**$ 406,734**	**$ 213,630**	**$ 4,773,496**

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
LIABILITIES					
Current liabilities:					
Accounts payable	$ 57	$ 80,300	$ 6,559	$ 7,801	$ 94,717
Revenue received in advance	—	59,420	2,337	874	62,631
Deposits	—	—	1,071	367	1,438
Contracts and notes payable	—	1,910	121	5,463	7,494
Interest payable	1,406	—	575	—	1,981
Current portion of long-term obligations	5,745	97,025	3,334	1,278	107,382
Other current liabilities	6,656	113,834	3,992	—	124,482
Total current liabilities	13,864	352,489	17,989	15,783	400,125
Noncurrent liabilities:					
Compensated absences payable	378	3,524	7,371	403	11,676
Certificates of participation, commercial paper, and other borrowings	—	63,170	—	—	63,170
Capital lease obligations	—	349,216	11	—	349,227
Net other postemployment benefits obligation	1,009	105,018	5,341	11,647	123,015
Revenue bonds payable	117,939	198,360	28,075	22,360	366,734
Other noncurrent liabilities	1,459	340,368	15,738	8,292	365,857
Total noncurrent liabilities	120,785	1,059,656	56,536	42,702	1,279,679
Total liabilities	**134,649**	**1,412,145**	**74,525**	**58,485**	**1,679,804**
DEFERRED INFLOWS OF RESOURCES	**—**	**2,481**	**—**	**—**	**2,481**
Total liabilities and deferred inflows of resources	**134,649**	**1,414,626**	**74,525**	**58,485**	**1,682,285**
NET POSITION					
Investment in capital assets	297	182,928	267,305	72,011	522,541
Restricted:					
Nonexpendable – endowment	—	847,651	—	19,638	867,289
Expendable:					
Endowments and gifts	—	—	—	6,903	6,903
Education	—	759,064	—	17,047	776,111
Statute	278,519	—	—	—	278,519
Other purposes	2,969	—	20,138	(1,293)	21,814
Total expendable	281,488	759,064	20,138	22,657	1,083,347
Unrestricted	(58)	532,487	44,766	40,839	618,034
Total net position	**281,727**	**2,322,130**	**332,209**	**155,145**	**3,091,211**
Total liabilities, deferred inflows of resources, and net position	**$ 416,376**	**$ 3,736,756**	**$ 406,734**	**$ 213,630**	**$ 4,773,496**

Combining Statement of Activities

Nonmajor Component Units

Year Ended June 30, 2013
(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
OPERATING EXPENSES					
Personal services	$ 2,295	$ 373,776	$ 53,986	$ 33,518	$ 463,575
Scholarships and fellowships	—	49,111	—	2,042	51,153
Supplies	—	—	—	9,326	9,326
Services and charges	86,552	985,671	134,889	34,635	1,241,747
Depreciation	835	46,612	19,119	3,282	69,848
Interest expense and fiscal charges	5,380	29,547	1,621	1,705	38,253
Amortization of long-term prepaid charges	—	—	—	—	—
Other	57	62,169	146	2,645	65,017
Total operating expenses	**95,119**	**1,546,886**	**209,761**	**87,153**	**1,938,919**
PROGRAM REVENUES					
Charges for services	86,144	672,899	203,218	60,419	1,022,680
Operating grants and contributions	—	535,906	—	10,438	546,344
Capital grants and contributions	—	17,021	50	279	17,350
Total program revenues	**86,144**	**1,225,826**	**203,268**	**71,136**	**1,586,374**
Net revenues (expenses)	(8,975)	(321,060)	(6,493)	(16,017)	(352,545)
GENERAL REVENUES					
Investment and interest income (loss)	10,483	144,343	74	8,435	163,335
Other	2,184	397,163	5,997	5,905	411,249
Total general revenues	**12,667**	**541,506**	**6,071**	**14,340**	**574,584**
Change in net position	3,692	220,446	(422)	(1,677)	222,039
Net position – beginning	**278,035** *	**2,101,684** *	**332,631** *	**156,822** *	**2,869,172** *
Net position – ending	**$ 281,727**	**$ 2,322,130**	**$ 332,209**	**$ 155,145**	**$ 3,091,211**

* Restated

This page intentionally left blank.

This page intentionally left blank.

Statistical Section

This page intentionally left blank.

Financial Trends

Financial trend schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time. This section includes the following financial trend schedules:

Schedule of Net Position by Component
Schedule of Changes in Net Position
Schedule of Fund Balances-Governmental Funds
Schedule of Changes in Fund Balances-Governmental Funds

Sources: The information in the following schedules is derived from the State's Comprehensive Annual Financial Reports.

Schedule of Net Position by Component

For the Past Ten Fiscal Years

(accrual basis of accounting, amounts in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011 [2]	2012	2013
Governmental activities										
Net investment in capital assets	$ 77,734,545	$ 79,579,676	$ 83,489,137	$ 81,352,744	$ 84,255,048	$ 83,285,184	$ 84,085,632	$ 85,460,957	$ 80,768,527	$ 84,931,030
Restricted	7,126,013	7,631,057	8,431,279	10,543,602	10,148,648	8,391,814	14,987,867	27,865,821	24,871,510	24,315,913
Unrestricted [1]	(52,897,395)	(52,631,090)	(54,710,847)	(56,519,478)	(69,346,950)	(86,302,434)	(103,272,097)	(123,783,314)	(123,897,753)	(117,383,903)
Total governmental activities net position	**$ 31,963,163**	**$ 34,579,643**	**$ 37,209,569**	**$ 35,376,868**	**$ 25,056,746**	**$ 5,374,564**	**$ (4,198,598)**	**$ (10,456,536)**	**$ (18,257,716)**	**$ (8,136,960)**
Business-type activities										
Net investment in capital assets	$ 1,058,136	$ 836,524	$ 818,405	$ 208,268	$ 49,510	$ (130,634)	$ 89,334	$ 1,382,957	$ 1,561,258	$ 1,718,648
Nonexpendable	—	—	—	—	—	—	—	21,812	21,584	20,627
Restricted	5,667,623	7,235,373	8,722,865	8,574,932	6,853,621	3,855,051	3,404,682	3,615,945	4,571,036	5,151,915
Unrestricted	1,316,631	1,566,246	1,801,304	2,430,492	3,009,297	717,740	(4,250,609)	(4,214,494)	(3,346,849)	(2,824,738)
Total business-type activities net position	**$ 8,042,390**	**$ 9,638,143**	**$ 11,342,574**	**$ 11,213,692**	**$ 9,912,428**	**$ 4,442,157**	**$ (756,593)**	**$ 806,220**	**$ 2,807,029**	**$ 4,066,452**
Primary government										
Net investment in capital assets	$ 78,792,681	$ 80,416,200	$ 84,307,542	$ 81,561,012	$ 84,304,558	$ 83,154,550	$ 84,174,966	$ 86,843,914	$ 82,329,785	$ 86,649,678
Nonexpendable	—	—	—	—	—	—	—	21,812	21,584	20,627
Restricted	12,793,636	14,866,430	17,154,144	19,118,534	17,002,269	12,246,865	18,392,549	31,481,766	29,442,546	29,467,828
Unrestricted [2]	(51,580,764)	(51,064,844)	(52,909,543)	(54,088,986)	(66,337,653)	(85,584,694)	(107,522,706)	(127,997,808)	(127,244,602)	(120,208,641)
Total primary government net position	**$ 40,005,553**	**$ 44,217,786**	**$ 48,552,143**	**$ 46,590,560**	**$ 34,969,174**	**$ 9,816,721**	**$ (4,955,191)**	**$ (9,650,316)**	**$ (15,450,687)**	**$ (4,070,508)**

[1] Unrestricted net position reflects a negative balance because of outstanding bonded debt issued to build capital assets for school districts and other local governmental entities.

[2] In fiscal year 2011, the net position of the governmental funds and enterprise funds changed primarily as a result of the reclassification of $1.2 billion beginning net position of the California State University Fund from governmental activities to an enterprise fund.

Schedule of Changes in Net Position

For the Past Ten Fiscal Years

(accrual basis of accounting, amounts in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011[3]	2012	2013
Governmental activities										
Expenses										
General government[1]	$ 11,017,624	$ 10,965,932	$ 10,379,122	$ 14,261,590	$ 13,187,080	$ 13,895,948	$ 12,454,969	$ 13,520,557	$ 14,411,737	$ 15,390,100
Education	51,457,841	53,152,986	62,652,997	61,542,105	65,130,420	65,643,486	61,764,385	56,486,944	51,288,647	50,586,387
Health and human services	60,020,524	62,016,344	65,763,380	69,979,980	74,309,784	79,077,015	80,799,454	92,475,364	89,939,730	94,069,749
Resources	4,436,309	4,160,949	4,161,814	5,316,769	6,333,252	5,626,359	6,019,104	5,853,278	5,950,635	5,670,922
State and consumer services	1,029,460	1,038,327	595,602	1,214,740	1,129,063	1,518,402	979,962	1,405,019	1,241,269	1,475,486
Business and transportation	7,579,221	7,142,209	8,809,236	9,763,200	13,068,043	11,980,315	14,155,767	11,119,644	13,719,927	12,836,192
Correctional programs	6,214,862	6,611,219	7,299,124	8,945,325	10,504,182	10,835,203	10,310,229	10,295,564	10,343,574	10,081,736
Interest on long-term debt	1,737,696	2,408,246	2,893,537	2,596,316	4,184,631	3,801,283	4,146,259	4,377,064	4,365,181	4,349,632
Total expenses	**143,493,537**	**147,496,212**	**162,554,812**	**173,620,025**	**187,846,455**	**192,378,011**	**190,630,129**	**195,533,434**	**191,260,700**	**194,460,204**
Program revenues										
Charges for services:										
General government[1]	4,386,968	4,733,155	4,620,030	4,495,166	4,404,126	4,781,126	4,918,132	5,057,082	6,841,334	6,196,586
Education	2,631,859	2,936,693	3,360,919	2,689,906	3,343,205	3,483,072	4,231,692	110,423	81,212	64,480
Health and human services	1,751,752	3,280,970	4,554,673	4,751,011	5,191,548	4,256,069	3,769,794	8,471,261	4,940,650	8,761,781
Resources	1,544,260	1,934,532	2,198,886	2,110,593	2,648,952	2,578,738	2,597,712	2,797,264	2,866,232	3,269,315
State and consumer services	496,561	601,322	640,088	704,512	692,348	658,486	654,034	660,196	724,222	682,503
Business and transportation	2,295,747	2,541,072	3,776,098	4,040,268	3,987,958	4,210,461	5,420,261	4,010,433	4,342,668	4,082,616
Correctional programs	13,915	12,354	37,203	30,821	27,702	21,592	18,097	14,981	16,757	45,153
Operating grants/contributions	41,072,413	41,135,441	42,254,065	43,440,102	45,849,413	57,828,622	75,469,783	67,849,215	58,777,006	60,943,536
Capital grants/contributions	916,961	1,090,419	1,272,506	1,164,526	1,207,101	1,142,691	962,388	1,272,326	2,193,189	1,669,021
Total program revenues	**55,110,436**	**58,265,958**	**62,714,468**	**63,426,905**	**67,352,353**	**78,960,857**	**98,041,893**	**90,243,181**	**80,783,270**	**85,714,991**
Total governmental activities net program expenses	**(88,383,101)**	**(89,230,254)**	**(99,840,344)**	**(110,193,120)**	**(120,494,102)**	**(113,417,154)**	**(92,588,236)**	**(105,290,253)**	**(110,477,430)**	**(108,745,213)**
General revenues and other changes in net position										
General revenues:										
Personal income taxes	37,926,550	42,504,352	51,251,266	53,272,229	55,355,266	45,709,344	43,866,857	51,719,107	54,368,347	67,502,738
Sales and use taxes	28,651,768	32,488,563	34,162,177	35,427,013	34,856,824	31,244,979	33,784,106	33,521,221	31,216,438	33,839,065
Corporation taxes	9,027,816	11,174,937	10,735,792	11,211,267	11,207,468	10,741,140	9,472,611	9,384,416	8,629,935	7,289,910
Motor vehicle excise taxes[4]	—	—	—	—	—	—	—	—	5,263,435	5,219,605
Insurance taxes	2,119,315	2,231,060	2,212,916	2,165,567	2,190,870	2,063,555	2,235,251	2,311,880	2,408,473	2,295,579
Other taxes[4]	2,329,987	2,507,729	2,099,075	5,939,890	5,594,970	5,264,685	5,234,531	7,768,010	2,368,748	2,498,248
Investment and interest	155,430	289,363	504,655	730,066	639,059	175,584	114,933	62,946	72,237	57,285
Escheat	598,681	525,897	291,549	334,002	282,287	315,642	149,996	229,146	372,215	551,580
Other	87,663	—	—	—	—	—	—	—	—	—
Transfers	32,965	27,727	23,259	29,855	54,994	21,015	(13,441,875)	(3,251,598)	(2,031,032)	(1,997,759)
Nonoperating grants and gifts	—	—	—	—	—	—	—	—	—	—
Special item[2]	—	—	1,218,311	—	—	—	—	—	—	—
Total general revenues and other changes in net position	**80,930,175**	**91,749,628**	**102,499,000**	**109,109,889**	**110,181,738**	**95,535,944**	**81,416,410**	**101,745,128**	**102,668,796**	**117,256,251**
Total governmental activities change in net position	**$ (7,452,926)**	**$ 2,519,374**	**$ 2,658,656**	**$ (1,083,231)**	**$ (10,312,364)**	**$ (17,881,210)**	**$ (11,171,826)**	**$ (3,545,125)**	**$ (7,808,634)**	**$ 8,511,038**

(continued)

[1] Tax relief program expenses and revenue reported separately prior to fiscal year 2009 are now included with general government.
[2] In fiscal year 2006, a related organization assumed debt on the State's behalf.
[3] In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.
[4] Motor vehicle excise taxes, reported separately in fiscal year 2012 due to material increases, were included with "Other taxes" in prior years.

Schedule of Changes in Net Position (continued)

For the Past Ten Fiscal Years

(accrual basis of accounting, amounts in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011[3]	2012	2013
Business-type activities										
Expenses										
Electric Power	$ 5,203,000	$ 5,655,000	$ 5,342,000	$ 5,865,000	$ 5,362,000	$ 4,560,000	$ 3,908,000	$ 2,317,000	$ 915,000	$ 488,000
Water Resources	731,099	731,393	949,691	951,590	1,009,214	914,837	1,069,662	1,115,793	1,047,574	1,127,195
Public Buildings Construction	296,502	299,900	334,094	334,777	371,904	420,465	494,332	390,173	403,853	410,404
State Lottery	3,347,644	3,493,984	3,911,717	3,470,615	3,173,060	3,069,365	3,166,447	3,507,524	4,431,709	4,499,451
Unemployment Programs	10,271,962	8,939,654	8,584,521	9,136,218	10,622,582	19,609,068	29,614,598	25,619,138	21,111,658	17,599,219
California State University [3]	—	—	—	—	—	—	—	5,851,355	6,181,397	6,196,541
High Technology Education	37,261	33,690	30,871	22,704	16,916	15,590	15,025	9,590	7,778	6,568
Toll Facilities	18,968	20,861	18,265	—	—	—	—	—	—	—
State University Dormitory Building Maintenance and Equipment	426,187	449,080	491,914	844,798	699,018	486,349	856,106	—	—	—
State Water Pollution Control Revolving	15,131	14,638	20,427	12,702	13,056	12,261	16,893	10,953	8,780	3,698
School Building Aid	—	—	—	—	—	—	—	—	—	—
Housing Loan	173,629	142,085	138,988	127,206	132,101	130,777	122,114	104,667	89,570	70,356
Other enterprise programs	98,654	86,612	113,976	141,859	122,921	147,441	130,329	118,006	78,601	58,578
Total expenses	**20,620,037**	**19,866,897**	**19,936,464**	**20,907,469**	**21,522,772**	**29,366,153**	**39,393,506**	**39,044,199**	**34,275,920**	**30,460,010**
Program revenues										
Charges for services:										
Electric Power	5,203,000	5,655,000	5,342,000	5,865,000	5,362,000	4,560,000	3,908,000	2,317,000	915,000	488,000
Water Resources	714,647	750,282	949,691	951,590	1,009,214	914,837	1,069,662	1,115,793	1,047,574	1,127,195
Public Building Construction	307,910	315,718	384,442	396,895	384,816	366,151	430,069	456,467	428,260	616,041
State Lottery	3,143,408	3,512,126	3,740,041	3,461,699	3,242,828	3,051,320	3,145,259	3,484,689	4,484,291	4,445,921
Unemployment Programs	9,631,916	10,459,688	10,263,447	9,017,969	8,829,018	14,273,975	11,255,098	24,678,783	21,947,781	18,597,962
California State University [3]	—	—	—	—	—	—	—	2,505,545	2,915,123	2,891,432
High Technology Education	34,052	36,737	26,508	22,966	20,600	15,975	13,015	10,498	8,452	5,585
Toll Facilities	121	66	21	—	—	—	—	—	—	—
State University Dormitory Building Maintenance and Equipment	250,208	395,396	512,231	554,851	640,208	811,454	599,571	—	—	—
State Water Pollution Control Revolving	51,687	55,218	64,740	78,564	71,404	59,923	56,121	55,957	57,540	60,173
Housing Loan	143,805	121,063	127,733	130,293	130,139	109,636	85,321	89,224	84,830	66,050
Other enterprise programs	114,081	115,901	129,048	134,018	137,476	124,952	98,957	105,676	74,693	80,540
Operating grants/contributions	—	—	—	—	—	—	—	1,216,808	1,249,995	1,323,345
Capital grants/contributions	47,528	73,182	56,942	182,989	189,064	71,882	91,808	86,272	106,057	142,304
Total program revenues	**19,642,363**	**21,490,377**	**21,596,844**	**20,796,834**	**20,016,767**	**24,360,105**	**20,752,881**	**36,122,712**	**33,319,596**	**29,844,548**
Total business-type activities net program revenues (expenses)	**(977,674)**	**1,623,480**	**1,660,380**	**(110,635)**	**(1,506,005)**	**(5,006,048)**	**(18,640,625)**	**(2,921,487)**	**(956,324)**	**(615,462)**
Other changes in net position										
Transfers	(32,965)	(27,727)	(23,259)	(29,855)	(54,994)	(21,015)	13,441,875	3,251,598	2,031,032	1,997,759
Total business-type activities changes in net position	**(1,010,639)**	**1,595,753**	**1,637,121**	**(140,490)**	**(1,560,999)**	**(5,027,063)**	**(5,198,750)**	**330,111**	**1,074,708**	**1,382,297**
Total primary government changes in net position	**$ (8,463,565)**	**$ 4,115,127**	**$ 4,295,777**	**$ (1,223,721)**	**$ (11,873,363)**	**$ (22,908,273)**	**$ (16,370,576)**	**$ (3,215,014)**	**$ (6,733,926)**	**$ 9,893,335**

(concluded)

Schedule of Fund Balances - Governmental Funds

For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011[1]	2012	2013
General Fund										
Reserved	$ 1,691,034	$ 1,597,085	$ 1,999,953	$ 2,596,537	$ 2,113,149	$ 2,260,504	$ 1,320,782	$ —	$ —	$ —
Unreserved	(3,231,734)	(1,410,228)	672,862	(4,504,075)	(6,282,018)	(18,344,400)	(20,929,640)	—	—	—
Nonspendable	—	—	—	—	—	—	—	148,019	7,614	140,107
Restricted	—	—	—	—	—	—	—	156,496	80,849	178,643
Committed	—	—	—	—	—	—	—	29,850	19,600	22,879
Unassigned	—	—	—	—	—	—	—	(20,273,606)	(23,069,351)	(14,596,085)
Total General Fund	**$ (1,540,700)**	**$ 186,857**	**$ 2,672,815**	**$ (1,907,538)**	**$ (4,168,869)**	**$ (16,083,896)**	**$ (19,608,858)**	**$ (19,939,241)**	**$ (22,961,288)**	**$ (14,254,456)**
All other governmental funds										
Reserved	$ 14,625,056	$ 14,924,365	$ 16,198,481	$ 21,955,300	$ 19,512,083	$ 27,465,566	$ 41,087,578	$ —	$ —	$ —
Unreserved, reported in:										
Special revenue funds	(1,343,432)	(329,018)	(806,558)	(914,843)	(1,817,290)	(3,539,254)	(8,554,611)	—	—	—
Capital projects funds	(226,919)	(403,106)	(882,550)	(1,128,608)	(837,349)	686,113	838,879	—	—	—
Nonspendable	—	—	—	—	—	—	—	39,448	—	15,022
Restricted	—	—	—	—	—	—	—	27,709,325	24,790,661	24,137,270
Committed	—	—	—	—	—	—	—	2,701,702	2,109,089	2,318,035
Assigned	—	—	—	—	—	—	—	268,888	3	209,171
Unassigned	—	—	—	—	—	—	—	(21,847)	(103,177)	(176,066)
Total all other governmental funds	**$ 13,054,705**	**$ 14,192,241**	**$ 14,509,373**	**$ 19,911,849**	**$ 16,857,444**	**$ 24,612,425**	**$ 33,371,846**	**$ 30,697,516**	**$ 26,796,576**	**$ 26,503,432**

Note: In fiscal year 2011, the State implemented GASB Statement No. 54, which significantly changed the fund balance classifications. Fiscal year 2011 fund balance classifications are not comparable to prior years' classifications.

[1] In fiscal year 2011, the California State University Fund, which consisted of $1.2 billion beginning fund balance, was reclassified from a governmental fund to an enterprise fund.

Schedule of Changes in Fund Balances - Governmental Funds

For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011[3]	2012	2013
Revenues										
Personal income taxes	$ 37,722,839	$ 42,595,352	$ 50,798,418	$ 53,289,524	$ 55,197,062	$ 45,482,726	$ 43,884,798	$ 51,691,153	$ 54,442,733	$ 67,424,576
Sales and use taxes	28,685,600	32,201,242	34,300,402	35,451,311	34,764,651	31,425,308	33,696,412	33,488,805	31,205,183	33,869,961
Corporation taxes	8,379,316	11,191,937	10,709,792	11,210,267	11,201,468	10,738,140	9,467,611	9,433,416	8,609,935	7,261,910
Motor vehicle excise taxes [4]	—	—	—	—	—	—	—	—	5,263,435	5,219,605
Insurance taxes	2,119,315	2,231,060	2,212,916	2,165,567	2,190,870	2,063,555	2,235,251	2,311,881	2,408,473	2,295,579
Other taxes [4]	2,422,326	2,482,335	2,367,670	5,800,027	5,675,894	5,245,416	5,235,801	7,829,662	2,306,717	2,425,184
Intergovernmental	42,918,982	42,933,381	45,466,185	46,442,519	48,969,006	61,053,091	79,183,291	69,160,916	62,235,671	64,418,808
Licenses and permits	3,469,741	4,954,025	5,125,223	5,266,142	5,326,854	5,805,369	6,900,747	6,767,437	6,600,001	6,659,078
Charges for services	919,280	949,147	1,002,410	911,387	1,025,569	986,773	974,181	1,008,647	728,980	741,201
Fees and penalties	4,662,893	5,388,332	6,008,306	6,093,948	6,800,633	6,204,288	7,291,894	10,262,387	8,315,452	10,673,104
Investment and interest	377,694	576,097	1,058,119	1,555,202	1,591,025	1,108,058	281,881	212,116	175,898	135,928
Escheat	598,681	525,897	291,549	334,002	282,287	315,642	149,996	229,146	372,215	551,580
Other	2,999,820	3,755,426	4,518,621	3,732,591	4,265,010	3,933,035	3,555,282	2,941,484	2,542,505	3,227,347
Total revenues	**135,276,487**	**149,784,231**	**163,859,611**	**172,252,487**	**177,290,329**	**174,361,401**	**192,857,145**	**195,337,050**	**185,207,198**	**204,903,861**
Expenditures										
General government [1]	11,012,217	10,647,740	9,394,308	14,062,920	12,745,860	13,075,901	12,036,503	12,997,651	13,484,305	15,748,069
Education	49,526,563	52,242,779	59,768,677	61,103,008	64,367,612	63,857,066	59,229,726	55,547,139	50,362,337	49,692,763
Health and human services	59,820,274	62,015,628	65,968,433	70,157,806	74,102,708	78,731,136	80,321,470	91,941,309	89,473,391	94,621,630
Resources	3,686,083	4,077,102	4,296,715	5,191,078	6,123,609	5,209,684	5,456,904	5,254,757	5,358,575	5,318,332
State and consumer services	935,427	973,466	1,111,128	1,214,752	1,239,397	1,266,068	1,088,494	1,183,536	1,219,499	1,259,392
Business and transportation	9,119,237	8,556,618	10,370,589	11,485,069	14,747,506	13,803,518	14,083,790	13,181,390	15,684,611	15,008,671
Correctional programs	6,236,725	6,658,614	7,552,790	9,030,299	9,972,507	9,883,593	9,553,992	9,253,791	9,805,846	9,681,086
Capital outlay	1,245,871	1,534,150	2,128,050	1,345,021	1,724,074	1,432,376	1,691,674	1,128,011	1,296,413	1,222,342
Debt service:										
Bond and commercial paper retirement	1,384,595	3,672,119	6,375,607	5,691,791	8,970,533	5,131,600	3,259,203	3,118,906	4,435,992	5,189,150
Interest and fiscal charges	1,686,776	2,243,764	3,135,763	2,881,849	3,394,433	3,584,358	4,022,922	4,355,110	4,453,643	4,363,260
Total expenditures	**144,653,768**	**152,621,980**	**170,102,060**	**182,163,593**	**197,388,239**	**195,975,300**	**190,744,678**	**197,961,600**	**195,574,612**	**202,104,695**
Excess (deficiency) of revenuesover (under) expenditures	(9,377,281)	(2,837,749)	(6,242,449)	(9,911,106)	(20,097,910)	(21,613,899)	2,112,467	(2,624,550)	(10,367,414)	2,799,166
Other financing sources (uses)										
General obligation bonds and commercial paper issued	18,385,480	5,058,339	7,750,500	9,040,500	14,193,760	16,764,085	12,039,472	4,525,000	4,165,515	4,038,095
Revenue bonds issued	4,347,570	99,250	—	—	—	97,635	—	—	—	—
Refunding/remarketing debt issued	1,183,875	1,937,430	5,086,944	9,098,376	1,798,685	—	4,176,050	—	4,300,555	4,406,365
Payment to refund/remarket long-term debt	(1,183,875)	(1,937,430)	(4,561,944)	(7,840,621)	(1,844,006)	—	(4,221,604)	—	(4,508,834)	(2,947,645)
Premium on bonds issued [2]	—	—	—	—	295,439	126,107	267,980	32,607	667,931	964,211
Proceeds from loans	—	—	—	—	—	—	1,996,737	35,538	—	—
Remarketing bonds issued	—	—	—	—	—	—	—	—	—	228,000
Payment to remarketing agent	—	—	—	—	—	—	—	—	—	(226,968)
Capital leases [3]	85,390	414,738	748,037	178,936	268,686	364,813	811,816	204,631	528,804	710,440
Transfers in	18,475,032	4,580,201	5,137,895	9,311,462	11,414,132	6,776,476	6,548,447	8,705,229	5,523,644	2,957,762
Transfers out	(18,428,564)	(4,546,792)	(5,113,107)	(9,242,771)	(11,336,764)	(6,689,658)	(19,952,766)	(11,902,800)	(7,499,131)	(4,898,754)
Total other financing sources	**22,864,908**	**5,605,736**	**9,048,325**	**10,545,882**	**14,789,932**	**17,439,458**	**1,666,132**	**1,600,205**	**3,178,484**	**5,231,506**
Net change in fund balances	**$ 13,487,627**	**$ 2,767,987**	**$ 2,805,876**	**$ 634,776**	**$ (5,307,978)**	**$ (4,174,441)**	**$ 3,778,599**	**$ (1,024,345)**	**$ (7,188,930)**	**$ 8,030,672**
Debt service as a percentage of noncapital expenditures	2.2%	3.9%	5.7%	4.8%	6.4%	4.5%	3.9%	3.8%	4.6%	4.7%

[1] Tax relief program expenditures reported separately prior to fiscal year 2009 are now included with general government.

[2] Prior to fiscal year 2008, premiums on bonds issued were netted against debt service interest and fiscal charges.

[3] In fiscal year 2011, the California State University Fund was reclassified from governmental to enterprise funds.

[4] Motor vehicle excise taxes, reported separately in fiscal year 2012 due to material increases, were included with "Other taxes" in prior years.

This page intentionally left blank.

Revenue Capacity

Revenue Capacity schedules contain information to help the reader assess the State's capacity to raise revenue and the sources of that revenue. This section includes the following revenue capacity schedules:

Schedule of Revenue Base
Schedule of Revenue Payers by Industry/Income Level
Schedule of Personal Income Tax Rates

Schedule of Revenue Base

For Calendar Years 2003 - 2012
(amounts in thousands)

	2003	2004	2005	2006
Personal Income by Industry (all items restated as footnoted) [1]				
Farm earnings	$ 10,149,144	$ 12,322,441	$ 12,293,569	$ 10,502,907
Forestry, fishing, and other natural resources	4,838,326	5,331,993	5,339,115	6,116,391
Mining	2,454,166	3,043,884	3,424,350	4,165,716
Construction and utilities	70,499,066	78,395,855	83,618,710	88,980,284
Manufacturing	107,818,914	113,513,422	117,172,067	122,221,954
Wholesale trade	44,907,733	47,426,933	50,650,796	54,563,086
Retail trade	68,201,732	70,709,198	73,222,053	75,203,986
Transportation and warehousing	27,583,181	29,474,520	30,154,175	31,590,984
Information, finance, and insurance	114,338,117 [4]	118,260,450	123,945,321	128,625,537
Real estate	29,904,716 [4]	30,162,482	29,850,744	27,920,809
Services	329,550,288	345,170,969	361,037,583	389,466,019
Federal, civilian	18,896,328	19,821,318	20,755,835	20,982,637
Military	10,978,513	11,932,082	12,363,045	12,811,960
State and local government	141,047,243	148,987,870	155,403,203	164,369,561
Other [2]	272,336,182	287,055,121	316,942,856	361,929,686
Total personal income	**$ 1,253,503,649**	**$ 1,321,608,538**	**$ 1,396,173,422**	**$ 1,499,451,517**
Average effective rate [3]	4.3%	4.5%	4.6%	5.1%

	2007	2008	2009	2010	2011	2012
Personal Income by Industry (all items restated as footnoted) [1]						
Farm earnings	$ 12,863,086	$ 11,085,040	$ 12,113,883	$ 12,558,578	$ 15,963,083	$ 15,397,106
Forestry, fishing, and other natural resources	6,290,825	6,246,343	6,186,842	6,755,433	6,999,774	7,665,873
Mining	4,176,079	6,137,776	4,001,812	5,096,307	6,335,937	7,093,438
Construction and utilities	84,564,689	76,420,871	63,197,385	58,649,664	61,149,733	65,647,157
Manufacturing	124,743,305	122,398,174	113,550,660	116,654,266	121,252,922	125,431,487
Wholesale trade	58,429,762	57,825,332	52,404,954	53,723,531	57,703,195	60,511,865
Retail trade	75,582,973	69,431,469	66,343,554	67,719,513	71,050,317	74,397,524
Transportation and warehousing	32,795,496	32,245,224	30,317,861	31,150,908	33,849,219	35,609,912
Information, finance, and insurance	131,864,820	126,478,186	122,516,361	125,703,887	131,159,277	137,756,005
Real estate	21,197,560	21,710,392	19,822,942	20,739,227	25,398,367	26,878,559
Services	409,544,951	428,824,425	411,832,095	422,938,817	450,701,318	483,720,459
Federal, civilian	21,589,829	22,361,701	23,436,141	25,989,622	26,307,794	26,411,778
Military	13,447,301	14,560,195	15,558,706	16,264,215	16,046,524	16,053,477
State and local government	176,578,878	184,905,822	184,050,302	185,107,938	188,626,644	190,531,554
Other [2]	390,771,107	415,650,947	411,096,112	430,096,567	470,659,596	494,933,087
Total personal income	**$ 1,564,440,661**	**$ 1,596,281,897**	**$ 1,536,429,610**	**$ 1,579,148,473**	**$ 1,683,203,700**	**$ 1,768,039,281**
Average effective rate [3]	5.0%	5.7%	5.2%	4.7%	5.3%	5.0%

(continued)

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

[1] 2003-2012 information updated.

[2] Other personal income includes dividends, interest, rental income, residence adjustment, government transfers for individuals, and deductions for social insurance.

[3] The total direct rate for personal income is not available. The average effective rate equals personal income tax revenue divided by adjusted gross income.

[4] Not restated - all other amounts restated due to a comprehensive revision by the Bureau of Economic Analysis.

Schedule of Revenue Base (continued)

For Calendar Years 2003 - 2012
(amounts in thousands)

	2003	2004	2005	2006	2007	2008	2009 [1]	2010	2011	2012
Taxable Sales by Industry										
Retail										
Apparel	$ 15,179,710	$ 16,957,137	$ 18,712,125	$ 19,829,416	$ 20,855,890	$ 22,120,094	$ —	$ —	$ —	$ —
General merchandise	50,550,818	53,939,532	56,787,153	59,264,894	59,897,350	56,425,472	—	—	—	—
Specialty	45,191,191	48,961,996	52,376,758	54,695,680	34,122,471	27,380,740	—	—	—	—
Food	19,407,823	19,825,771	21,128,469	21,864,179	22,461,059	21,504,308	—	—	—	—
Restaurant and bars	40,049,699	43,275,038	46,412,847	49,229,418	51,658,575	52,051,404	—	—	—	—
Household	15,104,217	16,405,347	17,388,704	17,383,449	16,720,852	17,199,187	—	—	—	—
Building materials	28,200,869	34,154,543	36,152,218	36,163,326	32,656,324	26,647,007	—	—	—	—
Automotive	94,766,776	103,528,856	112,167,922	115,154,535	117,864,918	106,555,420	—	—	—	—
Other	11,765,951	13,124,468	14,681,929	15,481,675	30,787,663	27,434,795	—	—	—	—
Business and personal service	21,648,470	22,306,787	23,090,910	23,650,322	23,355,672	22,045,958	—	—	—	—
All other	118,230,944	127,597,308	138,005,393	146,935,543	150,669,375	152,289,155	—	—	—	—
Total taxable sales	**$ 460,096,468**	**$ 500,076,783**	**$ 536,904,428**	**$ 559,652,437**	**$ 561,050,149**	**$ 531,653,540**	**$ —**	**$ —**	**$ —**	**$ —**
Direct sales tax rate [2]	5.00%	5.25% [3]	5.25%	5.25%	5.25%	5.25%	—	—	—	—
Taxable Sales by Industry (Using NAICS Codes) [1]										
Retail and Food Services										
Motor vehicle and parts dealers	$ —	$ —	$ —	$ —	$ —	$ —	$ 44,488,198	$ 47,355,568	$ 53,303,501	$ 61,547,848
Furniture and home furnishings stores	—	—	—	—	—	—	8,481,020	8,742,984	9,280,688	9,937,187
Electronics and appliance stores	—	—	—	—	—	—	13,384,338	13,749,019	14,297,402	14,744,723
Building materials, garden equipment and supplies	—	—	—	—	—	—	23,978,313	24,750,865	26,064,428	27,438,083
Food and beverage	—	—	—	—	—	—	22,546,285	22,787,407	23,606,132	24,511,714
Health and personal care stores	—	—	—	—	—	—	9,244,958	9,525,910	10,309,491	10,787,801
Gasoline stations	—	—	—	—	—	—	39,077,835	45,226,491	55,210,076	58,006,168
Clothing and clothing accessories stores	—	—	—	—	—	—	25,641,272	27,267,430	29,600,057	32,357,516
Sporting goods, hobby, book and music stores	—	—	—	—	—	—	10,294,172	10,365,480	10,602,711	10,751,814
General merchandise stores	—	—	—	—	—	—	44,921,639	46,323,804	48,219,018	49,996,451
Miscellaneous store retailers	—	—	—	—	—	—	16,385,169	16,569,690	17,187,402	17,880,765
Nonstore retailers	—	—	—	—	—	—	2,849,864	2,830,615	3,081,188	4,375,432
Food services and drinking places	—	—	—	—	—	—	49,921,543	51,282,453	54,755,944	59,037,320
All other outlets	—	—	—	—	—	—	145,278,339	150,570,269	165,050,017	177,014,427
Total taxable sales	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 456,492,945**	**$ 477,347,985**	**$ 520,568,055**	**$ 558,387,249**
Direct sales tax rate [2]	—	—	—	—	—	—	6.25% [4]	6.25%	6.25% [5]	6.25%

(concluded)

Source: California State Board of Equalization (BOE)

[1] Due to BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 and forward is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008, so 2009 was the first year BOE used the new format with NAICS codes.

[2] The direct sales tax rate used is the state tax rate that provides revenue to the State's General Fund and debt service fund. It does not include the 1% local tax rate that is allocated to cities and counties.

[3] Rate change was effective on July 1, 2004.

[4] Rate change was effective on April 1, 2009.

[5] Rate change was effective on July 1, 2011.

Schedule of Revenue Payers by Industry/Income Level

For Calendar Years 2003 and 2011

Personal Income Tax Filers and Liability by Income Level [1]

	2003			
	Number of Filers	Percent of Total	Tax Liability [2]	Percent of Total
Under $ 5,000	1,092,578	8.0 %	$ 4,143	0.0 %
5,000 to 9,999	1,163,134	8.6	10,875	0.0
10,000 to 14,999	1,175,473	8.6	23,910	0.1
15,000 to 19,999	1,138,717	8.4	66,120	0.2
20,000 to 24,999	1,053,396	7.7	133,129	0.4
25,000 to 29,999	883,616	6.5	188,941	0.6
30,000 to 39,999	1,514,637	11.1	612,337	2.0
40,000 to 49,999	1,154,203	8.5	858,009	2.9
50,000 to 99,999	2,877,717	21.1	5,444,012	17.9
$100,000 and over	1,570,885	11.5	23,032,746	75.9
Total	**13,624,356**	**100.0 %**	**$ 30,374,222**	**100.0 %**

	2011			
	Number of Filers	Percent of Total	Tax Liability [2]	Percent of Total
Under $ 5,000	1,160,598	7.7 %	$ 7,876	0.0 %
5,000 to 9,999	1,159,492	7.7	8,857	0.0
10,000 to 14,999	1,291,501	8.6	11,652	0.0
15,000 to 19,999	1,243,767	8.3	35,697	0.1
20,000 to 24,999	1,062,962	7.1	77,142	0.2
25,000 to 29,999	911,530	6.0	130,546	0.3
30,000 to 39,999	1,516,999	10.1	447,136	1.0
40,000 to 49,999	1,191,296	7.9	705,585	1.6
50,000 to 99,999	3,123,472	20.8	5,322,636	12.1
$100,000 and over	2,380,742	15.8	37,174,234	84.7
Total	**15,042,359**	**100.0 %**	**$ 43,921,361**	**100.0 %**

Source: California Franchise Tax Board

[1] For California resident tax returns. Calendar year 2011 is the most recent year for which data are available.
[2] Amounts in thousands.

For Calendar Years 2003 and 2012

Sales Tax Permits and Tax Liability by Industry

	2003 (Using Business Codes) [1]			
	Number of Permits [2]	Percent of Total	Tax Liability	Percent of Total
Retail				
Apparel	36,328	3.5 %	$ 758,986	3.3 %
General merchandise	14,385	1.4	2,527,541	11.0
Specialty	195,033	19.0	2,259,560	9.8
Food	24,707	2.4	970,391	4.2
Restaurant and bars	80,933	7.9	2,002,485	8.7
Household	30,603	3.0	755,211	3.3
Building materials	10,266	1.0	1,410,043	6.1
Automotive	35,018	3.4	4,738,339	20.6
Other	22,073	2.2	588,298	2.6
Business and personal service	102,801	10.0	1,082,424	4.7
All other	474,316	46.2	5,911,547	25.7
Total	**1,026,463**	**100.0 %**	**$ 23,004,825**	**100.0 %**

	2012 (Using NAICS Codes) [1]			
	Number of Permits [2]	Percent of Total	Tax Liability [3]	Percent of Total
Retail and Food Services				
Motor vehicle and parts dealers	33,767	3.4 %	$ 3,846,741	11.0 %
Furniture and home furnishings stores	18,587	1.9	621,074	1.8
Electronics and appliance stores	23,301	2.4	921,545	2.6
Building materials, garden equipment & supplies	17,236	1.8	1,714,880	4.9
Food and beverage	31,900	3.3	1,531,982	4.4
Health and personal care stores	24,427	2.5	674,238	1.9
Gasoline stations	9,990	1.0	3,625,386	10.4
Clothing and clothing accessories stores	70,775	7.2	2,022,345	5.8
Sporting goods, hobby, book & music stores	29,246	3.0	671,988	1.9
General merchandise stores	17,163	1.8	3,124,778	9.0
Miscellaneous store retailers	117,979	12.1	1,117,548	3.2
Nonstore retailers	167,568	17.1	273,465	0.8
Food services and drinking places	94,453	9.6	3,689,833	10.6
All other outlets	321,897	32.9	11,063,402	31.7
Total	**978,289**	**100.0 %**	**$ 34,899,205**	**100.0 %**

Source: State Board of Equalization (BOE)

[1] Due to BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 and forward is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008, so 2009 was the first year BOE used the new format with NAICS codes.
[2] As of July 1.
[3] Calculated by multiplying the taxable sales by industry shown on page 277 by the direct sales tax rate. Amounts in thousands.

Schedule of Personal Income Tax Rates

For Calendar Years 2003 - 2012

	Married Filing Jointly and Surviving Spouse									
	2003	2004	2005 [1]	2006	2007	2008	2009 [2]	2010 [2]	2011	2012
Tax Rate	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level
1.0	Up to $11,924	Up to $12,294	Up to $12,638	Up to $13,244	Up to $13,654	Up to $14,336	Up to $14,120	Up to $14,248	Up to $14,632	Up to $14,910
2.0	11,924 - 28,266	12,294 - 29,142	12,638 - 29,958	13,244 - 31,963	13,654 - 32,370	14,336 - 33,988	14,120 - 33,478	14,248 - 33,780	14,632 - 34,692	14,910 - 35,352
4.0	28,266 - 44,612	29,142 - 45,994	29,958 - 47,282	31,963 - 49,552	32,370 - 51,088	33,988 - 53,642	33,478 - 52,838	33,780 - 53,314	34,692 - 54,754	35,352 - 55,794
6.0	44,612 - 61,930	45,994 - 63,850	47,282 - 65,638	49,552 - 68,788	51,088 - 70,920	53,642 - 74,466	52,838 - 73,350	53,314 - 74,010	54,754 - 76,008	55,794 - 77,452
8.0	61,930 - 78,266	63,850 - 80,692	65,638 - 82,952	68,788 - 86,934	70,920 - 89,628	74,466 - 94,110	73,350 - 92,698	74,010 - 93,532	76,008 - 96,058	77,452 - 97,884
9.3	$78,266 and over	$80,692 and over	82,952 - 999,999	86,934 - 999,999	89,628 - 999,999	94,110 - 999,999	92,698 - 999,999	93,532 - 999,999	96,058 - 999,999	97,884 - 500,000
10.3	—	—	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	500,000 - 600,000
11.3	—	—	—	—	—	—	—	—	—	600,000 - $1million
12.3	—	—	—	—	—	—	—	—	—	$1 million and over

	Single and Married Filing Separately									
	2003	2004	2005 [1]	2006	2007	2008	2009 [2]	2010 [2]	2011	2012
Tax Rate	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level
1.0	Up to $5,962	Up to $6,147	Up to $6,319	Up to $6,622	Up to $6,827	Up to $7,168	Up to $7,060	Up to $7,124	Up to $7,316	Up to $7,455
2.0	5,962 - 14,133	6,147 - 14,571	6,319 - 14,979	6,622 - 15,698	6,827 - 16,185	7,168 - 16,994	7,060 - 16,739	7,124 - 16,890	7,316 - 17,346	7,455 - 17,676
4.0	14,133 - 22,306	14,571 - 22,997	14,979 - 23,641	15,698 - 24,776	16,185 - 25,544	16,994 - 26,821	16,739 - 26,419	16,890 - 26,657	17,346 - 27,377	17,676 - 27,897
6.0	22,306 - 30,965	22,997 - 31,925	23,641 - 32,819	24,776 - 34,394	25,544 - 35,460	26,821 - 37,233	26,419 - 36,675	26,657 - 37,005	27,377 - 38,004	27,897 - 38,726
8.0	30,965 - 39,133	31,925 - 40,346	32,819 - 41,476	34,394 - 43,467	35,460 - 44,814	37,233 - 47,055	36,675 - 46,349	37,005 - 46,766	38,004 - 48,029	38,726 - 48,942
9.3	$39,133 and over	$40,346 and over	41,476 - 999,999	43,467 - 999,999	44,814 - 999,999	47,055 - 999,999	46,349- 999,999	46,766 - 999,999	48,029 - 999,999	48,942 - 250,000
10.3	—	—	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	250,000 - 300,000
11.3	—	—	—	—	—	—	—	—	—	300,000 - 500,000
12.3	—	—	—	—	—	—	—	—	—	$500,000 and over

	Head of Household									
	2003	2004	2005 [1]	2006	2007	2008	2009 [2]	2010 [2]	2011	2012
Tax Rate	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level	Income Level
1.0	Up to $11,930	Up to $12,300	Up to $12,644	Up to $13,251	Up to $13,662	Up to $14,345	Up to $14,130	Up to $14,257	Up to $14,642	Up to $14,920
2.0	11,930 - 28,267	12,300 - 29,143	12,644 - 29,959	13,251 - 31,397	13,662 - 32,370	14,345 - 33,989	14,130 - 33,479	14,257 - 33,780	14,642 - 34,692	14,920 - 35,351
4.0	28,267 - 36,437	29,143 - 37,567	29,959 - 38,619	31,397 - 40,473	32,370 - 41,728	33,989 - 43,814	33,479 - 43,157	33,780 - 43,545	34,692 - 44,721	35,351 - 45,571
6.0	36,437 - 45,096	37,567 - 46,494	38,619 - 47,796	40,473 - 50,090	41,728 - 51,643	43,814 - 54,225	43,157 - 53,412	43,545 - 53,893	44,721 - 55,348	45,571 - 56,400
8.0	45,096 - 53,267	46,494 - 54,918	47,796 - 56,456	50,090 - 59,166	51,643 - 61,000	54,225 - 64,050	53,412 - 63,089	53,893 - 63,657	55,348 - 65,376	56,400 - 66,618
9.3	$53,267 and over	$54,918 and over	56,456 - 999,999	59,166 - 999,999	61,000 - 999,999	64,050 - 999,999	63,089 - 999,999	63,657 - 999,999	65,376 - 999,999	66,618 - 340,000
10.3	—	—	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	340,00 - 408,000
11.3	—	—	—	—	—	—	—	—	—	408,000 - 680,000
12.3	—	—	—	—	—	—	—	—	—	$680,000 and over

Source: California Franchise Tax Board

[1] Beginning in 2005, there is an additional tax of 1% on taxable income over $1 million for the expansion of mental health services.
[2] In 2009 and 2010, tax rates increased by 0.25% for all income levels.

Average Effective Rate

(amounts in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Personal income tax revenue [1]	$ 32,661,274	$ 37,722,839	$ 42,595,352	$ 50,798,418	$ 53,289,524	$ 55,197,062	$ 45,482,726	$ 43,884,798	$ 51,691,153	$ 54,442,733
Adjusted gross income [2]	762,491,998	841,229,496	932,142,017	990,695,484	1,059,967,500	972,420,100	881,160,200	939,888,500	980,167,100	1,087,823,400
Average effective rate [3]	4.3%	4.5%	4.6%	5.1%	5.0%	5.7%	5.2%	4.7%	5.3%	5.00%

[1] Personal income tax revenue is reported on a fiscal year basis.
[2] Source: California Franchise Tax Board. Fiscal year 2012 information reflects returns processed as of December 2013.
[3] The average effective rate equals personal income tax revenue divided by adjusted gross income.

This page intentionally left blank.

Debt Capacity

Debt Capacity schedules contain information to help the reader understand the State's outstanding debt, the capacity to repay that debt, and the ability to issue additional debt in the future. This section includes the following debt capacity schedules:

Schedule of Ratios of Outstanding Debt by Type
Schedule of Ratios of General Bonded Debt Outstanding
Schedule of General Obligation Bonds Outstanding
Schedule of Pledged Revenue Coverage

Sources: Unless otherwise noted, the information in the following schedules is derived from the State's Comprehensive Annual Financial Report.

Schedule of Ratios of Outstanding Debt by Type

For the Past Ten Fiscal Years
(amounts in thousands, except per capita)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities										
General obligation bonds [1]	$ 43,924,636	$ 45,541,417	$ 47,003,817	$ 50,269,442	$ 56,424,532	$ 68,653,507	$ 77,745,789	$ 79,469,085	$ 81,060,111	$ 82,346,211
Revenue bonds	8,101,855	8,068,980	7,300,638	8,009,784	7,811,832	7,767,855	7,611,939	7,511,092	7,421,198	7,735,053
Certificates of participation and commercial paper	849,360	752,013	923,890	1,358,051	1,736,089	1,407,908	1,342,119	1,335,340	46,098	538,593
Capital lease obligations	3,745,410	3,918,560	4,466,828	4,346,179	4,376,410	4,456,039	4,967,290	4,882,233	5,176,341	5,319,487
Total governmental activities	**56,621,261**	**58,280,970**	**59,695,173**	**63,983,456**	**70,348,863**	**82,285,309**	**91,667,137**	**93,197,750**	**93,703,748**	**95,939,344**
Business-type activities										
General obligation bonds [1]	2,215,800	2,090,105	1,963,305	1,954,220	1,907,243	1,702,377	1,477,663	1,218,639	1,118,634	887,053
Revenue bonds	22,239,016	22,943,536	22,812,509	22,934,094	23,003,097	23,053,114	24,538,094	23,290,315	24,790,918	25,558,129
Certificates of participation and commercial paper	97,179	51,093	231,121	179,782	67,204	51,307	64,518	139,974	67,325	77,560
Total business-type activities	**24,551,995**	**25,084,734**	**25,006,935**	**25,068,096**	**24,977,544**	**24,806,798**	**26,080,275**	**24,648,928**	**25,976,877**	**26,522,742**
Total primary government	**$ 81,173,256**	**$ 83,365,704**	**$ 84,702,108**	**$ 89,051,552**	**$ 95,326,407**	**$ 107,092,107**	**$ 117,747,412**	**$ 117,846,678**	**$ 119,680,625**	**$ 122,462,086**
Debt as a percentage of personal income [2]	6.6%	6.4%	6.1%	6.0%	6.1%	6.7%	7.8%	7.5%	7.3%	6.9%
Amount of debt per capita [3]	$ 2,294	$ 2,332	$ 2,354	$ 2,457	$ 2,608	$ 2,906	$ 3,176	$ 3,159	$ 3,186	$ 3,234

Note: Details regarding the State's outstanding debt can be found in Notes 10 through 16 of the financial statements.

[1] Prior to fiscal year 2008, net unamortized bond premiums and refunding losses were not included.
[2] Ratio calculated using personal income data shown on pages 294 and 295 for the prior calendar year.
[3] Amount calculated using population data shown on pages 294 and 295 for the prior calendar year.

Schedule of Ratios of General Bonded Debt Outstanding

For the Past Ten Fiscal Years
(amounts in thousands, except per capita)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net general bonded debt										
General obligation bonds [1]	$ 35,244,356	$ 36,735,442	$ 39,034,092	$ 43,234,702	$ 47,828,805	$ 61,724,439	$ 71,284,447	$ 73,516,674	$ 75,791,795	$ 78,001,049
Economic Recovery bonds	10,896,080	10,896,080	9,933,030	8,988,960	10,502,970	8,631,445	7,939,005	7,171,050	6,386,950	5,232,215
Less: restricted debt service fund	—	—	212,883	792,841	552,326	894	113,172	143,777	330,297	278,425
Net Economic Recovery bonds	10,896,080	10,896,080	9,720,147	8,196,119	9,950,644	8,630,551	7,825,833	7,027,273	6,056,653	4,953,790
Net general bonded debt	**$ 46,140,436**	**$ 47,631,522**	**$ 48,754,239**	**$ 51,430,821**	**$ 57,779,449**	**$ 70,354,990**	**$ 79,110,280**	**$ 80,543,947**	**$ 81,848,448**	**$ 82,954,839**
Net general bonded debt as a percentage of personal income [2]	3.7%	3.6%	3.5%	3.4%	3.7%	4.4%	5.2%	5.1%	5.0%	4.7%
Amount of net general bonded debt per capita [3]	$ 1,304	$ 1,332	$ 1,355	$ 1,419	$ 1,581	$ 1,909	$ 2,134	$ 2,159	$ 2,179	$ 2,190

Note: Details regarding the State's outstanding debt can be found in Notes 10 through 16 of the financial statements.

[1] Prior to fiscal year 2008, net unamortized bond premiums and refunding losses were not included.
[2] Ratio calculated using personal income data shown on pages 294 and 295 for the prior calendar year.
[3] Amount calculated using population data shown on pages 294 and 295 for the prior calendar year.

Schedule of General Obligation Bonds Outstanding

June 30, 2013

(amounts in thousands)

Governmental activity		
California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection	$	2,221,035
California Library Construction and Renovation		297,275
California Park and Recreational Facilities		14,725
California Parklands		3,270
California Safe Drinking Water		63,660
California Stem Cell Research and Cures		1,197,440
California Wildlife, Coastal, and Park Land Conservation		134,890
Children's Hospital		1,193,655
Class Size Reduction Public Education Facilities		6,287,305
Clean Air and Transportation Improvement		883,585
Clean Water		12,465
Clean Water and Water Conservation		5,235
Clean Water and Water Reclamation		24,330
Community Parklands		3,475
County Correctional Facility Capital Expenditure		19,780
County Correctional Facility Capital Expenditure and Youth Facility		87,210
Disaster Preparedness and Flood Prevention		2,244,880
Earthquake Safety and Public Building Rehabilitation		105,555
Economic Recovery		5,232,215
Fish and Wildlife Habitat Enhancement		5,755
Higher Education Facilities		458,675
Highway Safety, Traffic Reduction, Air Quality, and Port Security		10,903,425
Housing Emergency Shelter		3,026,490
Housing and Homeless		1,855
Kindergarten-University Public Education Facilities		31,200,735
Lake Tahoe Acquisitions		450
New Prison Construction		60,265
Passenger Rail and Clean Air		79,720
Public Education Facilities		1,598,290
Safe, Clean, Reliable Water Supply		653,820
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection		1,499,865
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection		2,411,205
Safe Neighborhood Parks		1,606,800
Safe, Reliable High-Speed Passenger Train		703,530
School Building and Earthquake		17,305
School Facilities		1,315,000
Seismic Retrofit		1,281,790
State School Building Lease-Purchase		—
State, Urban, and Coastal Park		4,680
Veterans' Homes		35,205
Voting Modernization		52,035
Water Conservation		25,695
Water Conservation and Water Quality		37,090
Water Security, Clean Drinking Water, Coastal and Beach Protection		2,676,780
Total governmental activity		**79,688,445**
Business-type activity		
California Water Resources Development		302,920
Veterans Farm and Home Building		585,360
Total business-type activity		**888,280**
Total general obligation bonds		**80,576,725**
Unamortized bond premium/discount/other		2,656,539
Total general obligation bonds payable	**$**	**83,233,264**

Source: California State Treasurer's Office

Schedule of Pledged Revenue Coverage

For the Past Ten Fiscal Years

(amounts in thousands)

				Net Revenue	Debt Service Requirements [3]			
	June 30	**Gross Revenue [1]**	**Operating Expenses [2]**	**Available for Debt Service**	**Principal**	**Interest**	**Total**	**Coverage**
Housing Loans	2004	138,438	19,439	118,999	28,665	43,683	72,348	1.64
	2005	121,063	27,687	93,376	90,970	34,813	125,783	0.74
	2006	127,733	25,654	102,079	25,715	34,949	60,664	1.68
	2007	130,128	19,062	111,066	292,461	33,959	326,420	0.34
	2008	130,139	21,263	108,876	56,225	33,333	89,558	1.22
	2009	109,636	21,838	87,798	22,205	33,699	55,904	1.57
	2010	85,321	16,404	68,917	111,085	34,874	145,959	0.47
	2011	89,224	15,802	73,422	130,770	32,619	163,389	0.45
	2012	84,830	20,322	64,508	88,105	24,914	113,019	0.57
	2013	66,050	18,369	47,681	51,554	16,271	67,825	0.70
Water Resources	2004	714,647	495,616	219,031	52,335	74,698	127,033	1.72
	2005	750,282	501,225	249,057	56,645	54,246	110,891	2.25
	2006	949,691	721,541	228,150	55,461	49,785	105,246	2.17
	2007	951,590	694,060	257,530	70,860	123,376	194,236	1.33
	2008	989,275	773,362	215,913	100,945	114,213	215,158	1.00
	2009	914,837	694,598	220,239	80,347	130,219	210,566	1.04
	2010	1,042,843	837,459	205,384	97,360	124,296	221,656	0.93
	2011	1,096,196	880,540	215,656	108,870	117,668	226,538	0.95
	2012	1,045,812	852,404	193,408	116,150	121,804	237,954	0.81
	2013	1,127,195	822,637	304,558	124,155	145,660	269,815	1.13
Water Pollution	2004	51,687	4,059	47,628	—	10,923	10,923	4.36
Control	2005	55,218	4,082	51,136	21,425	10,424	31,849	1.61
	2006	64,740	10,615	54,125	22,185	9,812	31,997	1.69
	2007	78,564	3,387	75,177	22,850	9,178	32,028	2.35
	2008	71,404	4,521	66,883	23,585	8,422	32,007	2.09
	2009	59,923	4,416	55,507	22,930	7,747	30,677	1.80
	2010	53,365	9,880	43,485	23,655	6,928	30,583	1.42
	2011	49,585	4,876	44,709	24,390	5,996	30,386	1.47
	2012	50,183	2,849	47,334	24,285	4,984	29,269	1.62
	2013	51,642	1,055	50,587	45,755	533	46,288	1.09

(continued)

Source: California State Controller's Office

[1] Total gross revenues include non-operating interest revenue. Building authorities' revenue includes operating transfers in. The nature of the revenue pledged for each type of debt is as follows: investment and interest earnings for Housing Loans bonds and Water Pollution Control bonds; charges for services and sales for Water Resources bonds; power sales revenue for Electric Power bonds; rental revenue for Public Building Contruction bonds, and High Technology Education bonds; CSU Channel Island Financing Authority bonds, and building authorities bonds; residence fees for California State University bonds; tobacco settlements and investment earnings for the Golden State Tobacco Securitization Corporation bonds; and federal transportation funds for Grant Anticipation Revenue Vehicles.

[2] Total operating expenses are exclusive of depreciation, interest expense, and amortization (recovery) of long term prepaid charges. Prior to fiscal year 2012, bond issuance costs were amortized over the term of the bond. Beginning fiscal year 2012, bond issuance costs are operating expenses in the fiscal year incurred.

[3] Debt service requirements include principal and interest of revenue bonds.

[4] All revenue bonds have been redeemed.

[5] The only source of state revenue to pay these bonds is federal transportation funds, and the state obligation to pay debt service on these bonds is limited to and dependent on receipt of the federal funds.

[6] In fiscal year 2011, the California State University Fund was reclassified from a government fund to an enterprise fund.

Schedule of Pledged Revenue Coverage (continued)

For the Past Ten Fiscal Years
(amounts in thousands)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
Electric Power	2004	$ 5,203,000	$ 4,308,000	$ 895,000	$ 180,000	$ 465,000	$ 645,000	1.39
	2005	5,655,000	4,714,000	941,000	388,000	480,000	868,000	1.08
	2006	5,342,000	4,370,000	972,000	436,000	466,000	902,000	1.08
	2007	5,865,000	4,843,000	1,022,000	447,000	448,000	895,000	1.14
	2008	5,362,000	4,323,000	1,039,000	470,000	447,000	917,000	1.13
	2009	4,560,000	3,604,000	956,000	493,000	399,000	892,000	1.07
	2010	3,908,000	3,007,000	901,000	518,000	373,000	891,000	1.01
	2011	2,317,000	1,427,000	890,000	460,000	344,000	804,000	1.11
	2012	915,000	29,000	886,000	556,000	354,000	910,000	0.97
	2013	488,000	(408,000)	896,000	574,000	341,000	915,000	0.98
Public Buildings Construction	2004	$ 307,910	$ 18,480	$ 289,430	$ 560,964	$ 271,836	$ 832,800	0.35
	2005	315,718	13,837	301,881	290,210	279,474	569,684	0.53
	2006	384,442	9,832	374,610	332,345	318,098	650,443	0.58
	2007	396,895	3,699	393,196	365,953	324,246	690,199	0.57
	2008	384,816	33,566	351,250	342,582	331,355	673,937	0.52
	2009	366,151	78,489	287,662	360,559	335,248	695,807	0.41
	2010	430,069	120,565	309,504	377,998	367,055	745,053	0.42
	2011	423,775	507	423,268	394,490	383,185	777,675	0.54
	2012	426,960	13,211	413,749	405,585	384,400	789,985	0.52
	2013	616,041	13,479	602,562	554,985	395,073	950,058	0.63
High Technology Education	2004	$ 34,052	$ 4,050	$ 30,002	$ 35,865	$ 32,975	$ 68,840	0.44
	2005	36,737	3,107	33,630	37,060	30,387	67,447	0.50
	2006	26,508	2,489	24,019	36,910	19,422	56,332	0.43
	2007	22,966	1,514	21,452	25,624	21,062	46,686	0.46
	2008	20,600	3,511	17,089	22,265	13,344	35,609	0.48
	2009	15,975	3,837	12,138	36,730	11,704	48,434	0.25
	2010	13,015	5,009	8,006	19,665	9,977	29,642	0.27
	2011	10,498	681	9,817	19,995	8,878	28,873	0.34
	2012	8,452	—	8,452	21,105	7,754	28,859	0.29
	2013	5,585	—	5,585	22,275	6,568	28,843	0.19
California State University [6]	2004	$ 250,208	$ 172,910	$ 77,298	$ 113,658	$ 49,167	$ 162,825	0.47
	2005	395,396	302,275	93,121	90,025	52,696	142,721	0.65
	2006	512,231	303,261	208,970	109,354	91,876	201,230	1.04
	2007	554,851	689,223	(134,372)	99,598	31,149	130,747	(1.03)
	2008	640,209	511,895	128,314	105,229	115,928	221,157	0.58
	2009	811,454	261,628	549,826	43,572	129,238	172,810	3.18
	2010	599,572	577,765	21,807	47,815	151,988	199,803	0.11
	2011	3,722,414	5,455,059	(1,732,645)	56,344	172,231	228,575	(7.58)
	2012	4,165,118	5,770,880	(1,605,762)	138,535	174,914	313,449	(5.12)
	2013	4,215,258	5,754,800	(1,539,542)	99,340	181,969	281,309	(5.47)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
CSU Channel Island Financing Authority [4]	2004	5,449	—	5,449	—	4,205	4,205	1.30
	2005	8,149	10	8,139	—	5,541	5,541	1.47
	2006	8,377	11	8,366	—	6,123	6,123	1.37
	2007	7,397	8	7,389	—	6,951	6,951	1.06
	2008	245	13	232	—	556	556	0.42
Building Authorities	2004	$ 82,823	$ —	$ 82,823	$ 40,600	$ 40,403	$ 81,003	1.02
	2005	86,624	—	86,624	42,296	38,994	81,290	1.07
	2006	94,985	—	94,985	43,862	81,253	125,115	0.76
	2007	81,342	68	81,274	45,437	29,228	74,665	1.09
	2008	79,077	68	79,009	47,475	27,260	74,735	1.06
	2009	78,733	68	78,665	48,594	25,028	73,622	1.07
	2010	76,535	—	76,535	50,948	34,058	85,006	0.90
	2011	63,168	—	63,168	51,957	20,071	72,028	0.88
	2012	57,386	—	57,386	36,473	22,889	59,362	0.97
	2013	53,441	—	53,441	38,400	18,390	56,790	0.94
Golden State Tobacco Securitization Corporation	2004	$ 427,159	$ 367	$ 426,792	$ 60,427	$ 298,708	$ 359,135	1.19
	2005	427,159	305	426,854	55,500	330,652	386,152	1.11
	2006	396,987	—	396,987	61,320	307,824	369,144	1.08
	2007	413,246	—	413,246	133,555	276,965	410,520	1.01
	2008	445,097	—	445,097	129,120	326,631	455,751	0.98
	2009	493,448	—	493,448	116,960	320,679	437,639	1.12
	2010	393,487	—	393,487	138,260	316,038	454,298	0.87
	2011	361,974	—	361,974	60,230	315,268	375,498	0.96
	2012	368,853	—	368,853	65,765	312,815	378,580	0.97
	2013	555,392	—	555,392	623,510	308,056	931,566	0.60
Toll Bridge Seismic Retrofit [4]	2004	$ 139,366	$ 119,141	$ 20,225	$ —	$ 28,615	$ 28,615	0.71
	2005	131,791	97,386	34,405	—	28,615	28,615	1.20
Grant Anticipation Revenue Vehicles [5]	2004	$ 13,150	$ —	$ 13,150	$ —	$ 13,150	$ 13,150	1.00
	2005	65,134	—	65,134	41,545	23,589	65,134	1.00
	2006	72,338	—	72,338	47,845	24,493	72,338	1.00
	2007	72,149	—	72,149	49,190	22,959	72,149	1.00
	2008	71,945	—	71,945	50,985	20,960	71,945	1.00
	2009	77,193	—	77,193	55,275	21,918	77,193	1.00
	2010	83,272	—	83,272	62,335	20,937	83,272	1.00
	2011	84,294	—	84,294	64,785	19,509	84,294	1.00
	2012	84,290	—	84,290	67,730	16,560	84,290	1.00
	2013	84,296	—	84,296	70,990	13,306	84,296	1.00

(concluded)

This page intentionally left blank.

Demographic and Economic Information

The ***demographic and economic*** schedules contain trend information to help the reader understand the environment in which the State's financial activities occur. This section includes the following demographic and economic schedules:

Schedule of Demographic and Economic Indicators

For Calendar Years 2003 - 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Population (in thousands)										
California	35,389	35,753	35,986	36,247	36,553	36,856	37,077	37,309	37,570	37,872
% Change	1.3%	1.0%	0.7%	0.7%	0.8%	0.8%	0.6%	0.6%	0.7%	0.8%
United States	290,326	293,046	295,753	298,593	301,580	304,375	307,007	309,330	311,592	313,874
% Change	0.9%	0.9%	0.9%	1.0%	1.0%	0.9%	0.9%	0.8%	0.7%	0.7%
Total personal income (in millions)										
California	$ 1,232,981	$ 1,312,227	$ 1,387,661	$ 1,495,533	$ 1,566,400	$ 1,610,698	$ 1,516,677	$ 1,564,209	$ 1,645,138	$ 1,768,039
% Change	3.8%	6.4%	5.7%	7.8%	4.7%	2.8%	-5.8%	3.1%	5.2%	7.5%
United States	$ 9,369,072	$ 9,928,790	$ 10,476,669	$ 11,256,516	$ 11,900,562	$ 12,451,660	$ 11,852,715	$ 12,308,496	$ 12,949,905	$ 13,729,063
% Change	3.5%	6.0%	5.5%	7.4%	5.7%	4.6%	-4.8%	3.8%	5.2%	6.0%
Per capita personal income										
California [1]	$ 34,841	$ 36,703	$ 38,561	$ 41,259	$ 42,853	$ 43,702	$ 40,906	$ 41,926	$ 43,789	$ 46,477
% Change	2.5%	5.3%	5.1%	7.0%	3.9%	2.0%	-6.4%	2.5%	4.4%	6.1%
United States [1]	$ 32,271	$ 33,881	$ 35,424	$ 37,699	$ 39,461	$ 40,909	$ 38,607	$ 39,791	$ 41,560	$ 43,735
% Change	2.6%	5.0%	4.6%	6.4%	4.7%	3.7%	-5.6%	3.1%	4.4%	5.2%
Labor force and employment (in thousands)										
California										
Civilian labor force	17,391	17,444	17,545	17,687	17,921	18,203	18,208	18,316	18,385	18,511
Employed	16,200	16,355	16,592	16,821	16,961	16,890	16,145	16,052	16,227	16,740
Unemployed	1,191	1,090	953	865	960	1,313	2,064	2,265	2,158	1,771
Unemployment rate	6.8%	6.2%	5.4%	4.9%	5.4%	7.2%	11.3%	12.4%	11.7%	9.6%
United States unemployment rate	6.0%	5.5%	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%	8.9%	8.1%

Source: Economic Research Unit, California Department of Finance; Bureau of Economic Analysis, United States Department of Commerce; Labor Market Information Division, Employment Development Department; Bureau of Labor Statistics, United States Department of Labor.

[1] Calculated by dividing total personal income by population.

Schedule of Employment by Industry

For Calendar Years 2003 and 2012

	2003		2012	
	Employees	Percent of Total State Employment	Employees	Percent of Total State Employment
Industry				
Services	5,532,500	37.7%	6,219,000	42.0%
Government				
Federal	199,400	1.3%	188,600	1.3%
Military	55,900	0.4%	61,200	0.4%
State and Local	2,080,700	14.2%	2,125,200	14.4%
Retail trade	1,588,400	10.8%	1,561,800	10.5%
Manufacturing	1,544,500	10.5%	1,252,800	8.5%
Information, finance, and insurance	1,082,700	7.4%	954,100	6.4%
Construction and utilities	852,200	5.8%	646,800	4.4%
Wholesale trade	647,400	4.4%	676,800	4.6%
Transportation and warehousing	425,200	2.9%	427,200	2.9%
Farming	375,100	2.5%	402,500	2.7%
Real estate	272,200	1.9%	250,900	1.7%
Natural resources and mining	22,200	0.2%	30,100	0.2%
Total	**14,678,400**	**100.0%**	**14,797,000**	**100.0%**

Source: Labor Market Information Division, California Employment Development Department

Operating Information

The ***operating information*** schedules assist the reader in evaluating the size, efficiency, and effectiveness of the State's government. This section includes the following operating information schedules:

Schedule of Full-time Equivalent State Employees by Function
Schedule of Operating Indicators by Function
Schedule of Capital Asset Statistics by Function

Schedule of Full-Time Equivalent State Employees by Function

For the Past Ten Fiscal Years

Fiscal Year	General Government	Education	Health and Human Services	Resources	State and Consumer Services	Business, Transportation and Housing	Correctional Programs	Total
2004	20,661	122,040	49,868	19,343	15,039	41,448	48,461	316,860
2005	19,884	119,162	50,490	18,935	15,023	41,450	48,740	313,684
2006	20,336	121,973	49,569	19,076	15,126	41,342	50,171	317,593
2007	21,035	134,974	49,533	19,677	15,530	41,314	53,321	335,384
2008	21,825	134,832	49,330	20,868	15,840	42,139	58,284	343,118
2009	22,347	135,720	50,996	21,985	16,350	42,254	60,957	350,609
2010	30,390	133,642	43,663	22,223	15,868	40,590	59,401	345,777
2011	32,535	138,017	48,638	23,611	17,043	44,844	67,272	371,959

Fiscal Year	General [2] Government	Education	Health and Human Services	Resources	Business,[3] Consumer Services, and Housing	Transportation [4]	Correctional Programs	Total
2012 [1, 5]	44,673	131,039	46,431	24,199	6,236	41,758	62,472	356,808
2013 [1, 5]	43,241	132,493	43,431	23,796	5,395	39,222	58,743	346,321

Source: Annual Governor's Budget Summary, California Department of Finance

Note: The number of full-time equivalent employees is calculated by counting each person who works full time as one full-time equivalent and those who work part time as fractional equivalents based on time worked.

[1] Under the Governor's 2012 Reorganization Plan No. 2, significant reorganizations take place effective July 1, 2013, which impacts General Government; Business, Consumer Services, and Housing; and Transportation. Beginning fiscal year 2011-12, budget information is reported under the new sections, and is not comparable to that of prior years.

[2] Effective July 1, 2013, the Government Operations Agency, which will include but is not limited to Franchise Tax Board, Department of General Services, and Public Employees' Retirement System, is created and added to General Government. In the 2013-14 Governor's Budget, budget information for General Government is being retroactively stated for fiscal year 2011-12 and fiscal year 2012-13 to include Government Operations.

[3] Effective July 1, 2013, under Governor's 2012 Reorganization Plan No. 2, the majority of business and housing components under the previously reported Business, Transportation and Housing merged with the State and Consumer Services. In the 2013-14 Governor's Budget, budget information for Business, Consumer Services, and Housing is being retroactively stated for fiscal year 2011-12 and fiscal year 2012-13.

[4] Effective July 1, 2013, portions of the previously reported Business, Transportation and Housing is reorganized as the Transportation Agency under the Governor's 2012 Reorganization Plan No. 2. In the 2013-14 Governor's Budget, budget information for Transportation is being retroactively stated for fiscal year 2011-12 and fiscal year 2012-13.

[5] The number of positions include 120 legislators and staff at the Legislative Counsel Bureau. They do not include the Legislature's staff and Legislative Analyst's Office.

This page intentionally left blank.

Schedule of Operating Indicators by Function

For the Past Ten Fiscal Years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government										
State Lottery										
Total revenue [1]	$ 2,974	$ 3,334	$ 3,585	$ 3,318	$ 3,050	$ 2,955	$ 3,041	$ 3,439	$ 4,371	$ 4,446
Allocation to Education Fund [1]	$ 1,044	$ 1,149	$ 1,259	$ 1,177	$ 1,069	$ 1,028	$ 1,072	$ 1,103	$ 1,300	$ 1,262
Judicial Council of California										
Supreme Court [2]										
Cases filed	8,564	8,990	9,261	8,988	10,521	9,274	9,562	10,145	9,237	N/A
Cases disposed	8,565	8,535	9,878	9,247	10,440	9,513	9,439	10,063	9,739	N/A
Courts of Appeal										
Notices of appeal filed [3]										
Civil	6,484	6,142	6,018	6,116	5,913	5,958	6,122	6,258	6,505	N/A
Criminal	6,625	6,312	6,516	6,508	6,681	6,819	6,857	6,877	6,387	N/A
Juvenile	2,703	2,626	2,715	2,880	2,900	2,858	2,759	2,106	2,830	N/A
Trial Courts										
Total civil cases [4, 10]										
Filings	1,503,419	1,426,822	1,418,722	1,462,820	1,582,092	1,729,648	1,647,817	1,574,569	1,464,629	N/A
Dispositions	1,360,908	1,304,924	1,267,534	1,286,736	1,280,184	1,537,243	1,530,502	1,599,388	1,436,399	N/A
Department of Food and Agriculture										
Milk production (million lbs) [5]	36,465	37,564	38,830	40,683	41,203	39,512	40,385	41,462	41,801	N/A
Farm land (thousand acres) [5]	26,400	25,900	25,700	25,400	25,400	25,400	25,400	25,400	25,400	N/A
Education										
Public Colleges and Universities										
Fall enrollment										
Community Colleges [10]	1,577,296	1,578,573	1,614,689	1,694,796	1,793,508	1,795,969	1,747,239	1,655,081	1,582,186	1,520,472
California State University	395,825	405,282	417,156	433,017	437,008	433,054	412,372	426,534	436,560	N/A
University of California	207,909	209,080	214,298	220,034	226,040	230,528	234,464	236,691	238,686	N/A
K-12 Schools										
Fall enrollment										
Public	6,299,015	6,322,217	6,312,103	6,286,943	6,275,469	6,252,011	6,190,425	6,217,002	6,220,993	6,226,989
Private	599,605	591,056	594,597	583,794	564,734	536,393	531,111	515,143	497,019	516,119

(continued)

Source: California State Lottery; Judicial Council of California; U.S. Department of Agriculture, National Agricultural Statistics Service; California Departments of Finance, Education, Public Health, Motor Vehicles, Transportation, and Corrections and Rehabilitation; Employment Development Department; Department of Fish and Wildlife; California Energy Commission; Franchise Tax Board; and Department of the California Highway Patrol.

1 Dollars in millions.
2 Includes death penalty cases, habeas related to automatic appeals, petitions for review, original proceedings, and state bar matters.
3 Includes only one notice of appeal per case.
4 Includes personal injury, property damage, wrongful death, small claims, family law, probate, and other cases.
5 Data based on calendar year.
6 Total nonfarm and farm.
7 Items reported by license year as of December, 2013.
8 Data compiled from a 10% sample of California licensed drivers.
9 A center-line mile is measured by the yellow dividing strip that runs down the middle of the road, regardless of the number of lanes on each side.
10 Some prior years were updated based on more current information.

N/A=Not available
* Projected

Schedule of Operating Indicators by Function (continued)

For the Past Ten Fiscal Years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Health and Human Services										
Department of Public Health										
Vital statistics										
Live births [5]	544,685	548,700	562,157	566,137	551,567	526,774	509,979	502,023	503,788	506,125 *
Department of Social Services										
Total Food Stamp households (avg per month)	722,519	792,617	809,782	823,335	892,992	1,067,358	1,340,857	1,576,042	1,757,387	1,898,283
Employment Development Department										
Number of employed [5, 6, 10]	15,126,100	15,440,600	15,613,300	15,691,100	15,142,000	14,326,300	14,476,400	14,614,600	15,240,400	N/A
Resources										
Department of Fish and Game										
Sport fishing licenses sold [7, 10]	2,929,204	2,870,727	2,924,325	3,003,783	2,857,236	2,838,776	2,410,008	2,483,680	2,580,763	2,531,361
Hunting licenses sold [7, 10]	1,593,517	1,625,078	1,655,760	1,718,657	1,670,190	1,679,864	1,677,864	1,863,198	1,988,531	1,966,580
California Energy Commission										
Electrical energy generation plus net imports (gigawatt hours) [10]	290,211	289,177	298,454	304,823	307,428	298,996	291,130	293,652	301,966	N/A
State and Consumer Services										
Franchise Tax Board										
Personal Income Tax [5]										
Number of tax returns filed	13,832,810	14,087,896	14,382,675	15,016,273	14,806,335	14,638,204	14,814,427	15,042,359	N/A	N/A
Taxable income [1]	$ 695,075	$ 767,877	$ 812,008	$ 872,869	$ 799,490	$ 729,658	$ 794,758	$ 838,347	N/A	N/A
Total tax liability [1]	$ 36,093	$ 43,131	$ 45,716	$ 49,693	$ 41,676	$ 38,870	$ 44,472	$ 43,921	N/A	N/A
Corporation Tax [5]										
Number of tax returns filed	616,805	651,060	684,363	709,937	722,358	727,675	738,224	754,315	N/A	N/A
Income reported for taxation [1]	$ 82,328	$ 115,474	$ 140,325	$ 121,843	$ 67,921	$ 55,367	$ 96,965	$ 93,456	N/A	N/A
Total tax liability [1]	$ 7,123	$ 8,680	$ 9,992	$ 9,414	$ 9,106	$ 7,858	$ 8,604	$ 7,808	N/A	N/A
Business and Transportation										
Department of Motor Vehicles										
Motor vehicle registration	33,289,925	33,363,963	33,882,029	32,047,124	31,920,649	31,799,398	31,987,821	31,802,483	31,946,422	N/A
License issued by age [5,8]										
Under age 18	287,800	277,168	268,199	262,415	244,481	229,545	218,997	227,069	499,145	N/A
Between 18-80	22,073,101	22,155,604	22,450,786	22,804,927	22,922,361	22,910,011	23,001,119	23,150,222	23,188,635	N/A
Over age 80	482,340	494,577	518,102	562,518	552,150	560,491	579,397	579,207	602,508	N/A
California Highway Patrol										
Total number of DUI arrests [5]	94,023	89,946	94,251	92,270	97,019	95,135	89,814	86,901	79,993	31,573
Department of Transportation										
Highway center-line miles-rural [5,9]	11,380	11,090	10,821	10,830	10,811	10,808	10,785	10,780	10,784	N/A
Highway center-line miles-urban [5,9]	3,829	4,123	4,422	4,439	4,393	4,384	4,375	4,353	4,363	N/A
Correctional Programs										
Department of Corrections and Rehabilitation										
Division of Adult Institutions										
Institution population at December 31 each year	162,687	166,723	171,310	170,452	170,283	167,922	162,200	147,181	132,768	134,333
Division of Juvenile Justice										
Institution population at June 30 each year	4,067	3,348	2,962	2,531	1,877	1,589	1,474	1,263	922	712

(concluded)

Schedule of Capital Asset Statistics by Function

For the Past Ten Fiscal Years

	2004 [1]	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government										
Department of Food and Agriculture										
Vehicles and mobile equipment [5]	929	903	907	915	818	803	746	809	804	792
Square footage of structures (in thousands)	467	467	453	453	453	466	466	466	466	455
Department of Justice										
Vehicles and mobile equipment	967	969	968	966	826	870	816	677	531	527
Department of Military										
Vehicles and mobile equipment	155	152	210	182	206	182	208	249	233	211
Square footage of structures (in thousands)	5,218	3,348	3,388	3,388	3,387	3,383	3,154	3,530	3,511	3,623
Department of Veterans Affairs										
Veterans homes	3	3	3	3	3	5	6	6	6	8
Vehicles and mobile equipment	157	139	111	248	251	120	113	132	143	267
Square footage of structures (in thousands)	1,598	1,598	1,598	1,598	1,598	1,683	1,600	2,086	2,086	2,488
Education										
California State University										
Vehicles and mobile equipment [2, 5]	N/A	N/A	601	3,343	3,994	4,015	4,338	4,415	4,415	4,466
Campuses	23	23	23	23	23	23	23	23	23	23
Square footage of structures (in thousands)	58,983	59,588	59,921	62,198	63,971	66,686	69,049	71,287	73,785	73,866
Health and Human Services										
Department of Developmental Services										
Vehicles and mobile equipment	900	836	655	829	839	701	569	818	789	632
Developmental centers	7	7	7	7	7	7	5	5	5	4
Square footage of structures (in thousands)	5,160	5,185	5,181	5,181	5,186	5,187	5,185	5,294	5,294	5,279
Department of State Hospitals [6]										
Vehicles and mobile equipment	438	439	655	629	638	658	665	709	718	699
State hospitals	4	4	5	5	5	5	5	5	5	7
Square footage of structures (in thousands)	4,628	4,626	4,673	6,359	6,364	6,348	6,331	6,331	6,336	6,457

(continued)

Sources: California Department of General Services (DGS)

[1] For fiscal year 2004, the square footage of structures information is from November 2004 because June 2004 information is not available.

[2] Prior to fiscal year 2006, DGS did not require California State University to report its vehicles.

[3] In 2008, California Highway Patrol purchased numerous vehicles, and in their physical count also included motorcycles, which had not been reported for previous years.

[4] In fiscal year 2006, Department of Corrections and Rehabilitation merged with Department of Youth Authority.

[5] For fiscal year 2008, DGS was not able to obtain complete data from the agency.

[6] In 2012, portions of the Department of Mental Health became the Department of State Hospitals.

N/A = not available

Schedule of Capital Asset Statistics by Function (continued)

For the Past Ten Fiscal Years

	2004 [1]	2005	2006	2007	2008	2009	2010	2011	2012	2013
Resources										
Department of Fish and Game										
Vehicles and mobile equipment	2,754	3,157	3,182	3,311	2,868	3,640	2,630	3,180	3,012	2,896
Square footage of structures (in thousands)	1,108	1,108	1,112	1,120	1,192	1,269	1,301	1,313	1,317	1,317
Department of Forestry and Fire										
Vehicles and mobile equipment	3,079	3,016	2,572	2,945	3,043	3,067	2,598	2,804	2,810	2,845
Square footage of structures (in thousands)	3,892	3,892	3,885	3,883	3,869	3,851	3,947	3,943	3,935	3,641
Department of Parks and Recreation										
Vehicles and mobile equipment	2,709	3,044	2,742	2,988	3,023	3,220	3,102	3,715	4,200	3,311
State Parks	277	278	278	276	279	278	278	279	280	280
Acres of state park land (in thousands)	1,488	1,506	1,552	1,235	1,248	1,331	1,365	1,334	1,333	1,590
Square footage of structures (in thousands)	6,510	6,348	6,350	6,350	6,350	6,350	6,350	6,433	6,623	6,598
State Lands Commission										
Vehicles and mobile equipment	56	56	49	51	49	57	47	50	42	42
Acres of land (in thousands)	4,498	4,498	4,496	4,492	4,491	4,491	4,491	4,491	4,491	4,489
State and Consumer Services										
Department of Consumer Affairs										
Vehicles and mobile equipment	646	628	1,050	640	726	718	574	578	574	518
Department of General Services										
Vehicles and mobile equipment	6,895	6,883	6,894	7,330	7,558	6,736	5,761	5,670	4,991	5,226
Square footage of structures (in thousands)	15,981	15,995	17,350	18,084	18,084	18,084	18,394	18,602	19,180	19,098
Business and Transportation										
California Highway Patrol										
Vehicles and mobile equipment [3]	3,933	3,930	4,105	4,655	5,228	5,914	5,422	5,337	5,013	5,341
Square footage of structures (in thousands)	1,146	1,147	1,087	1,110	1,118	1,118	1,135	1,135	1,149	1,149
Department of Motor Vehicles										
Vehicles and mobile equipment	395	395	373	458	434	417	366	366	366	294
Square footage of structures (in thousands)	1,853	1,853	1,827	1,866	1,848	1,855	1,855	1,842	1,842	1,842
Department of Transportation										
Vehicles and mobile equipment	11,039	10,856	11,048	11,130	11,098	13,346	11,302	12,759	12,690	11,767
Square footage of structures (in thousands)	6,274	6,284	6,632	6,618	6,229	6,434	6,444	6,519	8,131	8,170
Correctional Programs										
Department of Corrections and Rehabilitation										
Vehicles and mobile equipment [5]	7,189	7,006	6,451	6,657	7,908	7,778	5,787	5,985	5,952	5,156
Prisons and juvenile facilities [4]	32	32	32	41	41	39	39	39	39	37
Square footage of structures (in thousands)	40,483	40,472	40,622	40,777	40,831	40,852	41,228	41,399	41,399	40,606

(concluded)

STATE OF CALIFORNIA

Office of the State Controller

JOHN CHIANG
California State Controller

Executive Office

Collin Wong-Martinusen
Chief of Staff

George Lolas
Chief Operating Officer

Division of Accounting and Reporting

Casandra Moore-Hudnall, CPA
Division Chief

Liz Cornell, CPA
Assistant Division Chief

Beverly Englund, CPA
Bureau Chief

State Government Reporting

Managers

Renee Davenport
Dana Parker
Emmanuel Lasu
Dee Ranaweera, CPA
Saleshni Singh
Jodi Rivera

Supervisors

Silvia Kalman
Sharon Wurst

Staff:

Barbara Beck, CPA
Maisha Bullock
Perry Darden
Janet Delorey
Godwin Ekine
Judy Eng
Jim Graham
Yolanda Green
Matthew Haber
Robert Holpuch
Kathy Howton
Jenny Jones
Lilian Le
Grace Lee
Judy Lee
Will LeMarQuand
Bing Leng
Cecilia Li-Szeto
Gary Marshall
TuongKhanh Nguyen
Sheri Noss
Allen Nunley
Randy Phan
Kitipong Punnikul
Samprit Shergill, CPA
Janti Tam
Randall Taylor
Scott Taylor, CPA
Sang Chol Thompson
Perry Tseng-Liu

Financial Information Systems and Technology

Bureau Chief
Carlos Diaz

Supervisor
Rod Renteria

Staff:

Ross Boyer
Larry Butler
Daniel Castro
Matt Harada
Marcelino Hernandez
Jason Kronemeyer
Eric Pecoraro
Miguel Quistian
Carl Walker
Thomas Wong

Editors

Terrie Chrysler
Teresa Moraga
Estelle Manticas

Special Thanks to:

Teri Carlson, CPA
Cathy Leal
Alan Davis
Julie Talbot, CPA
Sandra Foster, CPA

Office of California State Controller John Chiang
Division of Accounting and Reporting
P.O. Box 942850
Sacramento, CA 94250
(916) 445-2636

(THIS PAGE INTENTIONALLY LEFT BLANK)